UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended January 31, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM ________ TO ________

Commission File Number 001-38865

Zoom Video Communications, Inc.
(Exact name of registrant as specified in its Charter)

Delaware	**61-1648780**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

55 Almaden Boulevard, 6th Floor
San Jose, California 95113
(Address of principal executive offices and Zip Code)

(888) 799-9666
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, $0.001 par value per share	ZM	The Nasdaq Global Select Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act"). YES ☐ NO ☒

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
Emerging growth company	☒		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

The aggregate market value of the registrant's Class A common stock held by non-affiliates of the registrant, based on the closing price of a share of the registrant's Class A common stock on July 31, 2019 as reported by the Nasdaq Global Select Market on such date was approximately $3.6 billion. This calculation does not reflect a determination that certain persons are affiliates of the registrant for any other purpose.

As of March 6, 2020, the number of shares of the registrant's Class A common stock outstanding was 127,468,829 and the number of shares of the registrant's Class B common stock outstanding was 151,532,787.

DOCUMENTS INCORPORATED BY REFERENCE

ZOOM VIDEO COMMUNICATIONS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	As of January 31,	
	2020	**2019**
Assets		
Current assets:		
Cash and cash equivalents	$ 283,134	$ 63,624
Marketable securities	572,060	112,777
Accounts receivable, net of allowances of $7,634 and $2,071 as of January 31, 2020 and 2019, respectively	120,435	63,613
Deferred contract acquisition costs, current	44,885	26,453
Prepaid expenses and other current assets	75,008	10,252
Total current assets	1,095,522	276,719
Deferred contract acquisition costs, noncurrent	46,245	29,063
Property and equipment, net	57,138	37,275
Operating lease right-of-use assets	68,608	—
Other assets, noncurrent	22,332	11,508
Total assets	$ 1,289,845	$ 354,565
Liabilities, convertible preferred stock, and stockholders' equity (deficit)		
Current liabilities:		
Accounts payable	$ 1,596	$ 4,963
Accrued expenses and other current liabilities	122,692	32,256
Deferred revenue, current	209,542	115,122
Total current liabilities	333,830	152,341
Deferred revenue, noncurrent	20,994	10,651
Operating lease liabilities, noncurrent	64,792	—
Other liabilities, noncurrent	36,286	39,460
Total liabilities	455,902	202,452
Commitments and contingencies (Note 8)		
Convertible preferred stock, $0.001 par value per share, zero and 158,104,540 shares authorized as of January 31, 2020 and 2019, respectively; zero and 152,665,804 shares issued and outstanding as of January 31, 2020 and 2019, respectively	—	159,552
Stockholders' equity (deficit):		
Preferred stock, $0.001 par value per share, 200,000,000 and zero shares authorized as of January 31, 2020 and 2019, respectively; zero shares issued and outstanding as of January 31, 2020 and 2019	—	—
Common stock, $0.001 par value per share, 2,000,000,000 and 320,000,000 Class A shares authorized as of January 31, 2020 and 2019, respectively; 123,391,114 and zero shares issued and outstanding as of January 31, 2020 and 2019, respectively; 300,000,000 Class B shares authorized as of January 31, 2020 and 2019; 155,336,747 and 90,327,435 shares issued and outstanding as of January 31, 2020 and 2019, respectively	277	89
Additional paid-in capital	832,705	17,760
Accumulated other comprehensive income (loss)	809	(135)
Retained earnings (accumulated deficit)	152	(25,153)
Total stockholders' equity (deficit)	833,943	(7,439)
Total liabilities, convertible preferred stock, and stockholders' equity (deficit)	$ 1,289,845	$ 354,565

The accompanying notes are an integral part of these consolidated financial statements.

ZOOM VIDEO COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except share and per share data)

	Year Ended January 31,		
	2020	**2019**	**2018**
Revenue	$ 622,658	$ 330,517	$ 151,478
Cost of revenue	115,396	61,001	30,780
Gross profit	507,262	269,516	120,698
Operating expenses:			
Research and development	67,079	33,014	15,733
Sales and marketing	340,646	185,821	82,707
General and administrative	86,841	44,514	27,091
Total operating expenses	494,566	263,349	125,531
Income (loss) from operations	12,696	6,167	(4,833)
Interest income and other, net	13,666	2,182	1,315
Net income (loss) before provision for income taxes	26,362	8,349	(3,518)
Provision for income taxes	1,057	765	304
Net income (loss)	25,305	7,584	(3,822)
Distributed earnings attributable to participating securities	—	—	(4,405)
Undistributed earnings attributable to participating securities	(3,555)	(7,584)	—
Net income (loss) attributable to common stockholders	$ 21,750	$ —	$ (8,227)
Net income (loss) per share attributable to common stockholders:			
Basic	$ 0.09	$ 0.00	$ (0.11)
Diluted	$ 0.09	$ 0.00	$ (0.11)
Weighted-average shares used in computing net income (loss) per share attributable to common stockholders:			
Basic	233,641,336	84,483,094	78,119,865
Diluted	254,298,014	116,005,681	78,119,865

The accompanying notes are an integral part of these consolidated financial statements.

ZOOM VIDEO COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in thousands)

	Year Ended January 31,		
	2020	2019	2018
Net income (loss)	$ 25,305	$ 7,584	$ (3,822)
Other comprehensive income (loss):			
Unrealized gain (loss) on available-for-sale marketable securities, net of tax	944	396	(531)
Comprehensive income (loss)	$ 26,249	$ 7,980	$ (4,353)

The accompanying notes are an integral part of these consolidated financial statements.

ZOOM VIDEO COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' (DEFICIT) EQUITY
(in thousands, except share data)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	(Accumulated Deficit) Retained Earnings	Total Stockholders' (Deficit) Equity
	Shares	Amount	Shares	Amount				
Balance as of January 31, 2017	154,031,604	$ 159,757	79,650,896	$ 77	$ —	$ —	$ (28,915)	$ (28,838)
Repurchase of Series A convertible preferred stock	(1,365,800)	(205)	—	—	(4,405)	—	—	(4,405)
Issuance of common stock upon exercise of stock options	—	—	2,958,742	3	593	—	—	596
Stock-based compensation expense	—	—	—	—	10,329	—	—	10,329
Other comprehensive loss	—	—	—	—	—	(531)	—	(531)
Net loss	—	—	—	—	—	—	(3,822)	(3,822)
Balance as of January 31, 2018	152,665,804	$ 159,552	82,609,638	$ 80	$ 6,517	$ (531)	$ (32,737)	$ (26,671)
Issuance of common stock upon exercise of stock options	—	—	7,717,797	9	2,302	—	—	2,311
Stock-based compensation expense	—	—	—	—	8,941	—	—	8,941
Other comprehensive income	—	—	—	—	—	396	—	396
Net income	—	—	—	—	—	—	7,584	7,584
Balance as of January 31, 2019	152,665,804	$ 159,552	90,327,435	$ 89	$ 17,760	$ (135)	$ (25,153)	$ (7,439)
Conversion of convertible preferred stock to common stock upon initial public offering	(152,665,804)	(159,552)	152,665,804	153	159,399	—	—	159,552
Conversion of convertible promissory notes and accrued interest to common stock upon initial public offering	—	—	426,223	—	15,344	—	—	15,344
Issuance of common stock upon initial public offering and private placement, net of underwriting discounts and commissions and other offering costs	—	—	15,819,646	16	541,483	—	—	541,499
Issuance of common stock upon exercise of stock options, net of repurchases and release of restricted stock units	—	—	18,501,767	19	9,752	—	—	9,771
Issuance of common stock reserved for charitable donations	—	—	500,000	—	—	—	—	—
Issuance of common stock for employee stock purchase plan	—	—	490,268	—	15,482	—	—	15,482
Stock-based compensation expense	—	—	—	—	73,485	—	—	73,485
Other comprehensive income	—	—	—	—	—	944	—	944
Net income	—	—	—	—	—	—	25,305	25,305
Balance as of January 31, 2020	—	$ —	278,731,143	$ 277	$ 832,705	$ 809	$ 152	$ 833,943

The accompanying notes are an integral part of these consolidated financial statements.

ZOOM VIDEO COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended January 31,		
	2020	**2019**	**2018**
Cash flows from operating activities:			
Net income (loss)	$ 25,305	$ 7,584	$ (3,822)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Stock-based compensation expense	73,109	8,941	10,329
Amortization of deferred contract acquisition costs	37,101	20,839	9,023
Depreciation and amortization	16,449	7,008	2,786
Non-cash operating lease cost	6,885	—	—
Provision for accounts receivable allowances	6,370	1,953	727
Other	(1,068)	37	95
Changes in operating assets and liabilities:			
Accounts receivable	(64,715)	(41,040)	(16,560)
Prepaid expenses and other assets	(24,805)	(7,971)	(3,443)
Deferred contract acquisition costs	(72,714)	(45,769)	(27,470)
Accounts payable	(2,030)	832	1,254
Accrued expenses and other liabilities	51,179	27,407	15,011
Deferred revenue	106,286	71,511	31,496
Operating lease liabilities, net	(5,460)	—	—
Net cash provided by operating activities	151,892	51,332	19,426
Cash flows from investing activities:			
Purchases of marketable securities	(800,228)	(78,016)	(143,329)
Maturities of marketable securities	343,554	68,747	39,710
Purchases of property and equipment	(38,084)	(28,432)	(9,738)
Purchase of equity investment	(3,000)	—	—
Loans to employees	(1,569)	—	—
Purchases of intangible assets	(141)	(2,018)	—
Net cash used in investing activities	(499,468)	(39,719)	(113,357)
Cash flows from financing activities:			
Proceeds from initial public offering and private placement, net of underwriting discounts and commissions and other offering costs	542,492	(939)	—
Proceeds from international employee stock sales to be remitted to employees and tax authorities	48,547	—	—
Proceeds from issuance of common stock for employee stock purchase plan	15,482	—	—
Proceeds from exercise of stock options, net of repurchases	9,169	3,565	733
Proceeds from issuance of convertible promissory notes and derivatives	—	15,000	—
Principal payments on capital lease obligations	—	(92)	(120)
Repurchase of convertible preferred stock	—	—	(4,610)
Net cash provided by (used in) financing activities	615,690	17,534	(3,997)
Net increase (decrease) in cash, cash equivalents, and restricted cash	268,114	29,147	(97,928)
Cash, cash equivalents, and restricted cash—beginning of period	65,968	36,821	134,749
Cash, cash equivalents, and restricted cash—end of period	$ 334,082	$ 65,968	$ 36,821

Supplemental disclosures of cash flow information						
Cash paid for income taxes	$	1,070	$	214	$	133
Supplemental disclosures of non-cash investing and financing information						
Conversion of convertible preferred stock to Class B common stock upon initial public offering	$	159,552	$	—	$	—
Conversion of debt to Class A common stock	$	15,344	$	—	$	—
Purchase of equipment during the period included in accounts payable and accrued expenses	$	1,422	$	3,284	$	392
Purchase of property and equipment under capital lease	$	—	$	—	$	212
Vesting of early exercised stock options and restricted stock awards	$	725	$	277	$	175
Deferred offering costs, accrued but not paid	$	—	$	1,490	$	—
Reconciliation of cash, cash equivalents, and restricted cash within the consolidated balance sheets to the amounts shown in the consolidated statements of cash flows above:						
Cash and cash equivalents	$	283,134	$	63,624	$	36,146
Restricted cash, current included in prepaid expenses and other current assets		48,647		200		—
Restricted cash, noncurrent included in other assets, noncurrent		2,301		2,144		675
Total cash, cash equivalents, and restricted cash	$	334,082	$	65,968	$	36,821

The accompanying notes are an integral part of these consolidated financial statements.

ZOOM VIDEO COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Business and Significant Accounting Policies

Description of Business

Zoom Video Communications, Inc. and its subsidiaries (together, "Zoom," the "Company," "we," "us," or "our") provide a video-first, unified communications platform. Our platform combines video, audio, phone, screen sharing, and chat functionalities. We were incorporated in the state of Delaware in April 2011 and are headquartered in San Jose, California.

Fiscal Year

Our fiscal year ends on January 31. References to fiscal year 2020, for example, refer to the fiscal year ended January 31, 2020.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with GAAP and include the accounts of Zoom Video Communications, Inc., its subsidiaries, and a variable interest entity ("VIE") for which we are the primary beneficiary. All intercompany balances and transactions have been eliminated in consolidation.

Variable Interest Entities

In the normal course of business, we may enter into relationships with entities that are deemed to be VIEs. A VIE is a legal entity that satisfies any of the following characteristics: (a) the legal entity does not have sufficient equity investment at risk; (b) the equity investors at risk, as a group, lack the characteristics of a controlling financial interest; or (c) the legal entity is structured with disproportionate voting rights, and substantially all of the activities are conducted on behalf of an investor with disproportionately few voting rights.

We consolidate a VIE for which we are the primary beneficiary. The primary beneficiary of a VIE is the party, if any, with both of the following characteristics: (a) the power to direct the activities that most significantly affect the VIE's economic performance (the "power criterion") and (b) the obligation to absorb losses or the right to receive residual returns of the VIE that could potentially be significant to the VIE (the "economics criterion").

During fiscal year 2020, a VIE (the "China VIE") was established and holds the license required to sell our products and services in the People's Republic of China. However, we are the exclusive provider of technical and consulting services to the China VIE and own all copyrights, patents, technical secrets, trade secrets, and other intellectual properties related to and arising from the operations of the China VIE. Any creditors of the China VIE do not have recourse to our general credit.

Through the China VIE agreements, we have the unilateral power to vote all of the shares of the China VIE, set its corporate policies and guidance, and designate the members of its board of directors and management team. We are also entitled to receive all dividends of the China VIE. Because both the power and economics criteria are met, we are the primary beneficiary of and therefore have a controlling financial interest in the China VIE.

Initial Public Offering and Private Placement

On April 23, 2019, we completed our IPO, in which we issued and sold 9,911,434 shares of our Class A common stock at $36.00 per share, resulting in net proceeds of $340.8 million after deducting underwriting discounts and commissions. On April 18, 2019, the underwriters exercised their option to purchase an additional 3,130,435 shares of our Class A common stock at $36.00 per share. This transaction closed on April 23, 2019, resulting in additional proceeds of $107.1 million, net of underwriters' discounts and commissions. In connection with the IPO:

- all of the shares of convertible preferred stock outstanding automatically converted into an aggregate of 152,665,804 shares of Class B common stock;
- outstanding convertible promissory notes and accrued interest automatically converted into 426,223 shares of Class A common stock based on the IPO price of $36.00 per share; and
- Salesforce Ventures LLC purchased 2,777,777 shares of Class A common stock from us at $36.00 per share in a concurrent private placement. We received aggregate proceeds of $100.0 million and did not pay any underwriting discounts or commissions with respect to the shares of Class A common stock that were sold in this private placement.

Deferred offering costs consist primarily of accounting, legal, and other fees related to our IPO. Prior to the IPO, all deferred offering costs were capitalized in other assets, noncurrent in the consolidated balance sheets. After the IPO, $6.4 million of deferred offering costs were reclassified into stockholders’ equity (deficit) as a reduction of the IPO proceeds in the consolidated balance sheets. We capitalized $2.4 million of deferred offering costs within other assets, noncurrent in the consolidated balance sheet as of January 31, 2019, which were reclassified into additional paid-in capital upon the completion of the IPO.

Stock Split

In January 2018, our board of directors approved the amendment and restatement of our certificate of incorporation to effect a four-for-one forward stock split of our common stock and convertible preferred stock (collectively, the “Capital Stock”), which became effective on January 3, 2018. Accordingly, (i) each share of outstanding Capital Stock was split into four shares of Capital Stock of the same class and series, as applicable; (ii) the number of shares of Capital Stock issuable upon the exercise of each outstanding option to purchase Capital Stock was proportionately increased on a four-for-one basis; (iii) the exercise price of each outstanding option to purchase Capital Stock was proportionately reduced on a four-for-one basis; (iv) the authorized number of each class and series of Capital Stock was proportionally increased in accordance with the four-for-one stock split; and (v) the par value of each class of Capital Stock was not adjusted as result of this stock split. All of the share numbers, share prices, and exercise prices have been adjusted retroactively within these consolidated financial statements to reflect this stock split.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Significant items subject to such estimates and assumptions include, but are not limited to, the estimated expected benefit period for deferred contract acquisition costs, the accounts receivable allowances, the useful lives of long-lived assets, the incremental borrowing rate for operating leases, the valuation of derivative liabilities, the value of common stock and other assumptions used to measure stock-based compensation expense, sales and other tax liabilities, and the valuation of deferred income tax assets and uncertain tax positions. Actual results could differ from those estimates.

Concentration of Risks

Our financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, restricted cash, and accounts receivable. We maintain our cash, cash equivalents, marketable securities, and restricted cash with high-quality financial institutions with investment-grade ratings. A majority of the cash balances are with U.S. banks and are insured to the extent defined by the Federal Deposit Insurance Corporation.

No single customer accounted for more than 10% of accounts receivable at January 31, 2020 or 2019. No single customer accounted for 10% or more of total revenue during the fiscal years ended January 31, 2020, 2019, or 2018.

Cash, Cash Equivalents, and Restricted Cash

Cash and cash equivalents consist of cash in banks and highly liquid investments, primarily money market funds, purchased with an original maturity of three months or less.

Historically, restricted cash consisted of certificates of deposit collateralizing our operating leases and corporate credit cards, and was included in prepaid expenses and other current assets and other assets, noncurrent in the consolidated balance sheets.

In the third quarter of fiscal year 2020, we received $48.5 million of cash from proceeds on international employees’ sales of our common stock. The amount is held in our bank account until it is remitted to the employees and the tax authorities. Due to the restrictions on the use of the funds in the bank account, we have classified the amount as restricted cash included in prepaid expenses and other current assets, and a corresponding amount is included in accrued expenses and other current liabilities in the consolidated balance sheets.

Marketable Securities

Marketable securities consist primarily of high-grade commercial paper, corporate bonds, agency bonds, corporate debt securities, U.S. government agency securities, and treasury bills. We classify our marketable securities as available-for-sale at the time of purchase and reevaluate such classification at each balance sheet date. We may sell these securities at any time for use in current operations even if they have not yet reached maturity. As a result, we classify our securities, including those with maturities beyond 12 months, as current assets in the consolidated balance sheets. We carry these securities at fair value and record unrealized gains and losses in accumulated other comprehensive income (loss), which is reflected as a component of stockholders' equity (deficit). We evaluate our securities to assess whether those with unrealized loss positions are other than temporarily impaired. We consider impairments to be other than temporary if they are related to deterioration in credit risk or if it is likely we will sell the securities before the recovery of their cost basis. Realized gains and losses from the sale of marketable securities and declines in value deemed to be other than temporary are determined based on the specific identification method. Realized gains and losses are reported in interest income and other, net in the consolidated statements of operations.

Equity Investment

In the third quarter of fiscal year 2020, we made a $3.0 million strategic investment in a private limited liability company in the business of designing and developing video communications hardware. We do not have a controlling financial interest in the investee nor the ability to exercise significant influence over the operating and financial policies of the investee. The investment is included within other assets, noncurrent in the consolidated balance sheets. Dividend income, unrealized and realized holding gains or losses, and impairment charges would be reported in interest income and other, net in the consolidated statements of operations. The maximum loss we could incur for this investment is its carrying value.

We have elected to measure this investment, which does not have a readily determinable fair value, at its cost minus impairment, if any. If we identify observable price changes in orderly transactions for the identical or a similar investment of the same issuer, we will measure the equity security at fair value as of the date that the observable transaction occurred (i.e., using the measurement alternative). At each reporting period, we perform a qualitative assessment considering impairment indicators to evaluate whether the investment is impaired. If this qualitative assessment indicates that the investment is impaired and the fair value of the investment is less than its carrying amount, the investment would be written down to its fair value.

As of January 31, 2020, the carrying amount of this investment is $3.0 million. We have not recognized any impairments nor any downward or upward measurement alternative adjustments to this carrying amount.

Fair Value Measurements

Fair value is defined as the exchange price that would be received from the sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. We measure financial assets and liabilities at fair value at each reporting period using a fair value hierarchy, which requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Financial instruments consist of cash equivalents, restricted cash, marketable securities, accounts receivable, accounts payable, convertible promissory notes, and derivative liabilities. Cash equivalents, restricted cash, marketable securities, and derivative liabilities are stated at fair value on a recurring basis. Accounts receivable and accounts payable are stated at their carrying value, which approximates fair value due to the short time to the expected receipt or payment date. The principal amounts of the convertible promissory notes approximate fair value as the stated interest rates approximate market rates currently available to us.

Accounts Receivable

Accounts receivable are recorded at the invoiced amount and amounts for which revenue has been recognized but not invoiced, net of accounts receivable allowances. The accounts receivable allowances are based on our assessment of the collectability of accounts. We regularly review the adequacy of the accounts receivable allowances based on a combination of factors. In establishing any required allowance, management considers historical losses adjusted to take into account current market conditions and our customers' financial condition, the amount of any receivables in dispute, the current receivables aging, and the current payment terms. Accounts receivable deemed uncollectible are charged against the accounts receivable allowances when identified.

Property and Equipment, Net

Property and equipment, net, are stated at cost, less accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective assets, determined to be three to five years. Leasehold improvements are amortized over the shorter of the remaining lease term or the estimated useful life of five years. Expenditures for maintenance and repairs are expensed as incurred. Significant improvements and betterments that substantially enhance the life of an asset are capitalized.

Software Development Costs

We capitalize certain development costs related to our video-first communications platform during the application development stage. Costs incurred in the preliminary stages of development are analogous to research and development activities and are expensed as incurred. The preliminary stage includes activities such as conceptual formulation of alternatives, evaluation of alternatives, determination of existence of needed technology, and final selection of alternatives. Once the application development stage is reached, internal and external costs are capitalized until the software is substantially complete and ready for its intended use. Capitalized software development costs are recorded as part of property and equipment, net. Maintenance, minor upgrades, and training costs are expensed as incurred. Capitalized software development costs are amortized on a straight-line basis over the software's estimated useful life, which is generally three years, and are recorded in cost of revenue in the consolidated statements of operations. We have capitalized $3.1 million, $2.5 million, and $0.8 million of software development costs during the fiscal years ended January 31, 2020, 2019, and 2018, respectively.

Leases

All lease arrangements are generally recognized at lease commencement. Operating lease right-of-use ("ROU") assets and operating lease liabilities are recognized at commencement. For short-term leases (an initial term of 12 months or less), an ROU asset and corresponding lease liability are not recorded and we record rent expense in our consolidated statements of operations on a straight-line basis over the lease term and record variable lease payments as incurred. ROU assets represent our right to use an underlying asset during the reasonably certain lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of fixed payments not yet paid over the lease term. We use our incremental borrowing rate based on the information available at the commencement date in determining the lease liabilities as our leases generally do not provide an implicit rate. Our incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, in an economic environment where the leased asset is located. ROU assets also include any initial direct costs incurred and any lease payments made at or before the lease commencement date, less lease incentives received. We reassess the lease term if and when a significant event or change in circumstances occurs within our control. We currently do not have any finance leases.

Impairment of Long-Lived Assets

We evaluate long-lived assets or asset groups for impairment whenever events indicate that the carrying value of an asset or asset group may not be recoverable based on expected future cash flows attributable to that asset or asset group. Recoverability of assets held and used is measured by comparing the carrying amount of an asset or an asset group to estimated undiscounted future net cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset or asset group exceeds estimated undiscounted future cash flows, then an impairment charge would be recognized based on the excess of the carrying amount of the asset or asset group over its fair value. Assets to be disposed of are reported at the lower of their carrying amount or fair value, less costs to sell. There were no impairment charges recognized related to long-lived assets during the fiscal years ended January 31, 2020, 2019, or 2018.

Revenue Recognition

We derive our revenue from subscription agreements with customers for access to our video-first communications platform and services. Revenue is recognized when a customer obtains control of promised services. The amount of revenue recognized reflects the consideration that we expect to receive in exchange for these services. We determine revenue recognition through the following steps:

1. *Identification of the contract, or contracts, with the customer*

We determine a contract with a customer to exist when the contract is approved, each party's rights regarding the services to be transferred can be identified, the payment terms for the services can be identified, the customer has the ability and intent to pay, and the contract has commercial substance. At contract inception, we will evaluate whether two or more contracts should be combined and accounted for as a single contract and whether the combined or single contract includes more than one performance obligation. We apply judgment in determining the customer's ability and intent to pay, which is based on a variety of factors, including the customer's historical payment experience or, in the case of a new customer, credit and financial information pertaining to the customer.

2. *Identification of the performance obligations in the contract*

Performance obligations committed in a contract are identified based on the services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the service either on its own or together with other resources that are readily available from third parties or from us, and are distinct in the context of the contract, whereby the transfer of the services and the products is separately identifiable from other promises in the contract. Our performance obligations generally consist of access to our video-first communications platform and related support services, which is considered one performance obligation. Our customers do not have the ability to take possession of our software, and through access to our platform, we provide a series of distinct software-based services that are satisfied over the term of the subscription.

We also provide services, which include professional services, consulting services, and online event hosting, which are generally considered distinct from the access to our video-first communications platform.

3. *Determination of the transaction price*

The transaction price is determined based on the consideration to which we expect to be entitled in exchange for transferring services to the customer. Variable consideration is included in the transaction price if, in our judgment, it is probable that a significant future reversal of cumulative revenue recognized under the contract will not occur. None of our contracts contain a significant financing component. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental entities (e.g., sales and other indirect taxes).

Our video-first communications platform and related support services are typically warranted to perform in a professional manner that will comply with the terms of the subscription agreements. In addition, we include service-level commitments to our customers warranting certain levels of uptime reliability and performance and permitting those customers to receive credits in the event that we fail to meet those service levels. These credits represent a form of variable consideration. Historically, we have not experienced any significant incidents affecting the defined levels of reliability and performance as required by the subscription agreements. We have not provided any material refunds related to these agreements in the consolidated financial statements during the periods presented.

4. *Allocation of the transaction price to the performance obligations in the contract*

Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on each performance obligation's relative standalone selling price. As noted above, access to our video-first communications platform and related support services are considered one performance obligation in the context of the contract and accordingly the transaction price is allocated to this single performance obligation.

5. *Recognition of the revenue when, or as, a performance obligation is satisfied*

Revenue is recognized at the time the related performance obligation is satisfied by transferring the control of the promised service to a customer. Revenue is recognized in an amount that reflects the consideration that we expect to receive in exchange for those services. Fees for access to our video-first communications platform and related support services are subscription revenue and are considered one performance obligation, and the related revenue is recognized ratably over the subscription period as we satisfy the performance obligation.

Professional services are time-based arrangements and revenue is recognized as these services are performed. Fees for services represent less than 2% of total revenue during the periods presented.

Cost of Revenue

Cost of revenue primarily consists of costs related to hosting our video-first communications platform and providing general operating support services to our customers. These costs are composed of co-located data center costs, third-party cloud hosting costs, integrated third-party PSTN services, personnel-related expenses, amortization of capitalized software development costs, and allocated overhead costs. Indirect overhead associated with corporate facilities and related depreciation is allocated to cost of revenue and operating expenses based on applicable headcount.

Research and Development

Research and development costs include personnel-related expenses associated with our engineering personnel and consultants responsible for the design, development, and testing of our video-first communications platform, depreciation of equipment used in research and development, and allocated overhead costs. Research and development costs are expensed as incurred.

Advertising Costs

Advertising costs are expensed as incurred in sales and marketing expense and amounted to $42.0 million, $36.1 million, and $17.1 million for the fiscal years ended January 31, 2020, 2019, and 2018, respectively.

Stock-Based Compensation

Stock-based compensation expense related to stock awards (including stock options, restricted stock awards ("RSAs"), RSUs, and ESPP) is measured based on the fair value of the awards granted and recognized as an expense on a straight-line basis over the requisite service period for stock options, RSAs and RSUs, and over the offering period for the purchase rights issued under the ESPP.

The fair value of each option and ESPP award is estimated on the grant date using the Black-Scholes option pricing model. The Black-Scholes option pricing model requires the input of highly subjective assumptions, including the fair value of the underlying common stock, the expected term of the award, the expected volatility of the price of our common stock, risk-free interest rates, and the expected dividend yield of our common stock.

The fair value of each RSA and RSU award is based on the fair value of the underlying common stock as of the grant date.

The assumptions used to determine the fair value of the stock awards represent management's best estimates. These estimates involve inherent uncertainties and the application of management's judgment. We account for forfeitures as they occur instead of estimating the number of awards expected to be forfeited.

Foreign Currency

The functional currency of our foreign subsidiaries is the U.S. dollar. Accordingly, monetary assets and liabilities of our foreign subsidiaries are remeasured into U.S. dollars at the exchange rates in effect at the reporting date, non-monetary assets and liabilities are remeasured at historical rates, and revenue and expenses are remeasured at average exchange rates in effect during each reporting period. Foreign currency related gains and losses have been immaterial during the periods presented.

Income Taxes

We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial reporting and the tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. We must then assess the likelihood that the resulting deferred tax assets will be realized. A valuation allowance is provided when it is more likely than not that a deferred tax asset will not be fully realized. Management believes it is more likely than not that deferred tax assets in the United States and the U.K. will not be realized and, accordingly, a valuation allowance has been established on such deferred tax assets.

We recognize benefits of uncertain tax positions if it is more likely than not that such positions will be sustained upon examination based solely on their technical merits at the largest amount of benefit that is more likely than not to be realized upon the ultimate settlement. Our policy is to recognize interest and penalties related to the underpayment of income taxes as a component of income tax expense or benefit. The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of GAAP and U.S. and foreign tax laws. The resolution of these uncertain tax positions in a manner inconsistent with management's expectations could have a material impact on our consolidated financial statements.

Net Income (Loss) Per Share Attributable to Common Stockholders

We calculate our net income (loss) per share attributable to Class A and Class B common stock using the two-class method required for companies with participating securities. We consider our convertible preferred stock and unvested common stock, which includes early exercised stock options and RSAs, to be participating securities as holders of such securities have non-forfeitable dividend rights in the event of our declaration of a dividend for shares of common stock. During the periods when we are in a net loss position, the net loss attributable to common stockholders was not allocated to the convertible preferred stock and unvested common stock under the two-class method as these securities do not have a contractual obligation to share in our losses.

Distributed and undistributed earnings allocated to participating securities are subtracted from net income (loss) in determining net income (loss) attributable to common stockholders. Basic net income (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted-average number of shares of our Class A and Class B common stock outstanding.

The diluted net income per share attributable to common stockholders is computed by giving effect to all dilutive securities. Diluted net income per share attributable to common stockholders is computed by dividing the resulting net income attributable to common stockholders by the weighted-average number of fully diluted common shares outstanding. During the periods when there is a net loss attributable to common stockholders, potentially dilutive common stock equivalents have been excluded from the calculation of diluted net loss per share attributable to common stockholders as their effect is anti-dilutive.

Segment Information

We operate in one operating segment. Operating segments are defined as components of an enterprise about which separate financial information is evaluated regularly by the chief operating decision maker, who is our Chief Executive Officer ("CEO"), in deciding how to allocate resources and assessing performance. Our chief operating decision maker allocates resources and assesses performance based upon consolidated financial information.

Revenue by geographical region can be found in the revenue recognition disclosures in Note 2 below. The following table presents our property and equipment, net of depreciation and amortization, by geographic region:

	As of January 31,	
	2020	2019
	(in thousands)	
Americas	$ 48,519	$ 26,048
APAC	7,464	8,928
EMEA	1,155	2,299
Total property and equipment, net	$ 57,138	$ 37,275

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the existing incurred loss impairment model with an expected credit loss model and requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected. The guidance will be effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. We do not expect the adoption to have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-use Software (subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The guidance will be effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. We are currently evaluating whether the adoption of this standard will have a material impact on our consolidated financial statements.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which supersedes FASB Accounting Standards Codification ("ASC") Topic 840, *Leases* ("ASC 840"), and makes other conforming amendments to GAAP. ASU No. 2016-02 requires, among other changes to the lease accounting guidance, lessees to recognize most leases on-balance sheet via an ROU asset and lease liability, and additional qualitative and quantitative disclosures. ASU No. 2016-02 is effective for the annual periods in fiscal years beginning after December 15, 2018, and interim periods therein. We adopted the standard as of February 1, 2019, using the modified retrospective method of applying the new standard at the adoption date. Under this approach, we will continue to report comparative periods presented in the period of adoption under ASC 840. We have elected the package of practical expedients permitted under the transition guidance within the new standard, which allows us to (1) carry forward the historical lease classification, (2) not reassess whether any expired or existing contracts contain