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, 2021
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: 001-38926

Slack Technologies, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**26-4400325**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

500 Howard Street
San Francisco, California 94105
(Address of principle executive offices including zip code)
(415) 630-7943
(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, $0.0001 par value per share	WORK	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes or ☐ No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes or ☒ 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 Securities Exchange Act of 1934 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 or ☐ 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 or ☐ No.
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

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

The aggregate market value of the registrant's Class A common stock, $0.0001 par value, held by non-affiliates of the registrant (based on $29.55, which was the closing price of a share of the registrant's Class A common stock on July 31, 2020, as reported by the New York Stock Exchange) was approximately $14.1 billion. Shares of common stock held by each executive officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status does not reflect a determination that such persons are affiliates of the registrant for any other purpose.

There were 502,550,914 shares of the registrant’s Class A common stock outstanding and 79,095,890 shares of the registrant’s Class B common stock outstanding as of February 28, 2021.

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NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws, which are statements that involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as "may," "will," "shall," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans, or intentions. The forward-looking statements in this report, other than the statements regarding the proposed transaction with salesforce.com, inc., or Salesforce, do not assume the consummation of the proposed transaction unless specifically stated otherwise. Forward-looking statements contained in this Annual Report on Form 10-K include, but are not limited to, statements about:

- the occurrence of any event, change, or other circumstances that could delay or prevent closing of the proposed transaction, or the Mergers, or give rise to the termination of that certain Agreement and Plan of Merger, or the Merger Agreement, dated December 1, 2020 by and among us, Salesforce, Skyline Strategies I Inc., a Delaware corporation and a wholly owned subsidiary of Salesforce, or Merger Sub I, and Skyline Strategies II LLC, a Delaware limited liability company and a wholly owned subsidiary of Salesforce, or Merger Sub II;
- the effect of uncertainties related to the global COVID-19 pandemic on U.S. and global economies, our business, results of operations, financial condition, demand for Slack, sales cycles, customer retention, and the health of our customers' businesses;
- our future financial performance, including our revenue, cost of revenue, and operating expenses;
- our ability to maintain the security and availability of Slack;
- our ability to increase the number of organizations on Slack and paid customers;
- our ability to grow or maintain our Net Dollar Retention Rate;
- our ability to achieve widespread adoption;
- our ability to optimize the pricing for Slack;
- our ability to effectively manage our growth and future expenses;
- our ability to maintain our network of partners;
- our ability to enhance Slack to respond to new technologies and requirements of organizations on Slack;
- our estimated market opportunity;
- the future benefits to be derived from new third-party applications and integrations;
- our ability to maintain, protect, and enhance our intellectual property;
- our ability to comply with modified or new laws and regulations applying to our business;
- the attraction and retention of qualified employees and key personnel;
- our anticipated investments in sales and marketing and research and development;
- the sufficiency of our cash, cash equivalents, and investments to meet our liquidity needs;
- our ability to service the interest on our convertible notes and repay such notes, to the extent required;
- our ability to successfully defend litigation brought against us; and

- the increased expenses associated with being a public company.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Annual Report on Form 10-K.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Annual Report on Form 10-K primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in the section titled “Risk Factors” and elsewhere in this Annual Report on Form 10-K. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Annual Report on Form 10-K. The results, events, and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements. The forward-looking statements do not assume the consummation of the proposed transaction with Salesforce unless specifically stated otherwise.

The forward-looking statements made in this Annual Report on Form 10-K relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Annual Report on Form 10-K to reflect events or circumstances after the date of this Annual Report on Form 10-K or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this Annual Report on Form 10-K, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and you are cautioned not to unduly rely upon these statements.

Unless the context requires otherwise, we are referring to Slack Technologies, Inc. together with its subsidiaries when we use the terms the “Company,” “we,” “our,” or “us.”

PART I

ITEM 1. BUSINESS

Overview

Slack is the leading channels-based messaging platform, used by millions to align their teams, unify their systems, and drive their businesses forward. Slack offers a secure, enterprise-grade environment that can scale with the largest organizations in the world. It is a new layer of the business technology stack where people can work together more effectively, connect all their other software tools and services, and find the information they need to do their best work. Slack is where work happens.

The most helpful explanation of Slack is often that it replaces the use of email inside the organization. Like email (or the Internet or electricity), Slack has very general and broad applicability. It is not aimed at any one specific purpose, but nearly anything that people do together at work. Slack is used to review job candidates, coordinate election coverage, diagnose network problems, negotiate budgets, plan marketing campaigns, approve menus, and organize disaster response teams, along with countless other tasks.

Unlike email, however, most of this activity happens in team-based channels, rather than in individual inboxes. Channels offer a persistent record of the conversations, data, documents, and application workflows relevant to a project or a topic. Membership of a channel can change over time as people join or leave a project or organization, and users benefit from the accumulated historical information in a way an employee never could when starting with an empty email inbox. Depending on the size of the organization, this might provide tens, hundreds, or even thousands of times more access to information than is available to individuals working in environments where email is the primary means of communication. Slack also enables communication and collaboration among organizations via shared channels and guest accounts, and the associated network effect increases the value of Slack both for organizations on Slack and organizations new to Slack.

Also unlike email, Slack was designed from the ground up to integrate with external software systems. Slack provides an easy way for users to share and aggregate information from other software, take action on notifications, and advance workflows in a multitude of third-party applications, over 2,450 of which are listed in the Slack App Directory. Further, Slack's platform capabilities extend beyond integrations with third-party applications and allow for easy integrations with an organization's internally-developed software. Developers have collectively created more than 850,000 third-party applications or custom integrations that were used in a typical week during the three months ended January 31, 2021. In 2019, we introduced Workflow Builder, a low-code solution to create integrations and workflows entirely in Slack, suitable for all users and based on a simple, non-technical user interface.

Ultimately, Slack is more than email replacement. It is a new layer of the business technology stack that brings together people, applications, and data. Just as an operating system coordinates the flow of information and resources of a computer in a centralized fashion, using Slack inside an organization and across organizations creates a hub into which critical business information flows, is acted upon and transformed, and is then quickly routed to its desired destination. Slack streamlines our users' workflows, increases the beneficial return on the time they spend communicating, and creates a powerful point of leverage for increased productivity.

Summary of Key Benefits

Working in Slack provides several key benefits to users, teams, and organizations and to our platform ecosystem:

- **People love using Slack and that leads to high levels of engagement.** Slack is enterprise software created with an eye for user experience usually associated with consumer products. We believe that the more simple, enjoyable, and intuitive the product is, the more people will want to use it. As a result, teams benefit from the aggregated attention that happens when all members of a team are engaged in a single collaboration tool.

- **Slack increases an organization’s “return on communication.”** Moving to channel-based communication increases accessibility of communication, which in turn increases transparency and breaks down silos. The organization benefits from increased coordination and alignment from a given amount of communication, with no additional effort in the form of status reports, update meetings, and so on.

- **Slack increases the value of existing software investment**. As a flexible platform for routing information of all kinds, Slack integrates horizontally with thousands of other applications, from those provided by companies like Google, Salesforce, ServiceNow, Atlassian, and Dropbox to the proprietary line-of-business applications developed by organizations for their own internal use. Integration with Slack increases both the accessibility of information inside applications and the response times for many basic actions. Because Slack users can do virtually everything on Slack on mobile that they can do on desktop, they do not need to have dozens of work applications on their mobile devices to be able to make lightweight use of those applications on the go.

- **An organization’s archive of data increases in value over time.** As teams continue to use Slack, they build a valuable resource of widely accessible information. Important messages are surrounded by useful context and users can see how fellow team members created and worked with the information and arrived at a decision. New employees can have instant access to the information they need to be effective whenever they join a new team or company. Finally, the content on Slack is available through powerful search and discovery tools, powered by machine learning, which improve through usage.

- **Slack helps organizations improve culture and employees’ feelings of empowerment.** When every member of a team learns from, and contributes towards, common goals, people feel they have greater influence over the ultimate outcomes of their work. By keeping all team members in the information flow, we believe that Slack increases this sense that members of a team can have an impact and make a difference and that creates greater team cohesion and increases motivation.

- **Slack helps achieve organizational agility**. Slack’s channels immerse workers directly into the dynamic and evolving communication, decision making, and data flow that defines modern work. Because workers have both more access to data updated in real time and more context for that data, they are better able to quickly react and adjust work streams in response to new business priorities or changing conditions while staying in alignment with one another. This same organizational agility extends outside an organization with Slack Connect, integrating conversations and work streams with partners in shared channels and enabling broader alignment.

- **Developers are better able to reach and deliver value to their customers**. Slack has aggregated hundreds of thousands of organizations on one platform and made it easier for developers to distribute their software to any Slack-using organization. By making information from their applications available and allowing users to perform key actions through a whole new interface, developers can make their customers happier and more engaged.

Our Business Model

From the outset, our go-to-market strategy has centered around offering an exceptional product and level of service to organizations on Slack. We have both a self-service offering and a direct sales force to address customers who do not want to buy through the self-serve model or who need the additional capabilities of our enterprise products. Our direct sales force and customer success professionals focus on driving successful adoption and expansion within organizations. We believe deep user engagement and an obsessive focus on customer experience are catalysts for expanding paid adoption within organizations.

We define an organization on Slack as a separate entity, such as a company, educational or government institution, or distinct business unit of a company, that is on a subscription plan, whether free or paid. Once an organization has three or more users on a paid subscription plan, we count them as a Paid Customer.

As of January 31, 2021, Slack had more than 756,000 organizations with three or more users, comprised of:

- More than 600,000 organizations on our Free subscription plan; and
- More than 156,000 Paid Customers.

Many of these Paid Customers have thousands of active users and our largest Paid Customers have more than one hundred thousand employees using Slack on a regular basis. The number of organizations on Slack is highly diversified, and during the years ended January 31, 2019, 2020 and 2021, no Paid Customer accounted for more than 3% of our revenue.

Our users, whether on a free or paid subscription plan, are highly engaged, and their collective active use of Slack for the week ended January 31, 2021 exceeded 105 million hours. During the week ended January 31, 2021, more than 2.2 billion messages were sent in Slack. During this same time, on a typical workday, users at Paid Customers averaged more than ten hours connected to Slack through at least one device and spent more than 110 minutes actively using Slack. We believe that this broad, active user base and deep user engagement propel increased adoption within organizations and inspire many organizations to become Paid Customers.

Our direct sales and customer success efforts are focused on larger organizations who have a greater number of users and teams and have the potential to increase spend over time. As our business has matured, we have seen a growth in sales through our direct sales force. We measure the number of Paid Customers > $100,000 of annual recurring revenue, or ARR, as a gauge of adoption within and expansion into large enterprises. As of January 31, 2021, we had 1,183 Paid Customers >$100,000 of ARR, which accounted for approximately 49% of our revenue in fiscal year 2021.

We generate revenue primarily from the sale of subscriptions for Slack. Paid customers typically pay on a monthly or annual basis, based on the number of users that they have on Slack.

What Sets Us Apart

Singular focus

Our development, design, partnerships, customer engagement, and investments are targeted at realizing the enormity and simplicity of Slack's singular mission: to make people's working lives simpler, more pleasant, and more productive. We have no legacy products or competing priorities. We believe our platform has broad enough utility and a large enough market that we can remain focused indefinitely.

Scale and market leadership

The strength of our market leadership is demonstrated by the scale and growth of our users, the high level of engagement within our user base, our growth within organizations, the breadth of applications that integrate with Slack, and the size of our developer ecosystem. We believe we know more about how organizations use platforms like Slack than anyone else in the world and will put this knowledge to work faster.

Strong increasing returns dynamics

As Slack usage increases inside an organization, more value is created for each additional user who might join, as well as for all existing users. As organizations continue to use Slack over time, the value of their archive increases and they realize more utility in their usage. We believe shared channels between organizations will increase the value of the overall Slack network for each new organization that joins as well as for all existing network members. Slack also generates more value for developers as more users and more organizations join Slack, and users and organizations are more attracted to Slack as more apps are integrated into or built on our platform.

Customer love leading to stickiness and organic expansion

People love using Slack and many become advocates for wider use inside their organizations. They also tend to recommend Slack when they switch jobs or join organizations that are not yet using Slack. There are thousands of tweets and other public endorsements or recommendations of Slack, a source of growth that is exceptional in enterprise software.

Differentiated go-to-market strategy

Organic growth is generated as users realize the benefits of Slack. This growth enables us to attract new and prospective organizations through an effective self-service customer engagement model for free and paid subscription plans. We also employ direct sales efforts targeted at new organizations and organizations with existing organic adoption of Slack. Once prospective organizations are identified, our direct sales and customer success teams work to broaden adoption of Slack into wider-scale deployments.

Customer-centricity as the fundamental tenet of our company

We build our software and user interface around the real needs of human beings. We aim for radical convenience and do our best to anticipate the needs of our users. Empathy and respect for users is built into our company values and this mindset extends to our broader sales and customer engagement model. We focus on customer support for free and paid subscription plans and treat it as a critical and strategic imperative for our company. We believe people should leave every interaction with a Slack representative feeling that they have been heard, respected, and helped by a human being who truly understands Slack and the experience of depending on it for work. This quality of service has a real impact on user behavior: based on our internal data, users who interact with our customer experience team are eight times more likely to become paid users than those who do not.

Our Service

Slack is a new layer of the business technology stack where people can work together more effectively, connect all their other software tools and services, and find the information they need to do their best work.

Slack's key functionality

- **Messaging and Channels:** Slack users communicate with one another by posting messages to a channel or sending direct messages to a person or a group of people. Slack's core organizing principle is the channel, which brings the right people together to collaborate, share information, and get work done. Channels offer flexibility and can be organized by project, topic, team, or whatever makes sense for a specific task or situation. Public channels are accessible to all users within a Slack workspace. For more exclusive workstreams and conversations, users create invite-only channels.

  Within channels, users post messages, documents, and images and interact with other software. Users can search for information about a topic or project, find a relevant channel, join it, and scroll through the channel's entire history, finding messages and contextual content. Slack enables users to optimize the way they use the service, allowing users to choose when to receive notifications and customize alerts by person, keyword, channel, or application.

- **Integrations:** Through integrations with both third-party and internally-built software applications, users of Slack are able to easily access and interact in their channels with information from other applications. We believe this makes Slack users more productive at work and increases the value of other software programs. For example, a user may look up customer account information in Salesforce or get updates on deployment status through GitHub within Slack. More advanced use cases include the ability to design custom workflows, which can automatically perform a series of tasks and actions in Slack in otherwise unconnected software applications. For example, creating a customer service ticket routing application that brings together information from a Zendesk ticket, customer data from Salesforce, and suggested solutions from an internally-built knowledge base — all without leaving Slack.

- **Shared Channels:** Slack enables communication and collaboration among organizations via shared channels and guest accounts. Shared channels, also called Slack Connect, securely connect the Slack workspaces of different organizations, enabling the same level of communication and collaboration between enterprises that Slack brings to teams within an organization. Shared channels can be public or invite-only and contain all of the powerful tools and integrations of Slack along with an added layer of administrative capabilities to regulate and monitor the flow of information between organizations. Guest accounts allow workspace owners to invite people from outside their organizations to join one or more channels.

As of January 31, 2021, more than 74,000 Paid Customers have adopted shared channels using Slack Connect. We believe adoption of this feature will grow significantly in the coming years, both in terms of network participants and network density. Because the associated network effect increases the value of Slack both for organizations on Slack and organizations new to Slack, we expect Slack Connect to create more utility for existing users and be an important factor in future growth.

- **Search:** Everything in Slack, including messages, posts from applications, and text content of files is searchable, so that permissioned users can tap into company knowledge and find information when they need it. Over time, use of Slack creates an archive of information generated by an organization that is universally available, persistent and contextual, making Slack's search function increasingly useful. Our search capability offers a range of filters and modifiers to allow users easy and efficient access to specific knowledge from potentially vast repositories of information. We also leverage machine learning to deliver personalized search results based on user behavior and context, such as the people a user may communicate with most often, the files that may be most relevant to the user and the channels in which the user tends to participate.

Our Subscription Plans

We offer four subscription plans to serve the varying needs of our users: Free, Standard, Plus, and Enterprise Grid.

Our Free, Standard, and Plus subscription plans consist of a single workspace, which we define as a Slack environment configured for a team. These plans are most often adopted by small and medium sized teams. From time to time, we provide additional features and functionality, such as enterprise key management, to meet specialized requirements of organizations on Slack.

Our Enterprise Grid plan is uniquely designed for larger organizations, which typically are more complex and require enhanced functionality, flexibility, administrative control, and security at scale. Enterprise Grid allows paid customers to:

- create and manage an unlimited set of connected workspaces and channels;
- search across multiple workspaces, making it easy for workers and administrators to tap into their organization's collective knowledge at scale;
- access centralized controls to ensure a company's data remains secure, giving administrators a single point of visibility to provision and manage Slack; and
- integrate with third-party e-Discovery and data loss prevention tools to help meet security and compliance requirements.

The Slack Platform

Our technology platform was purpose built to enable independent software developers and organizations to integrate existing software with Slack or build entirely new applications that provide new features for Slack users. We believe that the power of Slack is amplified through integration with third-party and internal software, providing easy, intuitive access to a broad range of applications. Our platform consists of a set of open, documented APIs, developer tools, and an App Directory that lists apps that have met our guidelines. Organizations on Slack use our platform to create internal applications and integrations, ranging from simple notifications to complex internal workflows. Third-party developers build integrations and applications that make it easier for their existing customers to engage with their products as well as find new customers. In 2019, we introduced Workflow Builder, a low-code solution to create integrations and workflows entirely in Slack, suitable for all users and based on a simple, non-technical user interface.

Our App Directory lists applications and integrations that address virtually all aspects of knowledge work. These applications and integrations connect Slack users with software from some of the world's largest technology companies to some of the smallest startups.

We foster our platform ecosystem through our dedicated Slack API site, open source forums, software development kits, global developer events, partnerships, and technical support for developers building for their own companies or aiming to list their apps in our App Directory.

Our Sales and Marketing Approach

We combine a web-based, self-service go-to-market approach with direct sales efforts that focus on growing users within larger organizations and acquiring new large paid customers. We believe that these go-to-market approaches reinforce one another; self-service users often become leads for our direct sales force and users within larger enterprises create organic awareness of Slack inside and outside their organizations. We complement these sales and marketing activities with an obsessive focus on customer experience and customer success.

Self-service adoption and marketing

Many organizations adopt Slack initially as part of our self-service go-to-market approach. We deploy a range of marketing strategies and tactics to drive initial awareness and adoption. These include brand advertising, public relations, digital marketing campaigns, free trials of our paid plans, product localization, in-product customer education, and a website designed to teach new users about Slack.

Organizations on Slack are diverse, and range from businesses to non-governmental organizations, universities, sports clubs, and open source communities. They often start by using our free version. We believe free usage helps create champions of Slack, and as these prospective paid customers realize the value of Slack, they spread the word organically throughout their networks and organizations.

As organizations engage more deeply with Slack, both through using Slack for collaboration and communication and integrating more third-party and internally-developed software via our platform, they often upgrade to paid plans via our website. Organizations also upgrade to paid plans to utilize features such as shared channels and enhanced security and administration capabilities. We support this upgrade path through targeted marketing campaigns and in-product prompts highlighting the added benefits and features of our paid plans.

Direct sales and marketing

To increase adoption within larger paid customers and acquire new paid customers, we utilize a direct sales organization. Our direct sales force often leverages the Slack champions and proofs of concept developed through self-service adoption. We combine this bottoms-up demand with direct sales efforts targeted at C-suite executives and business unit leaders.

These efforts include a globally distributed direct sales force, solutions engineering, demand generation campaigns, webinars, analyst relations, C-suite events, and cooperative marketing efforts with our partners. We also host an annual user conference, Frontiers, where we bring together organizations and partners around the world to share best practices on achieving organizational alignment, unveil the latest Slack features, educate users, and embrace our growing application developer and platform ecosystem.

Customer experience and customer success

Our customer experience team provides support to users of both free and paid versions of Slack and is core to enhancing user adoption, free-to-paid conversion, and subscription renewal. Additionally, our customer experience team receives and quantifies feedback from organizations on Slack at scale. This focus on responsiveness and personal touch helps us optimize customer satisfaction and identify high-value opportunities for both user-facing and internal product improvements.

Our educational offerings include a range of free, web-based classes and tutorials on how to use, administer, optimize, and customize Slack, as well as how to integrate other applications, build custom workflows, and build entirely new applications on Slack. We also offer in-person training through our developer relations program and at events for organizations on Slack.

Our customer success team supports larger organizations through every step of their journey with Slack. This starts with supporting onboarding, workspace best practices, change management, and education, and continues with renewals and expansion to other functional teams, departments, or business units. In addition, we offer professional services tailored to the needs of organizations on Slack.

Our Partnerships

Slack has a robust and diverse partner ecosystem that includes leading enterprise software companies, security providers, systems integrators, and new, emerging companies. Our partner ecosystem extends and enhances Slack through integrations and operates as an important component of our go-to-market strategy. Partners serve as a source of enterprise sales leads and help to accelerate our sales cycles through co-selling and services delivery. Our partners benefit from growth in customer engagement with their products and services and new opportunities to grow their users and customers.

Slack Fund

Investing is also a component of our partnerships strategy. Slack Fund L.L.C., or the Slack Fund, is an investment fund that we initially started, in partnership with entities affiliated with certain of our stockholders: Accel, Andreessen Horowitz, Index Ventures, Kleiner Perkins, Social Capital, and Spark Capital. We created the fund to support companies building applications on the Slack platform and other applications that are focused on the next generation of enterprise software. By the end of fiscal year 2021, Slack Fund invested all of the capital initially committed by Slack and our partners. In March 2021, we purchased all the outstanding LLC interests from the other Slack Fund members, and Slack currently owns all of the LLC interests in Slack Fund. We have invested and will continue to invest in start-up companies that we believe enhance the value of Slack and that are focused on the future of work, with funding for these investments coming solely from Slack.

Human Capital

At Slack, our goal is to make people’s working lives simpler, more pleasant, and more productive — not only for our users but also for our own workforce. We believe that the success of our workforce is critical to the success of our business. Slack’s culture is rooted in a sense of belonging, encouraging personal and professional growth, and the ability to empathize and relate to one another.

As of January 31, 2021, we had 2,545 full-time employees. We supplement our workforce with contractors and consultants. In June 2020, we announced that we would allow many of our employees to work remotely on a permanent basis. None of our employees is represented by a labor union. We have not experienced any work stoppages, and we believe that our employee relations are strong.

Compensation and Benefits

Our compensation program is designed to attract and reward talented individuals who possess the skills necessary to support our business, contribute to our strategic goals and create long-term value for our stockholders. We provide employees with competitive compensation packages that include base salary, short-term annual incentive bonuses and long-term equity compensation. We also provide our employees with comprehensive employee benefit programs, such as medical, dental and vision insurance, a 401(k) plan, and life and disability insurance.

Diversity and Inclusion

We are committed to embedding diversity, engagement and belonging in our workplace and in our hiring practices. We are focused on building an inclusive culture and sustaining a diverse workforce through a variety of company initiatives. As part of that effort we have a number of executive-sponsored employee resource groups that provide support for diverse members of our workforce by fostering an inclusive environment and providing professional development and community-building opportunities. In addition, we provide resources and training to employees at all levels to ensure that we are hiring, promoting and retaining diverse teams, as well as sponsor a number of professional development programs to support the advance of underrepresented employees at Slack. We also publish an annual diversity report to share our data and evaluate our approaches.

Health, Safety and Wellness

Our success is fundamentally connected to the well-being of our people. Accordingly, we are committed to the health, safety, and wellness of our employees. We provide our employees and their families with access to a variety of health and wellness programs. In response to the COVID-19 pandemic, we implemented significant changes such as facilitating teleworking that we determined were in the best interest of our employees, as well as the communities in which we operate. We continue to evolve our programs to meet our employees' health and wellness needs.

Slack for Good

Part of our culture is what we refer to as Slack for Good. Slack for Good's principal focus is to increase the representation of people from backgrounds that have been historically under-represented in the technology industry. We have pledged 1% of employee time, 1% of our equity, and 1% of our product to activities associated with Slack for Good. We encourage our employees to volunteer their time to support causes of their choice and provide them with paid time off to do so. We have reserved 1.2 million shares of our Class B common stock for potential future sale to fund and support our social impact initiatives. We also donate money and discount access to our service for non-profit organizations.

Research and Development

We build our software with the user in mind — we invest substantial time, energy, and resources to ensure we have a deep understanding of the needs of organizations on Slack and we continually innovate on our product. Unlike traditional enterprise software, we aim to release new features to users and organizations on Slack as quickly as possible through internal testing releases and external beta cycles to ensure that we are constantly receiving feedback. We leverage the power of our expansive user base and our focused customer service philosophy to collect feedback on product features to enhance our development process.

Research and development expenses were $382.1 million, $457.4 million, and $157.5 million, including stock-based compensation of $115.0 million, $226.5 million, and $9.9 million, for the years ended January 31, 2021, 2020, and 2019, respectively.

Technology Infrastructure and Operations

We have built our technology infrastructure using a distributed and scalable architecture on a global scale.

We designed our technology platform with multiple layers of redundancy to guard against data loss and deliver high availability and low latency. Incremental backups are performed hourly and full backups are performed daily. In addition, redundant copies of content are stored in at least two geographically separate regions and are replicated within each region. Data is transmitted in encrypted form and encrypted when stored in our system. We use Amazon Web Services, or AWS, as our processing and delivery infrastructure.

We have built a network operations infrastructure that combines automated, 24x7 telemetry with human monitoring to help ensure that any issues that arise with our service are addressed as quickly as possible. We publish our uptime metrics, system status, and event reports on our public website so that users and organizations know how our systems are performing at any given time.

Security, Privacy, and Data Protection

Trust is important for our relationship with users and organizations on Slack, and we take significant measures to protect their privacy and data.

Security

We devote considerable resources to our security program, which is dedicated to ensuring that organizations on Slack have the highest confidence in our custodianship of their data. Our security program is aligned to the ISO 27000 standards and is regularly audited and assessed by third parties as well as organizations on Slack.

Our security program consists of the following:

- **Organizational security** including security and privacy training, a team of dedicated security professionals, policies and standards, separation of duties, and regular audits, compliance activities, and third-party assessments;

- **Secure by design principles** by which we assess the security risk of each software development project according to our secure development lifecycle and create a set of requirements that must be met before the resulting change may be released to production; and

- **Public bug bounty program** to facilitate responsible disclosure of potential security vulnerabilities identified by external researchers and reward them for their verified findings.

The focus of our security program is to prevent unauthorized access to the data of organizations on Slack. To this end, our team of security practitioners, working in partnership with peers across our company, work to identify and mitigate risks, implement best practices, and continue to evaluate ways to improve. These steps include data encryption in transit and at rest, network security, classifying and inventorying data, limiting and authorizing access controls, and multi-factor authentication for access to systems with data. We also employ regular system monitoring, logging, and alerting to retain and analyze the security state of our corporate and production infrastructure.

In addition, our security program has achieved several internationally-recognized certifications and industry standard audited attestations of our security controls, and maintains a number of compliance programs. Slack offers support for HIPAA-regulated organizations that purchase Enterprise Grid.

We take appropriate steps to help ensure that our security measures are maintained by the third-party vendors we use, including by conducting security reviews and audits.

Privacy and data protection

The privacy of users and protection of data is important to Slack's continued growth and success. Privacy is a shared responsibility among all our employees, but we also have a dedicated privacy and data governance team that builds and executes on our privacy program, including the management of data protection impact assessments. Our privacy and legal teams work together to conduct product and feature reviews, data inventory and mapping, and support for data protection and privacy-related requests.

We are committed to complying with, and helping organizations on Slack comply with, data protection laws globally. We monitor guidance from industry and regulatory bodies, meet with regulators and update our product features and contractual commitments accordingly.

Slack is offered to organizations outside the United States and Canada by Slack Technologies Limited, an Irish company based in Dublin, Ireland, which is subject to the European Union's General Data Protection Regulation and the regulatory oversight of the Irish Data Protection Commission. We also maintain a self-certification under the current E.U.-U.S. and Swiss-U.S. Privacy Shield programs and offer European Union Model Clauses, also known as Standard Contractual Clauses. See the section titled "Risk Factors—Risks Related to Information Technology, Intellectual Property, and Data Security and Privacy—We may face particular privacy, data security, and data protection risks in Europe particularly due to the European General Data Protection Regulation."

We maintain a privacy policy that describes how Slack collects, uses, and discloses information, and what choices organizations and users have.

Competition

The market for services like Slack is emerging, rapidly evolving, and fragmented, and we believe that Slack represents a new category of business technology. As a result, we principally compete against collaboration and communication tools and products from established vendors, such as Microsoft, productivity tool and email providers, such as Google, unified communications providers, such as Cisco, and consumer application companies that have entered the business software market, such as Facebook. We also compete with smaller companies that offer niche or point products that attempt to address certain problems that Slack addresses. These smaller companies include companies that specialize in voice or video communication, instant messaging, email filtering, and email inbox organization, business workflows, team-based collaboration, intranet creation and maintenance, and other functionality. Some of these companies offer free or discounted services. We believe that we compete favorably with these smaller companies because they do not offer the unique mix of features and functionality combined with our proven ability to scale to handle large amounts of users, usage, and data. In addition, our market is subject to changing technology, shifting customer needs, new market entrants, and frequent introductions of new products and services.

We believe that the principal competitive factors in our markets include the following:

- ease of adoption, use, and deployment;
- product functionality;
- platform capabilities;
- breadth and depth of platform integrations;
- scalability, availability and reliability;
- security and privacy;
- ability to support intercompany collaboration;
- brand awareness and reputation;
- customer support; and
- total cost of ownership.

Competition has intensified in recent periods, and we expect competition to continue to intensify as established and emerging companies continue to enter the markets we serve or attempt to address the problems Slack addresses, as customer requirements evolve, and as new products, technologies, and regulations are introduced. Many of our existing competitors have longer operating histories, larger sales and marketing budgets, access to larger existing user bases, and greater financial, technical, and other resources than we do. In addition, some of our larger competitors, such as Microsoft, have substantially broader product offerings and leverage their relationships based on other products or incorporate functionality into existing products to gain business in a manner that discourages users from purchasing Slack, including through offering free products, selling at zero or negative margins, product bundling, forced product migrations, auto-installation of applications, or closed technology platforms. We believe this has confused the market for Slack, lengthened certain sales cycles, and caused certain prospective customers not to purchase Slack. In addition, the product bundling and forced product migrations described above have reduced, and may in the future reduce, the overall market for Slack by preventing us from gaining access to sales opportunities and by forcing us to spend more resources to market and sell Slack. In July 2020, we filed a complaint against Microsoft with the European Commission for engaging in certain behaviors that we believe are unlawful and anti-competitive. The complaint process is costly and time-consuming and we cannot provide assurance that the outcome of the process with the European Commission. We believe, however, that we are uniquely positioned to more rapidly innovate and respond to new technologies and customer requirements than our competitors. See the section titled “Risk Factors—Risks Related to Our Business and Industry—The market and software categories in which we participate are competitive, new, and rapidly changing, and if we do not compete effectively with established companies as well as new market entrants our business, results of operations, and financial condition could be harmed.”

Intellectual Property

We believe that our intellectual property rights are valuable and important to our business. We rely on a combination of patents, trademarks, copyrights, trade secrets, license agreements, confidentiality procedures, non-disclosure agreements, employee disclosure, and invention assignment agreements, and other legal and contractual rights to establish and protect our proprietary rights.

As of January 31, 2021, we had over 120 issued U.S. and foreign patents and over 240 pending U.S. and foreign patent applications, including patents and patent applications acquired from third parties. The expiration dates of our patents range from calendar years 2021 to 2040. The patent applications we file are intended to protect our proprietary inventions relevant to our business, and we have in the past and may in the future acquire additional patents, patent portfolios, or patent applications.

We have trademark rights in our name and other brand indicia and have trademark registrations for select marks in the United States and other jurisdictions around the world. We also have registered domain names for websites that we use in our business, such as www.slack.com, and similar variations.

Corporate Information

We were incorporated in 2009 as Tiny Spec, Inc., a Delaware corporation. Later in 2009, we changed our name to Tiny Speck, Inc. and, in 2014, we changed our name to Slack Technologies, Inc. Our principal executive offices are located at 500 Howard Street, San Francisco, California 94105, and our telephone number is (415) 630-7943. Our website address is www.slack.com. Information contained on or that can be accessed through our website does not constitute part of this Annual Report on Form 10-K and the inclusion of our website address in this Annual Report on Form 10-K is an inactive textual reference only.

“Slack” is our registered trademark in the United States, Argentina, Australia, Brazil, Canada, Chile, Colombia, the European Union, Hong Kong, India, Israel, Japan, Korea, Malaysia, Mexico, New Zealand, Norway, Russia, Serbia, Singapore, South Korea, Switzerland, Taiwan, Turkey, Ukraine, and the United Kingdom. Other trademarks and trade names referred to in this Annual Report on Form 10-K are the property of their respective owners.

Available Information

The following filings are available through our investor relations website after we file them with the Securities and Exchange Commission, or the SEC: Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and our Proxy Statement for our annual meeting of stockholders. These filings are also available for download free of charge on our investor relations website. Our investor relations website is located at investor.slackhq.com. The SEC also maintains an Internet website that contains reports, proxy statements and other information about issuers, like us, that file electronically with the SEC. The address of that website is www.sec.gov.

We webcast our earnings calls and certain events we participate in or host with members of the investment community on our investor relations website. Additionally, we provide notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases, and blogs as part of our investor relations website. Further corporate governance information, including our corporate governance guidelines and code of conduct, is also available on our investor relations website under the heading "Governance." The contents of our websites are not intended to be incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

ITEM 1A. RISK FACTORS

A description of the risks and uncertainties associated with our business is set forth below. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Annual Report on Form 10-K, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes. Our business, results of operations, financial condition, and prospects could also be harmed by risks and uncertainties not currently known to us or that we currently do not believe to be material. If any of the risks actually occur, our business, results of operations, financial condition, and prospects could be harmed. In that event, the market price of our Class A common stock could decline, and you could lose part or all of your investment.

Risk Factor Summary

Our business is subject to numerous risks and uncertainties, including those highlighted in this section titled "Risk Factors" and summarized below. We have various categories of risks, including risks related to our proposed transaction with Salesforce; risks related to our business and industry, risks related to information technology, intellectual property, and data security and privacy, risks related to legal, regulatory, accounting, and tax matters, risks related to ownership of our Class A common stock, and risks related to our indebtedness and outstanding convertible senior notes, which are discussed more fully below. As a result, this risk factor summary does not contain all of the information that may be important to you, and you should read this risk factor summary together with the more detailed discussion of risks and uncertainties set forth following this section under the heading "Risk Factors," as well as elsewhere in this Annual Report on Form 10-K. Additional risks, beyond those summarized below or discussed elsewhere in this Annual Report on Form 10-K, may apply to our business, activities, or operations as currently conducted or as we may conduct them in the future or in the markets in which we operate or may in the future operate. These risks include, but are not limited to, the following:

- Failure to complete, or delays in completing, the proposed transaction with Salesforce announced on December 1, 2020 could materially and adversely affect our results of operations and our stock price.
- Uncertainty about the Mergers may adversely affect relationships with our customers, partners, suppliers, and employees, whether or not the Mergers are completed.
- If the Mergers are consummated, the combined company may not perform as we or the market expects, which could have an adverse effect on the price of Salesforce common stock, which our current stockholders will own following the completion of the Mergers.
- The global COVID-19 pandemic has harmed and could continue to harm our business, results of operations, and financial condition.
- We have a limited operating history, which makes it difficult to forecast our revenue and evaluate our business and future prospects.
- We have a history of net losses, we anticipate increasing operating expenses in the future, and we may not be able to achieve and, if achieved, maintain profitability.
- We have experienced rapid growth in recent periods and our recent growth rates may not be indicative of our future growth.
- If we fail to manage our growth effectively, we may be unable to execute our business plan or maintain high levels of service and customer satisfaction.
- We may experience quarterly fluctuations in our results of operations due to a number of factors that make our future results difficult to predict and could cause our results of operations to fall below analyst or investor expectations.
- Real or perceived errors, failures, vulnerabilities, or bugs in Slack could harm our business, results of operations, and financial condition.

- The market and software categories in which we participate are competitive, new, and rapidly changing, and if we do not compete effectively with established companies as well as new market entrants our business, results of operations, and financial condition could be harmed.

- If we are unable to attract new users and organizations, convert users of and organizations on our free version into paid customers, grow or maintain our Net Dollar Retention Rate, expand usage within organizations on Slack, and sell premium subscription plans or effectively develop new features, integrations, capabilities, and enhancements that achieve market acceptance, our revenue growth and operating results will be harmed.

- Our ability to introduce new features, integrations, capabilities, and enhancements is dependent on adequate research and development resources. If we do not adequately fund our research and development efforts, or if our research and development investments do not translate into material enhancements to Slack, we may not be able to compete effectively and our business, results of operations, and financial condition may be harmed.

- If there are interruptions or performance problems associated with the technology or infrastructure used to provide Slack, organizations on Slack may experience service outages, other organizations may be reluctant to adopt Slack, and our reputation could be harmed.

- A security incident may allow unauthorized access to our systems, networks, or data or the data of organizations on Slack, harm our reputation, create additional liability, and harm our financial results.

- Any actual or perceived failure by us to comply with privacy, data protection, information security, consumer privacy, data residency, or telecommunications laws, regulations, government access requests, and obligations in one or multiple jurisdictions could result in proceedings, actions, or penalties against us and could harm our business and reputation. These laws are uncertain, evolving, and interpreted and applied in different ways in different countries and, as a result, our legal obligations in different countries, and our efforts to comply with those legal obligations, may be inadequate or in conflict.

- The dual class structure of our common stock has the effect of concentrating voting control with those stockholders who held our capital stock prior to the listing of our Class A common stock on the NYSE, including our directors, executive officers, and their respective affiliates. Further, the voting agreements between our Chief Executive Officer, Stewart Butterfield, and certain stockholders have the effect of concentrating voting power with our Chief Executive Officer. This ownership will limit or preclude your ability to influence corporate matters, including the election of directors, amendments of our organizational documents, and any merger, consolidation, sale of all or substantially all of our assets, or other major corporate transaction requiring stockholder approval.

Risks Related to Our Proposed Transaction with Salesforce

Failure to complete, or delays in completing, the proposed transaction with Salesforce announced on December 1, 2020 could materially and adversely affect our results of operations and our stock price.

On December 1, 2020, we entered into an agreement with Salesforce pursuant to which, if all of the conditions to closing are satisfied or waived, we will merge with a subsidiary of Salesforce and become a wholly-owned subsidiary of Salesforce. Consummation of the Mergers is subject to certain closing conditions and a number of the conditions are not within our control, and may prevent, delay, or otherwise materially adversely affect the completion of the transaction. We cannot predict with certainty whether and when any of the required closing conditions will be satisfied or if another uncertainty may arise and cannot assure you that we will be able to successfully consummate the proposed Mergers as currently contemplated under the Merger Agreement or at all. Risks related to the failure of the proposed Mergers to be consummated include, but are not limited to, the following:

- we would not realize any or all of the potential benefits of the Mergers, including any synergies that could result from combining our financial and proprietary resources with those of Salesforce, which could have a negative effect on the price of our Class A common stock;
- under some circumstances, we may be required to pay a termination fee to Salesforce of $900.0 million;
- we will remain liable for significant transaction costs, including legal, accounting, financial advisory, and other costs relating to the Mergers regardless of whether the Mergers are consummated;
- the trading price of our Class A common stock may decline to the extent that the current market price for our stock reflects a market assumption that the Mergers will be completed;
- the attention of our management may have been diverted to the Mergers;
- we could be subject to litigation related to any failure to complete the Mergers;
- the potential loss of key personnel during the pendency of the Mergers as employees and other service providers may experience uncertainty about their future roles with us following completion of the Mergers; and
- under the Merger Agreement, we are subject to certain restrictions on the conduct of our business prior to completing the Mergers, which restrictions could adversely affect our ability to conduct our business as we otherwise would have done if we were not subject to these restrictions.

The occurrence of any of these events individually or in combination could materially and adversely affect our business, results of operations, financial condition, and our stock price.

Uncertainty about the Mergers may adversely affect relationships with our customers, partners, suppliers, and employees, whether or not the Mergers are completed.

In response to the announcement of the Mergers, our existing or prospective customers, partners, or suppliers may:

- delay, defer, or cease purchasing products or services from, or providing products or services to, us or the combined company;
- delay or defer other decisions concerning us or the combined company; or
- otherwise seek to change the terms on which they do business with us or the combined company.

Any such delays or changes to terms could materially harm our business or, if the Mergers are completed, the business of the combined company.

In addition, as a result of the Mergers, our current and prospective employees could experience uncertainty about their future with us or the combined company. As a result, key employees may depart because of issues relating to such uncertainty or a desire not to remain with Salesforce following the completion of the Mergers.

Losses of customers, partners, employees, or other important strategic relationships could have a material adverse effect on our business, results of operations, and financial condition. Such adverse effects could also be exacerbated by a delay in the completion of the Mergers for any reason, including delays associated with obtaining requisite regulatory approvals or the approvals of our stockholders and/or Salesforce's stockholders.

If the Mergers are consummated, the combined company may not perform as we or the market expects, which could have an adverse effect on the price of Salesforce common stock, which our current stockholders will own following the completion of the Mergers.

Even if the Mergers are consummated, the combined company may not perform as we or the market expect. Risks associated with the combined company following the Mergers include:

- if the Mergers do not qualify as a “reorganization” within the meaning of Section 368(a) of the Code, our stockholders may be required to pay substantial U.S. federal income taxes;
- integrating two businesses is a difficult, expensive, and time-consuming process, and the failure to integrate successfully the businesses of Slack and Salesforce in the expected time frame would adversely affect Salesforce's future results following completion of the Mergers;
- it is possible that key employees might decide not to remain with Salesforce after the Mergers are completed, and the loss of key personnel, or difficulty integrating the cultures of Slack and Salesforce, could have a material adverse effect on the combined company's results of operations, financial condition, and growth prospects;
- the success of the combined company will also depend upon relationships with third parties and pre-existing customers of Slack and Salesforce, which relationships may be affected by customer preferences or public attitudes about the Mergers;
- the stock price of Salesforce common stock after the Mergers may be affected by factors different from those currently affecting the shares of Slack; and
- if governmental agencies or regulatory bodies impose requirements, limitations, costs, divestitures, or restrictions on the consummation of the proposed Mergers, the combined company’s ability to realize the anticipated benefits of the Mergers may be impaired.

If any of these events were to occur, are perceived to occur, or are expected to occur, the value of the combined company and the Salesforce common stock received by our stockholders in the Mergers could be adversely affected.

The number of shares of Salesforce common stock issuable in the Mergers in respect of one share of our common stock is fixed and will not be adjusted. Because the market price of Salesforce common stock may fluctuate, Slack stockholders cannot be sure of the market value of the stock consideration they will receive in exchange for their Slack shares in connection with the transactions.

In connection with the Mergers, Slack stockholders will receive a fixed number of Salesforce shares for each of their shares of Slack Class A common stock and Slack Class B common stock (i.e., 0.0776 Salesforce shares for each Slack share). Accordingly, the market value of the stock consideration that our stockholders will receive in the Mergers will vary based on the price of Salesforce common stock at the time our stockholders receive the transaction consideration. As a result of any such changes in stock price, the market value of the shares of Salesforce common stock that our stockholders will receive at the time that the Mergers is completed could vary significantly from the value of such shares immediately prior to the public announcement of the Mergers.

A decline in the market price of Salesforce common stock could result from a variety of factors beyond Salesforce's control, including, among other things, the possibility that Salesforce may not achieve the expected benefits of the acquisition of Slack as rapidly or to the extent anticipated, Slack's business may not perform as anticipated following the transactions, the effect of Salesforce's acquisition of Slack on Salesforce's financial results may not meet the expectations of Salesforce, financial analysts or investors, or the addition and integration of Slack's business may be unsuccessful, may take longer or be more disruptive than anticipated, as well as numerous factors affecting Salesforce and its businesses that are unrelated to Slack.

The Merger Agreement contains provisions that could discourage or deter a potential competing acquirer that might be willing to pay more to effect a business combination with us.

Unless and until the Merger Agreement is terminated in accordance with its terms, subject to certain specified exceptions, we are not permitted to solicit, initiate, induce or knowingly encourage or knowingly facilitate any inquiries or the making of any proposal or offer that constitutes, or would reasonably be expected to lead to, an alternative transaction proposal or to engage in discussions or negotiations with third parties regarding any alternative transaction proposal. Such restrictions could discourage or deter a third party that may be willing to pay more than Salesforce for the outstanding capital stock of Slack from considering or proposing such an acquisition of Slack.

Lawsuits have been filed against us and the members of our board of directors arising out of the proposed Mergers, and additional such lawsuits may be filed in the future, which may delay or prevent the proposed Mergers.

Stockholder complaints and other complaints have been filed against us, our board of directors, Salesforce, Salesforce's board of directors, and others in connection with the transactions contemplated by the Merger Agreement, and additional such lawsuits may be filed in the future. The outcome of litigation is uncertain, and we may not be successful in defending against any such claims. These lawsuits could delay or prevent the Mergers, divert the attention of our management and employees from our day-to-day business, result in substantial costs to us, and otherwise adversely affect our business, results of operations, and financial condition.

The ability to complete the Mergers is subject to the receipt of consents and approvals from government entities, which may impose conditions that could have an adverse effect on us or the combined company or could cause either party to abandon the Mergers.

Completion of the Mergers is conditioned upon, among other things, the expiration or termination of the required waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, or the HSR Act, and the receipt of certain other regulatory approvals. In deciding whether to grant antitrust approvals, the United States Department of Justice, or the DOJ, and other regulatory agencies will consider the effect of the Mergers on competition. The DOJ, or other regulatory agencies, may condition their approval of the Mergers on Salesforce’s or our agreement to various requirements, limitations, or costs, or require divestitures or place restrictions on the conduct of Salesforce’s business following the Mergers. If we and Salesforce agree to these requirements, limitations, costs, divestitures, or restrictions, the ability to realize the anticipated benefits of the Mergers may be impaired. We cannot provide any assurance that we or Salesforce will obtain the necessary approvals or that any of the requirements, limitations, costs, divestitures, or restrictions to which we might agree will not have a material adverse effect on Salesforce following the Mergers. In addition, these requirements, limitations, costs, divestitures, or restrictions may result in the delay or abandonment of the Mergers.

On February 16, 2021, pursuant to the HSR Act, the Company and Salesforce each received a request for additional information and documentary material, often referred to as a “Second Request,” from the Antitrust Division of the DOJ. Issuance of the Second Request extends the waiting period under the HSR Act until 30 days after the Company and Salesforce have each substantially complied with the Second Request, unless the period for review is extended voluntarily by the parties and the DOJ or is terminated earlier by the DOJ. This Second Request, and any further inquiries or actions from the DOJ or other regulatory agencies, could have the effect of delaying, imposing restrictions on, or impeding the completion of the Mergers.

Risks Related to Our Business and Industry

The global COVID-19 pandemic has harmed and could continue to harm our business, results of operations, and financial condition.

In March 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and the related public health measures, including orders to shelter-in-place, travel restrictions, and mandated business closures, have adversely affected workforces, organizations, customers, economies, and financial markets globally, leading to an economic downturn and increased market volatility. It has also disrupted the normal operations of many businesses, including ours. The COVID-19 pandemic, as well as measures undertaken to contain the spread of COVID-19, have decreased IT spending for many organizations, adversely affected demand for Slack, including attrition rates, and inhibited the ability of our salespeople to travel to potential customers and our customer success team to conduct in-person trainings and consulting work. Additionally, the COVID-19 pandemic has negatively impacted spending from certain new and existing customers, increased sales cycle times, negatively impacted collections of accounts receivable, caused certain of our paid customers to file for bankruptcy protection or go out of business, and harmed our business, results of operations, financial condition, and could have other currently unforeseen negative impacts on us. We expect these negative impacts, among others, will continue due to the ongoing effects of the COVID-19 pandemic. While we have developed and continue to develop plans to help mitigate the potential negative impact of the outbreak on our business, these efforts may not be effective and a protracted economic downturn will likely limit the effectiveness of our mitigation efforts.

While we estimate that less than 20% of our business is derived from industries most directly impacted by the COVID-19 pandemic, such as travel, hospitality, commercial real estate, ride sharing, and retail, many of our paid customers have been negatively impacted by the COVID-19 pandemic and we have experienced an increase in paid customer churn and a decrease in expansion within existing paid customers during the fiscal year ended January 31, 2021. We expect these paid customer churn and expansion trends to continue due to the ongoing effects of the COVID-19 pandemic.

Further, the sales cycle for the evaluation and implementation of our paid versions, Standard and Plus, which typically ranges from a single day to multiple months, and of Enterprise Grid, which can typically range from multiple months to years, has lengthened due to the effects of the COVID-19 pandemic and could continue to lengthen, resulting in a potentially longer delay between increasing operating expenses and the generation of corresponding revenue, if any. If our paid customers fail to pay us or reduce their spending with us, we will be adversely affected by an inability to collect amounts due, the cost of enforcing the terms of our contracts, including litigation, or a reduction in revenue. We cannot predict with any certainty whether and to what degree the disruption caused by the COVID-19 pandemic and reactions thereto will continue and we expect to continue to face difficulty accurately developing our financial forecasts.

The COVID-19 pandemic also presents challenges as our entire workforce is currently working remotely and shifting to assisting new and existing customers who are also generally working remotely. All of our currently planned customer, employee, and industry events have been shifted to virtual-only experiences, and we may deem it advisable to similarly alter, postpone, or cancel entirely, additional customer, partner, employee, or industry events in the future. In addition, especially as we plan for the return of some of our workforce to our offices and in-person customer, employee, and industry events, we may face additional challenges and incur increased workforce costs including costs associated with implementing additional personnel and workplace safety protocols, the accrual of unused paid time off, and workplace or labor claims and disputes related to COVID-19.

It is not possible for us to predict the duration or magnitude of the adverse results of the COVID-19 pandemic and its effects on our business, results of operations, or financial condition at this time. To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in this "Risk Factors" section.

We have a limited operating history, which makes it difficult to forecast our revenue and evaluate our business and future prospects.

We launched Slack publicly in 2014 and much of our growth has occurred in recent periods. As a result of our limited operating history, our ability to forecast our future results of operations and plan for and model future growth is limited and subject to a number of uncertainties. We have encountered and expect to continue to encounter risks and uncertainties frequently experienced by growing companies in rapidly evolving industries, such as the risks and uncertainties described herein. Additionally, the sales cycle for the evaluation and implementation of our paid versions, Standard and Plus, which typically ranges from a single day to multiple months, and of Enterprise Grid, which can range from multiple months to years, may also cause us to experience a delay between increasing operating expenses and the generation of corresponding revenue, if any. Accordingly, we may be unable to prepare accurate internal financial forecasts or replace anticipated revenue that we do not receive as a result of delays arising from these factors, and our results of operations in future reporting periods may be below the expectations of investors. If we do not address these risks successfully, our results of operations could differ materially from our estimates and forecasts or the expectations of investors, causing our business to suffer and our Class A common stock price to decline.

We have a history of net losses, we anticipate increasing operating expenses in the future, and we may not be able to achieve and, if achieved, maintain profitability.

We have incurred significant net losses in each year since our inception, including net losses of $292.5 million, $568.4 million, and $138.9 million in fiscal years 2021, 2020, and 2019, respectively. We expect to continue to incur net losses for the foreseeable future and we may not achieve or maintain profitability in the future. Because the market for Slack, and the features, integrations, and capabilities we offer on Slack, is rapidly evolving and has not yet reached widespread adoption, it is difficult for us to predict our future results of operations or the limits of our market opportunity. We expect our operating expenses to significantly increase over the next several years as we hire additional personnel, particularly in sales and marketing, expand our partnerships, operations, and infrastructure, both domestically and internationally, continue to enhance Slack and develop and expand its features, integrations and capabilities, and expand and improve our application programming interfaces, or APIs. We also intend to continue to build and enhance Slack through both internal research and development as well as selectively pursuing acquisitions that can uniquely contribute to Slack's capabilities. In addition, as we grow and transition to being a public company, we will incur additional significant legal, accounting, and other expenses that we did not incur as a private company. If our revenue does not increase to offset the expected increases in our operating expenses, we will not be profitable in future periods. In future periods, our revenue growth could slow or our revenue could decline for a number of reasons, including any failure to increase the number of organizations on Slack, increase the number of our paid customers, or grow or maintain our Net Dollar Retention Rate, a decrease in the growth of our overall market, our failure, for any reason, to continue to capitalize on growth opportunities, slowing demand for Slack, additional regulatory burdens, or increasing competition. As a result, our past financial performance may not be indicative of our future performance. Any failure by us to achieve or sustain profitability on a consistent basis could cause the value of our Class A common stock to decline

We have experienced rapid growth in recent periods and our recent growth rates may not be indicative of our future growth.

We have experienced rapid growth in recent periods. Our revenue was $902.6 million, $630.4 million, and $400.6 million for the years ended January 31, 2021, 2020, and 2019, respectively, representing annual growth 43% and 57%, respectively. While our revenue continues to grow, our rates of revenue growth are slowing and may continue to slow in the future. Further, as we operate in a new and rapidly changing category of software, widespread acceptance and use of Slack is critical to our future growth and success. We believe our revenue growth depends on a number of factors, including, but not limited to, our ability to:

- attract new users and organizations, including larger organizations;
- provide excellent customer experience;
- maintain the security and reliability of Slack;
- grow or maintain our Net Dollar Retention Rate, expand usage within organizations on Slack, and sell premium versions of Slack;
- convert users of and organizations on our free version into paid customers;
- introduce and grow adoption of Slack in new markets outside of the United States;
- expand usage of Slack between organizations through shared channels, or Slack Connect;
- achieve widespread acceptance and use of Slack;

- adequately expand our sales force;
- expand the features and capabilities of Slack, including through the creation and use of additional integrations, and without compromising existing features and functionality;
- comply with existing and new applicable laws and regulations;
- price Slack effectively so that we are able to attract and retain paid customers without compromising our profitability;
- successfully compete against established companies and new market entrants, as well as existing software tools; and
- increase awareness of our brand on a global basis.

If we are unable to accomplish any of these tasks, our revenue growth will be harmed. We also expect our operating expenses to increase in future periods, and if our revenue growth does not increase to offset these anticipated increases in our operating expenses, our business, results of operations, and financial condition will be harmed, and we may not be able to achieve or maintain profitability. We have also encountered in the past, and expect to encounter in the future, risks and uncertainties frequently experienced by growing companies in rapidly evolving industries. If our assumptions regarding these risks and uncertainties, which we use to plan and operate our business, are incorrect or change, or if we do not address these risks successfully, our growth rates may slow and our business would suffer. Further, our rapid growth may make it difficult to evaluate our future prospects.

Additionally, we expect our paid customer and revenue growth rates to be volatile in the near term as a result of the COVID-19 pandemic, and we are unable to predict the duration, degree, or volatility of future growth with any certainty. For example, we have experienced an increase in net new Paid Customers, but also an increase in paid customer churn and a decrease in expansion within existing paid customers during the fiscal year ended January 31, 2021. We expect these paid customer churn and expansion trends to continue due to the ongoing effects of the COVID-19 pandemic.

If we fail to manage our growth effectively, we may be unable to execute our business plan or maintain high levels of service and customer satisfaction.

We have experienced, and expect to continue to experience, rapid growth in our operations and employee headcount, which has placed, and may continue to place, significant demands on our management and our operational and financial resources. For example, our headcount has grown from 2,045 employees as of January 31, 2020 to 2,545 employees as of January 31, 2021. We have established international offices, including offices in Australia, Canada, France, Germany, Ireland, India, Japan, South Korea, and the United Kingdom, and we plan to continue to expand our international operations into other countries in the future. We have also experienced significant growth in the number of users, organizations, and integrations on Slack, and in the amount of data that Slack supports. Additionally, our organizational structure is becoming more complex as we scale our operational, financial, and management controls as well as our reporting systems and procedures. Further, as our employees work from geographic areas across the globe and more of our employees work remotely on a permanent basis, we will require investment of resources and close monitoring of local regulations and requirements that continually change due to events that may have a global impact, such as the COVID-19 pandemic, and we may experience unpredictability in our expenses, employee productivity, and employee work culture.

To manage growth in our operations and personnel, we will need to continue to grow and improve our operational, financial, and management controls and our reporting systems and procedures. We will require significant capital expenditures and the allocation of valuable management resources to grow and change in these areas without undermining our culture, which has been central to our growth so far. Our expansion has placed, and our expected future growth will continue to place, a significant strain on our management, customer experience, research and development, sales and marketing, administrative, financial, and other resources. If we fail to manage our anticipated growth and grow in a manner that preserves the key aspects of our corporate culture, the quality of Slack may suffer, which could negatively affect our brand and reputation and harm our ability to attract users, employees, and organizations, which in turn could negatively affect our business, results of operation, and financial condition.

In addition, as we expand our business, it is important that we continue to maintain a high level of customer service and satisfaction. As our paid customer base continues to grow, we will need to expand our account management, customer service and other personnel, our partners, our features, and our security offerings to provide personalized account management and customer service as well as personalized features, integrations and capabilities. If we are not able to continue to provide high levels of customer service, our reputation, as well as our business, results of operations, and financial condition, could be harmed.

We may experience quarterly fluctuations in our results of operations due to a number of factors that make our future results difficult to predict and could cause our results of operations to fall below analyst or investor expectations.

Our quarterly results of operations may fluctuate from quarter to quarter as a result of a number of factors, many of which are outside of our control and may be difficult to predict, including, but not limited to:

- the level of demand for Slack;
- our ability to grow or maintain our Net Dollar Retention Rate, expand usage within organizations on Slack, and sell premium versions of Slack;
- the impact of market volatility and economic downturns caused by the COVID-19 pandemic on our business;
- our ability to convert users of and organizations on our free version into paid customers;
- the timing and success of new features, integrations, capabilities, and enhancements by us to Slack or by our competitors to their products or any other change in the competitive landscape of our market;
- our ability to achieve widespread acceptance and use of Slack;
- errors in our forecasting of the demand for Slack, which could lead to lower revenue, increased costs or both;
- the amount and timing of operating expenses and capital expenditures, as well as entry into operating leases, that we may incur to maintain and expand our business and operations and to remain competitive;
- the timing of other expenses and recognition of revenue, particularly as we sell to larger and more international organizations;
- the timing of customer payments or contract modifications, and any difficulty in collecting accounts receivable from customers, including as a result of the effects of the COVID-19 pandemic;
- security breaches, technical difficulties, or interruptions to Slack resulting in service level agreement credits;
- adverse litigation judgments, other dispute-related settlement payments, or other litigation-related costs;
- regulatory fines;
- changes in, and continuing uncertainty in relation to, the legislative or regulatory environment;
- legal and regulatory compliance costs in new and existing markets;
- the number of new employees hired;

- the rate of expansion and productivity of our sales force;
- the timing of the grant or vesting of equity awards to employees, directors, or consultants, and the recognition of associated expenses;
- pricing pressure and changes in our pricing structure as a result of competition, optimization efforts, or otherwise, including as a result of the effects of the COVID-19 pandemic;
- seasonal buying patterns for IT spending;
- the impact of the investment performance of our strategic investments;
- fluctuations in foreign currency exchange rates;
- costs and timing of expenses related to the acquisition of businesses, talent, technologies, or intellectual property, including potentially significant amortization costs and possible write-downs;
- health pandemics, such as the ongoing COVID-19 pandemic, influenza and other highly communicable diseases or viruses; and
- general economic conditions in either domestic or international markets, including geopolitical uncertainty and instability, including as a result of the recent U.S. presidential election.

Any one or more of the factors above may result in significant fluctuations in our quarterly results of operations. You should not rely on our past results as an indicator of our future performance.

The variability and unpredictability of our quarterly results of operations or other operating metrics could result in our failure to meet our expectations or those of analysts that cover us or investors with respect to revenue or other key metrics for a particular period. If we fail to meet or exceed such expectations for these or any other reasons, the market price of our Class A common stock could fall, and we could face costly lawsuits, including securities class action suits.

The market and software categories in which we participate are competitive, new, and rapidly changing, and if we do not compete effectively with established companies as well as new market entrants our business, results of operations, and financial condition could be harmed.

Slack is a relatively new category of business technology in a rapidly evolving market for software, programs, and tools used by knowledge workers that is intensely competitive, fragmented, and subject to rapidly changing technology, shifting user and customer needs, new market entrants, and frequent introductions of new products and services. We also compete in various segments of the communication, collaboration, and integration software categories. Moreover, we expect competition to increase in the future from established competitors and new market entrants, including established technology companies who have not previously entered the market. Our primary competitor is currently Microsoft Corporation. Our other competitors fall into the following categories: productivity tool and email providers, such as Alphabet Inc. (including Google Inc.); unified communications providers, such as Cisco Systems Inc.; and consumer application companies who have entered the business software market, such as Facebook Inc. We further compete against existing software, programs, and tools, such as email. With the rise in remote workforces due to the COVID-19 pandemic, the passage of time, the introduction of new technologies, the evolution of Slack and the market for products similar to Slack, and new market entrants, competition has intensified, and we expect it to continue to intensify in the future. Established companies are also developing their own communication and collaboration solutions, platforms for software integration, and secure repositories of information and data within their own core product, and may continue to do so in the future. Additionally, established companies may also acquire or establish product integration, distribution, or other cooperative relationships with our current competitors. For example, while we currently partner with Atlassian Corporation PLC, Google Inc., Okta, Inc., Oracle Corporation, ServiceNow, Inc., salesforce.com, inc., SAP SE, Workday, Inc., and Zoom Video Communications, Inc., among others, some have, and others may, develop and introduce products that directly or indirectly compete with Slack. New competitors or alliances among competitors may emerge and rapidly acquire significant market share due to factors such as greater brand name recognition, a larger existing user and/or customer base, superior product offerings, a larger or more effective sales organization, and significantly greater financial, technical, marketing, and other resources and experience. We also compete with companies that offer niche or specific point solutions in the communication, collaboration, and data use markets, normally focused on specific industries, geographies, or specific use cases, which attempt to address certain of the problems that Slack addresses. In addition, with the recent increase in large merger and acquisition transactions in the technology industry, particularly transactions involving cloud-based technologies, there is a greater likelihood that we will compete with other large technology companies in the future. We expect this trend to continue as companies attempt to strengthen or maintain their market positions in an evolving industry. Companies resulting from these possible consolidations may create more compelling product offerings and be able to offer more attractive pricing options, making it more difficult for us to compete effectively.

Many of our existing competitors have, and some of our potential competitors could have, substantial competitive advantages such as greater brand name recognition and longer operating histories, larger sales and marketing budgets and resources, broader distribution, and established relationships with independent software vendors, partners, and customers, greater customer experience resources, greater resources to make acquisitions, lower labor, and development costs, larger and more mature intellectual property portfolios, and substantially greater financial, technical and other resources. Such competitors with greater financial and operating resources may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, or customer requirements.

In addition, some of our larger competitors, such as Microsoft, have substantially broader product offerings and leverage their relationships based on other products or incorporate functionality into existing products to gain business in a manner that discourages users from purchasing Slack, including through offering free products, selling at zero or negative margins, product bundling, forced product migrations, auto-installation of applications, or closed technology platforms. We believe this has confused the market for Slack, lengthened certain sales cycles, and caused certain prospective customers not to purchase Slack. In addition, the product bundling and forced product migrations described above have reduced, and may in the future reduce, the overall market for Slack by preventing us from gaining access to sales opportunities and by forcing us to spend more resources to market and sell Slack. This competition has intensified in recent periods and we believe that it has harmed, and may continue to harm, our business, results of operations, and financial condition. In July 2020, we filed a complaint against Microsoft with the European Commission for engaging in certain behaviors that we believe are unlawful and anti-competitive. The complaint process is costly and time-consuming and we cannot provide assurance that the outcome of the process with the European Commission will be successfully resolved in our favor or, if it is resolved in our favor, that it will have a material effect on our business or the market for our products. Furthermore, we could be subject to retaliatory or other adverse measures by Microsoft, its employees, or agents in response to the complaint that we filed with the European Commission.

Larger competitors often have broader product lines and market focus and will therefore not be as susceptible to downturns in a particular market. Our competitors may also seek to repurpose their existing offerings to provide software, programs, and tools used by knowledge workers with subscription models. Further, some current and potential customers, particularly large organizations, have elected, and may in the future elect, to develop or acquire their own software, programs, and tools used by knowledge workers that would reduce or eliminate the demand for Slack. Potential customers may also prefer to purchase from their existing suppliers rather than a new supplier, regardless of product performance or features.

Conditions in our market could also change rapidly and significantly as a result of technological advancements, partnering by our competitors, or continuing market consolidation, among other things. It is also uncertain how our market will evolve. New start-up companies that innovate and large competitors that are making significant investments in research and development may invent similar or superior products and technologies that compete with Slack. These competitive pressures in our market or our failure to compete effectively may result in price reductions, fewer customers, reduced revenue, gross profit, and gross margins, increased net losses, and loss of market share. Any failure to meet and address these factors could harm our business, results of operations, and financial condition.

If we are unable to attract new users and organizations, convert users of and organizations on our free version into paid customers, grow or maintain our Net Dollar Retention Rate, expand usage within organizations on Slack, and sell premium subscription plans or effectively develop new features, integrations, capabilities, and enhancements that achieve market acceptance, our revenue growth and operating results will be harmed.

To increase our revenue and achieve and maintain profitability, we must add new users and organizations, convert users of and organizations on our free version into paid customers, grow or maintain our Net Dollar Retention Rate, expand usage within organizations on Slack, and sell premium subscription plans. We encourage organizations on our free version to upgrade to paid versions of Slack and paid customers of Standard to upgrade to our premium subscription plans, Plus or Enterprise Grid, through in-product prompts and notifications, by recommending additional features and by providing customer support that explains the additional capabilities of our paid and premium plans. Additionally, we seek to expand within organizations on Slack by adding new users, having organizations on our Free or Standard subscription plan upgrade to our premium plans, or expanding the use of Slack into other departments within an organization already on Slack. We often see enterprise decision-makers deciding to adopt Slack after noticing substantial organic adoption by individuals and teams within the organization. While we have experienced significant growth in the number of users on Slack, we do not know whether we will continue to achieve similar user growth rates in the future. Numerous factors may impede our ability to add new users and organizations, convert users of and organizations on our free version into paid customers, grow and maintain our Net Dollar Retention Rate, expand usage within organizations on Slack, and sell premium subscription plans, including our inability to convert organizations using our free version into paid customers, failure to maintain our self-service customer engagement model, failure to attract and effectively train new sales and marketing personnel, especially as we increase our sales efforts, failure to retain and motivate our current sales and marketing personnel, failure to develop or expand relationships with partners, failure to successfully deploy new features, integrations, and capabilities for organizations on Slack and provide quality customer experience, or failure to ensure the effectiveness of our marketing programs. Additionally, increasing our sales to large organizations requires increasingly sophisticated and costly sales efforts targeted at senior management and other personnel. If our efforts to sell to large organizations and organizations of all sizes are not successful or do not generate sufficient additional revenue, our business would suffer. See also “-Failure to effectively develop and expand our direct sales capabilities and successfully maintain and expand our self-service sales could harm our ability to increase the number of organizations on Slack and achieve broader market acceptance of Slack.”

Our ability to attract new users and organizations and increase revenue from existing paid customers depends in large part on our ability to continually enhance and improve Slack and the features, integrations, and capabilities we offer, and to effectively introduce compelling new features, integrations, and capabilities that reflect the changing nature of our market in order to maintain and improve the quality and value of Slack, which depends on our ability to continue investing in research and development and in our ongoing efforts to improve and enhance Slack. The success of any enhancement to Slack depends on several factors, including timely completion and delivery, competitive pricing, adequate quality testing, integration with existing technologies, and overall market acceptance. Any new features, integrations, and capabilities that we develop may not be introduced in a timely or cost-effective manner, may contain errors, failures, vulnerabilities, or bugs, or may not achieve the market acceptance necessary to generate significant revenue. Further, any investments we make to enhance Slack, including adding or replacing any features, integrations, and capabilities, may not result in sufficient increased revenue to offset the investments that we make in time, efforts, financial resources, or otherwise. We must also convince developers to adopt and build on Slack. We believe that these developer-built integrations facilitate greater usage and customization of Slack and the features, integrations, and capabilities enhance user experience. If these developers stop developing on or supporting Slack or build more integrations for other platforms, we will lose the benefits that have contributed to the growth in the number of organizations and users on Slack, and our business, results of operations, and financial condition could be harmed. If we are unable to successfully and cost-effectively develop new features, integrations, and capabilities to enhance Slack to meet requirements of organizations on Slack, especially as we continue to grow and enhance Enterprise Grid, or otherwise gain widespread market acceptance, our business, results of operations, and financial condition would be harmed.

Moreover, our business is subscription based, and organizations are not obligated to and may not renew their subscriptions after their existing subscriptions expire. Many of our subscriptions are sold for a one-year term, though some organizations choose a month-to-month subscription plan or multi-year subscription plan. While many of our subscriptions provide for automatic renewal, organizations have no obligation to renew a subscription after the expiration of the term, and we cannot ensure that organizations will renew subscriptions with a similar contract period, with the same or greater number of users, or for the same subscription plan or upgrade to Plus or Enterprise Grid. With our fair billing practices and other types of enterprise billing arrangements, we may not earn revenue with greater adoption or we may not earn as much revenue as anticipated, for example, if the number of active users in an organization decreases or if the number of active users grows beyond what was estimated and billed. Organizations may or may not renew their subscriptions as a result of a number of factors, including their satisfaction or dissatisfaction with Slack or services, our pricing or pricing structure, changes to our pricing or pricing structure, the pricing or capabilities of the products and services offered by our competitors, the effects of economic conditions, in particular as a result of the economic effects of COVID-19, or reductions in our paid customers' spending levels. In the past, some paid customers have elected to downgrade or not to renew agreements with us and it is difficult to accurately predict long-term Net Dollar Retention Rates. If organizations do not renew their subscriptions, renew on less favorable terms, fail to add more users, or reduce the number of users within their organization or if we fail to upgrade organizations on our Free or Standard subscription plan to our premium subscription plans, Plus and Enterprise Grid, or expand within organizations on Slack, our revenue may decline or grow less quickly than anticipated, which would harm our business, results of operations, and financial condition.

The COVID-19 pandemic has resulted in, and any prolonged economic slowdowns may continue to result in, paid customers on Slack requesting to renegotiate existing contracts on less advantageous terms to us than those currently in place, defaulting on payments due on existing contracts, not renewing at the end of the contract term, or choosing to renew with a smaller commitment than previous contracts. For example, in an effort to assist both new and existing paid customers facing challenges due to the economic impact of the COVID-19 pandemic, we have entered into, and expect to continue to enter into, more custom contracts and billing arrangements with new and existing paid customers, which may be less advantageous to us than our standard term contracts. These arrangements have included provisions such as the ability to defer payments, to pay in installments or over longer time periods, and other collection flexibility. We have also granted, and may in the future grant, billing concessions to existing paid customers. We have also granted, and may in the future grant, no-cost arrangements, larger discounts, and billing concessions to non-profit and educational customers. We have in the past, and may in the future, engage in promotional activities offering our services at substantial discounts in response to the COVID-19 pandemic. Any of these arrangements could harm our business, results of operations, and financial condition.

Additionally, organizations can and do subscribe to multiple subscription plans simultaneously for a variety of reasons. For example, many of our customers are large enterprises with distributed procurement processes where different buyers, departments, or affiliates make their own purchasing decisions based on distinct product features or separate budgets. Companies who are existing Slack customers may also acquire another organization that is already on a Slack subscription plan or complete a reorganization or spin-off transaction that results in an organization subscribing to multiple subscription plans or results in an organization consolidating into one Slack subscription plan. If organizations that subscribe to multiple subscription plans decide not to consolidate all of their subscription plans into an Enterprise Grid subscription for the entire organization or decide to downgrade to lower priced or free subscription plans, our revenue may decline or grow less quickly than anticipated, which would harm our business, results of operations, and financial condition. Having organizations on multiple subscription plans also makes it more difficult to accurately predict long-term Net Dollar Retention Rates.

Our ability to introduce new features, integrations, capabilities, and enhancements is dependent on adequate research and development resources. If we do not adequately fund our research and development efforts, or if our research and development investments do not translate into material enhancements to Slack, we may not be able to compete effectively and our business, results of operations, and financial condition may be harmed.

To remain competitive, we must continue to develop new features, integrations, capabilities, and enhancements to Slack. This is particularly true as we further expand and diversify our capabilities to address additional applications and markets. For example, in September 2017, we introduced a new beta feature, shared channels, which facilitates secure collaboration between companies. As of January 31, 2021, more than 74,000 Paid Customers have adopted shared channels using Slack Connect. Maintaining adequate research and development resources, such as the appropriate personnel and development technology, to meet the demands of the market is essential. If we are unable to develop features, integrations, and capabilities internally due to certain constraints, such as employee turnover, lack of management ability, or a lack of other research and development resources, our business may be harmed.

Moreover, research and development projects can be technically challenging and expensive. The nature of these research and development cycles may cause us to experience delays between the time we incur expenses associated with research and development and the time we are able to offer compelling features, integrations, capabilities, and enhancements and generate revenue, if any, from such investment. Additionally, anticipated demand for a feature, integration, capability, or enhancement we are developing could decrease after the development cycle has commenced, and we would nonetheless be unable to avoid substantial costs associated with the development of any such feature, integration, capability, or enhancement. If we expend a significant amount of resources on research and development and our efforts do not lead to the successful introduction or improvement of features, integrations, and capabilities that are competitive, it would harm our business, results of operations, and financial condition.

Further, many of our competitors expend a considerably greater amount of funds on their respective research and development programs, and those that do not may be acquired by larger companies that would allocate greater resources to our competitors' research and development programs. Our failure to maintain adequate research and development resources or to compete effectively with the research and development programs of our competitors would give an advantage to such competitors and may harm our business, results of operations, and financial condition.

If we are unable to ensure that Slack interoperates with a variety of software applications that are developed by others, including our partners, Slack may become less competitive and our results of operations may be harmed.

Slack must integrate with a variety of network, hardware, and software platforms, and we need to continuously modify and enhance Slack to adapt to changes in hardware, software, networking, browser, and database technologies. In particular, we have developed Slack to be able to easily integrate with third-party applications, including the applications of software providers that compete with us as well as our partners, through the interaction of APIs. In general, we rely on the providers of such software systems to allow us access to their APIs to enable these user integrations. We are typically subject to standard terms and conditions for application developers of such providers, which govern the distribution, operation, and fees of such software systems, and which are subject to change by such providers from time to time. Our business may be harmed if any provider of such software systems:

- discontinues or limits our access to its software or APIs, or grants its own competing products or services broader API access than it grants to us;
- modifies its terms of service or other policies, including fees charged to, or other restrictions on us or other application developers;
- changes how information is accessed by us, our users, or organizations on Slack;
- establishes more favorable relationships with one or more of our competitors; or
- develops or otherwise favors its own competitive offerings over ours.

We believe a significant component of our value proposition to users and organizations is the ability to improve and interface with these third-party applications through APIs on and directly in Slack. Third-party services and products are constantly evolving, and we may not be able to modify Slack to assure its compatibility with that of other third parties following development changes. In addition, some of our competitors may be able to disrupt the operations or compatibility of Slack with their products or services, or exert strong business influence on our ability to, and terms on which we, operate Slack. For example, we currently directly compete with several large technology companies whose applications interface with Slack, including Google and Microsoft. Slack currently interoperates with Microsoft products, including Teams, in limited capacities but it is possible that Microsoft may be uncooperative with any future efforts for Slack to interoperate with Teams or other Microsoft products, which could limit Slack's functionality and make Slack less attractive to users of Microsoft products. As our respective products evolve, we expect this level of competition to increase. Should any of our competitors modify their products or standards in a manner that degrades the functionality of Slack or gives preferential treatment to competitive products or services, whether to enhance their competitive position or for any other reason, the interoperability of Slack with these products could decrease and our business, results of operations, and financial condition could be harmed. If we are not permitted or able to integrate with these and other third-party applications in the future, demand for Slack would be harmed and our business, results of operations, and financial condition would be harmed.

We also depend on our ecosystem of developers to create applications that will integrate with Slack. Our reliance on this ecosystem of developers creates certain business risks relating to the quality and security of the applications built using our APIs, service interruptions of Slack from these applications, lack of service support for these applications, possession of intellectual property rights associated with these applications, and privacy concerns around the transfer of data to these applications. We may not have the ability to control or prevent these risks. As a result, issues relating to these applications could adversely affect our business, brand, and reputation.

Further, we have created mobile applications and mobile versions of Slack to respond to the increasing number of people who access the Internet through mobile devices and access cloud-based software applications through mobile devices, including smartphones and handheld tablets or laptop computers. If these mobile applications do not perform well, our business may suffer. We are also dependent on third-party application stores that may prevent us from timely updating Slack, building new features, integrations, and capabilities, or charging for access. We distribute the mobile Slack application via smartphone and tablet application stores managed by Apple and Google, among others. Certain of these companies are now, and others may in the future become, competitors of ours, and could stop allowing or supporting access to Slack through their products, could allow access for us only at an unsustainable cost, or could make changes to the terms of access in order to make Slack less desirable or harder to access, for competitive reasons. In addition, Slack interoperates with servers, mobile devices, and software applications predominantly through the use of protocols, many of which are created and maintained by third parties. We, therefore, depend on the interoperability of Slack with such third-party services, mobile devices, and mobile operating systems, as well as cloud-enabled hardware, software, networking, browsers, database technologies, and protocols that we do not control. Any changes in such technologies that degrade the functionality of Slack or give preferential treatment to competitive services could adversely affect adoption and usage of Slack. Also, we may not be successful in developing or maintaining relationships with key participants in the mobile industry or in ensuring that Slack operates effectively with a range of operating systems, networks, devices, browsers, protocols, and standards. If we are unable to effectively anticipate and manage these risks, or if it is difficult for users and organizations on Slack to access and use Slack, our business, results of operations, and financial condition may be harmed.

Because we recognize subscription revenue over the subscription term, downturns or upturns in new sales and renewals are not immediately reflected in full in our results of operations.

We recognize revenue from subscriptions to Slack on a straight-line basis over the term of the contract subscription period beginning on the date access to Slack is granted, provided all other revenue recognition criteria have been met. Our subscription arrangements generally have monthly or annual contractual terms. As a result, much of the revenue we report each quarter is the recognition of deferred revenue from recurring subscriptions and related support services contracts entered into during previous quarters. Consequently, a decline in new or renewed recurring subscription contracts in any one quarter will not be fully reflected in revenue in that quarter, but will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in new or renewed sales of our recurring subscriptions are not reflected in full in our results of operations until future periods. By contrast, a significant majority of our costs are expensed as incurred, which occurs as soon as a user starts using Slack. As a result, an increase in paid customers could result in our recognition of more costs than revenue in the earlier portion of the subscription term, and we may not attain profitability in any given period.

Our financial results may fluctuate due to increasing variability in our sales cycles as a substantial portion of our sales efforts are targeted at large organizations.

We plan our expenses based on certain assumptions about the length and variability of our sales cycle. These assumptions are based upon historical trends for sales cycles and conversion rates associated with organizations on Slack, which may not be indicative of future trends or results, particularly in light of the COVID-19 pandemic and associated travel and distancing restrictions. As we continue to expand our efforts on sales to larger organizations, we expect our average sales cycles to lengthen and become less predictable, which may harm or cause unpredictable fluctuations in our financial results. Factors that may influence the length and variability of our sales cycle include, among other things:

- the need to raise awareness about the uses and benefits of Slack, particularly our paid versions;
- the need to allay privacy and security concerns or develop required enhancements;
- the discretionary nature of purchasing and budget cycles and decisions;
- the competitive nature of evaluation and purchasing processes;
- announcements or planned introductions of new features, integrations, and capabilities by us or our competitors; and
- lengthy purchasing approval processes.

Our increasing focus on sales to larger organizations may further increase the variability of our financial results. To achieve acceptance of Slack by additional large organizations, we may need to engage with senior management and other personnel and not just gain acceptance of Slack from employees, who are often the initial adopters of Slack. As a result, sales efforts targeted at large organizations involve greater costs, longer sales cycles, greater competition, and less predictability in completing some of our sales. In the large organization market, an organization's decision to use Slack, expand the use of Slack, and/or upgrade to a paid version of Slack can sometimes be an enterprise-wide decision, in which case, we provide designated account and customer success teams, greater levels of user and customer education to familiarize potential users and organizations with the use and benefits of Slack, as well as the design and implementation of special enterprise-specific integrations. In addition, larger organizations may demand more customization, integration, support services, and features. As a result of these factors, these sales opportunities may require us to devote greater sales support, research and development, customer experience, and professional services resources to these organizations, resulting in increased costs, lengthened sales cycle, and diversion of our own sales and professional services resources to a smaller number of larger organizations. Further, we have limited experience in selling and marketing to larger organizations, and we may not be able to successfully execute our sales and marketing strategy targeted at such large organizations. Moreover, these larger transactions may require us to delay revenue recognition on some of these transactions until the technical or implementation requirements have been met. If we are unable to close one or more expected significant transactions with large organizations in a particular period, or if an expected transaction is delayed until a subsequent period, our results of operations for that period, and for any future periods in which revenue from such transaction would otherwise have been recognized, may be harmed.

Additionally, the COVID-19 pandemic has, and may continue to, put pressure on global economic conditions and overall spending for IT, and has caused, and may continue to cause organizations to modify spending priorities or delay or abandon purchasing decisions, thereby lengthening sales cycles, and may make it difficult for us to forecast our sales and results of operations. Further, travel restrictions due to COVID-19 have restricted our ability to sell in-person.

If we fail to adapt to rapid technological change, our ability to remain competitive could be impaired.

The industry in which we compete is characterized by rapid technological change, frequent introductions of new products and features, and evolving industry standards and regulatory requirements. Our ability to attract new users and organizations and increase revenue from organizations on Slack will depend in significant part on our ability to anticipate industry standards and trends and continue to enhance Slack and introduce new features, integrations, and capabilities on a timely basis to keep pace with technological developments. This trend is particularly relevant as knowledge workers increasingly work from home and technology services providers, including our competitors, develop new and enhanced solutions for remote collaboration. If we are unable to provide enhancements, new features, and integrations for Slack, develop new features, integrations, and capabilities that achieve market acceptance, or innovate quickly enough to keep pace with rapid technological developments, our business could be harmed. We must also keep pace with changing legal and regulatory regimes that affect Slack and our business practices. We may not be successful in developing modifications, enhancements, and improvements; in bringing them to market quickly or cost-effectively in response to market demands; or at modifying Slack to remain compliant with applicable legal and regulatory requirements.

If we fail to offer high-quality customer experience, our business and reputation will suffer.

While we have designed Slack with the goal of being easy to adopt and use, once organizations and their users begin using Slack, those organizations rely on our support services to resolve any related issues. High-quality user and customer education and customer experience have been key to our brand and is important for the successful marketing and sale of Slack, for the conversion of organizations on our free version into paid customers, and for growth or maintenance of our Net Dollar Retention Rate. The importance of high-quality customer experience will increase as we sell to and support organizations impacted by the COVID-19 outbreak, including organizations with remote workforces, and expand our business and pursue new organizations, in particular larger organizations, organizations with specific regulatory or data security requirements, and organizations with a large number of users located outside of the U.S. For instance, if we do not help organizations on Slack quickly resolve issues and provide effective ongoing customer experience at the individual user and organization levels, our ability to sell our paid versions to organizations on our free version would suffer and our reputation with existing or potential users and organizations may be harmed. Further, our sales are highly dependent on our business reputation and on positive recommendations from existing users and organizations on Slack. Any failure to maintain high-quality customer experience, or a market perception that we do not maintain high-quality customer experience, could harm our reputation, our ability to sell Slack to existing and prospective organizations, and our business, results of operations, and financial condition.

In addition, as we continue to grow our operations and reach a larger and increasingly global customer and user base, we need to be able to provide efficient customer support that meets the needs of organizations on Slack globally at scale. The number of organizations on Slack has grown significantly and that will put additional pressure on our support organization. In order to meet these needs, we have relied in the past, and will continue to rely on, partners and self-service product support to resolve common or frequently asked questions, which supplement our customer experience teams. In the future, particularly as we target larger and more global organizations, we may not be able to rely on partners and self-service product support to the same extent as we have previously, and we may be required to make significant investments in our customer support organizations, which in turn may adversely affect our results of operations. Further, as organizations increasingly rely on distributed and/or remote workforces, the need for cost-efficient and highly effective customer support will likely grow. If we are unable to provide efficient product support globally at scale, including through the use of partners and self-service support, our ability to grow our operations may be harmed and we may need to hire additional support personnel or otherwise make significant investments in our support organization, any of which could harm our results of operations.

Failure to effectively develop and expand our direct sales capabilities and successfully maintain and expand our self-service sales could harm our ability to increase the number of organizations on Slack and achieve broader market acceptance of Slack.

Our ability to increase the number of organizations on Slack, grow usage within larger organizations on Slack, and achieve broader market acceptance of Slack among large organizations will depend to a significant extent on our ability to expand our sales operations, particularly our direct sales efforts targeted at C-suite executives and business unit leaders. We plan to continue expanding our direct sales force, both domestically and internationally, in order to reach these large organizations. This expansion will require us to invest significant financial and other resources to train and grow our direct sales force, in order to complement our self-service go-to-market approach. Our business will be harmed if our efforts do not generate a corresponding increase in revenue. We may not achieve anticipated revenue growth from expanding our direct sales force if we are unable to hire and develop talented direct sales personnel, if our new direct sales personnel are unable to achieve desired productivity levels in a reasonable period of time or if we are unable to retain our existing direct sales personnel, all of which are more difficult, and may continue to be more difficult, during the COVID-19 pandemic and associated remote work policies and restrictions on travel. We believe that there is significant competition for sales personnel with the skills and technical knowledge that we require. Our ability to achieve revenue growth will depend, in large part, on our success in recruiting, training, and retaining sufficient numbers of sales personnel to support our growth.

We also attract new and prospective organizations organically, through a self-service customer engagement model. Historically, our business model has been driven by organic adoption from our self-service channels. As our business has matured, we have seen an increase in sales through our direct sales force. We intend to continue investing in an effort to maintain organic growth in the number of organizations on Slack by strengthening our self-service business and investing in marketing to help new organizations discover the benefits of Slack. This self-service model requires us to incur sales and marketing expenses often prior to generating corresponding revenue. Our business will be harmed if our efforts do not generate a corresponding increase in revenue. If we are unable to maintain or expand the effectiveness of our self-service business to meet the current and future needs of our users, we could see reduced self-service sales volumes as well as a decrease in our sales efficiency, which could adversely affect our business, results of operations, and financial condition.

Our sales to government entities are subject to a number of additional challenges and risks.

We sell to U.S. federal and state and foreign government customers, and we may increase sales to government entities in the future. Sales to government entities are subject to a number of additional challenges and risks. Selling to government entities can be highly competitive, expensive, and time consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. Government certification requirements may change, or we may lose one or more government certifications, and in doing so restrict our ability to sell into the government sector until we have attained revised certifications. Government demand and payment for Slack are affected by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for Slack. An extended federal government shutdown resulting from budgetary decisions may limit or delay federal government spending on Slack and adversely affect our revenue. In addition, budgetary stress caused by governmental actions in response to COVID-19 outbreaks has negatively impacted, and may continue to negatively impact, demand for Slack in various governmental entities and agencies. Government entities may also have statutory, contractual, or other legal rights to terminate contracts with us for convenience or due to a default, the risk of which may be heightened during the ongoing COVID-19 outbreak, and any such termination may adversely affect our future operating results.

If we fail to maintain our brand cost-effectively, our ability to expand the number of organizations on Slack will be impaired, our reputation may be harmed, and our business, results of operations, and financial condition may suffer.

We believe that developing and maintaining awareness of our brand is critical to achieving widespread acceptance of Slack and is an important element in attracting new organizations to Slack. Successful promotion of our brand will depend largely on the effectiveness of our marketing efforts and on our ability to ensure that Slack remains high-quality, reliable, and useful at competitive prices. Furthermore, we believe that the importance of brand recognition will increase as competition in our market increases. If our competitors are more successful at developing and maintaining awareness of their brand, our business, results of operations, and financial condition could be harmed.

Brand promotion activities may not yield increased revenue, and even if they do, any increased revenue may not offset the expenses we incur in building our brand. In addition, due to the restrictions on travel and in-person meetings as a result of the on-going COVID-19 pandemic, all of our currently planned customer, employee, and industry events have been shifted to virtual-only experiences, and we will not recoup all of the expenses incurred for events that will no longer take place. We have typically relied on marketing and promotional events and in-person meetings to facilitate customer sign-ups and generate leads for potential customers and we cannot predict whether virtual marketing events and phone or virtual sales interactions will be as successful as in-person events and meetings or for how long or the extent to which the COVID-19 pandemic may continue to constrain our marketing, promotional, and sales activities. If we fail to successfully promote and maintain our brand or incur substantial expenses in an unsuccessful attempt to promote and maintain our brand, we may fail to attract new organizations to Slack or to grow or maintain our Net Dollar Retention Rate to the extent necessary to realize a sufficient return on our brand-building efforts, and our business, results of operations, and financial condition could suffer.

In addition, independent industry analysts often provide reviews of Slack, as well as the products offered by our competitors, and perception of the relative value of Slack in the marketplace may be significantly influenced by these reviews. If these reviews are negative, or less positive as compared to those of our competitors' products, our brand may be harmed.

Negative publicity could adversely affect our reputation, our business, and our operating results.

Negative publicity about our company, including about the quality, reliability, and security of our products, content shared by users and organizations on Slack (whether proactively shared by such users or shared by employee negligence, error, or malfeasance or improper user configuration or otherwise), changes to our products, policies and services, our privacy and security practices, our complaint against Microsoft filed with the European Commission, litigation, regulatory activity, the actions of users and organizations on Slack, or user experience with our products, even if inaccurate, could adversely affect our reputation and the confidence in and the use of our product. In addition, following the announcement of our proposed transaction with Salesforce, our company may be impacted by negative publicity about Salesforce, our proposed transaction with Salesforce, and litigation related to the proposed transaction with Salesforce. Use of Slack by political organizations and campaigns during the 2020 U.S. presidential election season, and any resulting controversies involving such use, may heighten negative publicity risks for us. Such negative publicity could also have an adverse effect on the size, engagement, and loyalty of our user base and result in decreased revenue, which could adversely affect our business, results of operations and financial condition.

One of our marketing strategies is to offer a free version of Slack, and we may not be able to continue to realize the benefits of this strategy.

We offer a free version of Slack to promote initial usage, brand and product awareness, and organic adoption. Historically, not all users of and organizations on our free version convert to one of our paid versions. Our marketing strategy depends in part on users of and/or organizations on the free version of Slack convincing others within their organizations to use Slack and to drive the conversion to purchasing subscriptions to Standard, Plus, or Enterprise Grid. We have also offered, and may continue to offer, free trials of our paid versions of Slack to certain users and organizations in an effort to drive purchases of our paid subscription plans. To the extent that some of these users and organizations do not become, or lead others to become, paid customers, we will not realize the intended benefits of this marketing strategy, which incurs costs as we must pay to host our free version and provide free trials of our paid versions, and our ability to grow our business may be harmed and our results of operations and financial condition could suffer.

We derive, and expect to continue to derive, substantially all of our revenue from a single product.

We derive, and expect to continue to derive, substantially all of our revenue from a single product — Slack. As such, the continued growth in market demand for and market acceptance of Slack is critical to our continued success. Demand for Slack is affected by a number of factors, many of which are beyond our control, such as continued market acceptance; the timing of development and release of competing new products; the development and acceptance of new features, integrations, and capabilities (such as Slack Connect); price or product changes by us or our competitors; technological changes and developments within the markets we serve; growth, contraction, and rapid evolution of our market; and general economic conditions and trends. If we are unable to continue to meet demands of organizations on Slack or trends in preferences or to achieve more widespread market acceptance of Slack, our business, results of operations, and financial condition could be harmed. Changes in preferences of users or organizations on Slack for software may have a disproportionately greater impact on us than if we offered multiple products. In addition, some current and potential organizations, particularly large organizations, may develop or acquire their own tools or software or continue to rely on traditional tools and software, such as email, which would reduce or eliminate the demand for Slack. If demand for Slack declines for any of these or other reasons, our business could be adversely affected.

Our corporate culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the innovative approach, creativity, and teamwork fostered by our culture and our business could be harmed.

We believe that an important contributor to our success has been our corporate culture, which we believe creates an environment that drives and perpetuates our strategy to create a better, more productive way to work. As we continue to grow, including geographically, and develop the infrastructure of a public company, we may find it difficult to maintain our corporate culture. Any failure to preserve our culture could harm our future success, including our ability to retain and recruit personnel, innovate and operate effectively, and execute on our business strategy. Additionally, our entire workforce is currently working remotely as a result of the COVID-19 pandemic, and we expect a portion of our workforce will continue to do so indefinitely, which may limit their ability to perform certain job functions and may negatively impact productivity and corporate culture.

Our growth depends, in part, on the success of our strategic relationships with third parties.

To grow our business and build out our application ecosystem, we anticipate that we will continue to depend on relationships with third parties. Identifying partners, and negotiating and documenting relationships with them, requires significant time and resources. Further, our competitors may be effective in providing incentives to third parties to favor their products or services over Slack. If we are unsuccessful in establishing or maintaining our relationships with third parties, if any existing or future partners fail to successfully implement or support Slack integrations, or if they partner with our competitors and devote greater resources to implement and support the products and solutions of competitors, our ability to compete in the marketplace, or to grow our revenue, could be impaired, and our results of operations may suffer. Even if our relationships with third parties are successful, we cannot assure you that these relationships will result in increased usage of Slack or increased revenue.

We rely on software and services from other parties. Defects in, or the loss of access to, software or services from third parties could increase our costs and adversely affect the quality of Slack.

We rely on technologies from third parties to operate critical functions of our business, including cloud infrastructure services provided by AWS, and customer relationship management services. Our business could be disrupted if any of the third-party software or services we utilize, or functional equivalents thereof, were unavailable due to extended outages or interruptions or because they are no longer available on commercially reasonable terms or prices. In each case, we could be required to either seek licenses to software or services from other parties and redesign Slack or certain aspects of Slack to function with such software or services or develop these components ourselves, which could result in increased costs and delays in launches and releases of new features, integrations, capabilities or enhancements until equivalent technology can be identified, licensed, or developed, and integrated into Slack. Furthermore, we might be forced to limit the features available in Slack. These delays and feature limitations, if they occur, could harm our business, results of operations, and financial condition.

We provide service level commitments under certain of our paid customer contracts. If we fail to meet these contractual commitments, we could be obligated to provide credits for future service, or face contract termination with refunds of prepaid amounts related to unused subscriptions, which could harm our business, results of operations, and financial condition.

Certain of our paid customer agreements contain service level agreements, under which we guarantee specified minimum availability of Slack. From time to time, we have granted, and in the future will continue to grant, credits to paid customers pursuant to the terms of these agreements. For example, we provided approximately $8.2 million in credits to paid customers in connection with availability issues experienced by certain organizations on Slack during the quarter ended July 31, 2019. Any failure of or disruption to our infrastructure could make Slack unavailable to organizations on Slack. If we are unable to meet the stated service level commitments to our paid customers or suffer extended periods of unavailability of Slack, we may be contractually obligated to provide paid customers with service credits for future subscriptions, or paid customers could elect to terminate and receive refunds for prepaid amounts related to unused subscriptions. Our revenue, other results of operations, and financial condition could be harmed if we suffer unscheduled downtime that exceeds the service level commitments under our agreements with our paid customers, and any extended service outages could adversely affect our business and reputation as paid customers may elect not to renew and we could lose future sales. In addition, we may modify or reduce the amount of credits we grant to paid customers under such service level agreements. Any modification or termination of such commitments could decrease demand for Slack, impair our ability to maintain and grow the base of users and organizations on Slack, and adversely affect our business.

Because our success depends, in part, on our ability to expand sales of Slack to organizations located outside of the United States, our business will be susceptible to risks associated with international operations.

We currently have sales personnel outside the United States in Australia, Canada, France, Germany, Ireland, Japan, Korea, the Netherlands, Sweden, and the United Kingdom, and we intend to expand our international operations. In fiscal years 2021, 2020, and 2019, our non-U.S. revenue 39%, 37%, and 36%, of our total revenue, respectively. We expect to continue to expand our international operations, which may include opening offices in new jurisdictions and providing Slack in additional languages. Any additional international expansion efforts that we are undertaking and may undertake may not be successful. In addition, conducting international operations subjects us to new risks, some of which we have not generally faced in the United States or in other countries where we currently operate. These risks include, among other things:

- unexpected costs and errors in the localization of Slack, including translation into foreign languages and adaptation for local culture, practices, and regulatory requirements;
- lack of familiarity and burdens of complying with foreign laws, legal standards, privacy standards, regulatory requirements, tariffs, and other barriers, and the risk of penalties to our users and individual members of management or employees if our practices are deemed to be out of compliance;
- practical difficulties of enforcing intellectual property rights in countries with varying laws and standards and reduced or varied protection for intellectual property rights in some countries;
- an evolving legal framework and additional legal or regulatory requirements for data privacy, which may necessitate the establishment of systems to maintain data in local markets, requiring us to invest in additional data centers and network infrastructure, and the implementation of additional employee data privacy documentation (including locally-compliant data privacy notice and policies), all of which may involve substantial expense and may cause us to need to divert resources from other aspects of our business, all of which may adversely affect our business;
- as a U.S. company, we are subject to U.S. laws concerning governmental access to data and the risk, or perception of risk, of such access may make Slack less attractive to organizations outside the U.S., and compliance with such U.S. laws may conflict with legal obligations that we, or our organizations on Slack, may be subject to in other countries;
- unexpected changes in regulatory requirements, taxes, trade laws, tariffs, export quotas or other export requirements, custom duties, or other trade restrictions;
- difficulties in managing systems integrators and technology partners;
- differing technology standards;
- longer accounts receivable payment cycles and difficulties in collecting accounts receivable;
- increased financial accounting and reporting burdens and complexities;
- difficulties in managing and staffing international operations including the proper classification of independent contractors and other contingent workers, differing employer/employee relationships, and local employment laws;
- increased costs involved with recruiting and retaining an expanded employee population outside the United States through cash and equity-based incentive programs and unexpected legal costs and regulatory restrictions in issuing equity to employees outside the United States;

- global political and regulatory changes that may lead to restrictions on immigration and travel for our employees outside the United States, including restrictions due to natural disasters or pandemics, such as COVID-19;
- fluctuations in exchange rates that may decrease the value of our foreign-based revenue;
- difficulties in competing against large competitors with existing international infrastructure and experience who may be more successful at international operations;
- potentially adverse tax consequences, including the complexities of foreign value added tax (or other tax) systems, and restrictions on the repatriation of earnings;
- permanent establishment risks and complexities in connection with international payroll, tax, and social security requirements for international employees; and
- the impact of diseases and pandemics, such as COVID-19, on our employees, users, customers, potential customers, and general global political and economic environments.

Additionally, operating in international markets requires significant management attention and financial resources. We cannot be certain that the investment and additional resources required in establishing operations in other countries will produce desired levels of revenue or profitability.

Further, we have not engaged in currency hedging activities to limit risk of exchange rate fluctuations. Changes in exchange rates affect our results of operations, and may also affect the book value of our assets located outside the United States and the amount of our stockholders' equity.

Compliance with laws and regulations applicable to our global operations also substantially increases our cost of doing business in foreign jurisdictions. We have limited experience in marketing, selling, and supporting Slack outside of the United States. Our limited experience in operating our business internationally increases the risk that any potential future expansion efforts that we may undertake will not be successful. If we invest substantial time and resources to expand our international operations and are unable to do so successfully and in a timely manner, our business, results of operations, and financial condition will suffer. We may be unable to keep current with changes in government requirements as they change from time to time. Failure to comply with these regulations could harm our business. In many countries, it is common for others to engage in business practices that are prohibited by our internal policies and procedures or other regulations applicable to us. Although we have implemented policies and procedures designed to ensure compliance with these laws and policies, there can be no assurance that all of our employees, contractors, partners, and agents will comply with these laws and policies. Violations of laws or key control policies by our employees, contractors, partners, or agents could result in delays in revenue recognition, financial reporting misstatements, enforcement actions, reputational harm, disgorgement of profits, fines, civil and criminal penalties, damages, injunctions, other collateral consequences, or the prohibition of the importation or exportation of Slack and could harm our business, results of operations, and financial condition.

We have limited experience with respect to determining the optimal prices for Slack.

We have limited experience with respect to determining the optimal prices for Slack and, as a result, we have in the past, and expect in the future, that we will need to change our pricing model from time to time. In the past, including in connection with the recent COVID-19 pandemic, we have sometimes adjusted our prices either for individual paid customers in connection with long-term agreements or unique situations, and expect to continue to do so in the future. Moreover, demand for Slack is sensitive to price. Many factors, including general economic conditions, any economic downturn caused by COVID-19, our marketing, user acquisition, technology costs, customer expectations, and our current and future competitors' pricing and marketing strategies, can significantly affect our pricing strategies. Further, certain of our competitors offer, or may in the future offer, lower-priced or free products or services that compete with Slack or may bundle functionality compatible with Slack and offer a broader range of products and services. Similarly, certain competitors may use marketing strategies that enable them to acquire users more rapidly or at a lower cost than us, or both, and we may be unable to attract new users and organizations or grow or maintain our Net Dollar Retention Rate based on our historical pricing. As we expand internationally, we also must determine the appropriate price to enable us to compete effectively internationally. In addition, if our mix of features, integrations, and capabilities on Slack changes or we develop additional versions for specific use cases or additional premium versions, then we may need to, or choose to, revise our pricing. There can be no assurance that we will not be forced to engage in price-cutting initiatives or to increase our marketing and other expenses to attract users and organizations to Slack and to grow or maintain our Net Dollar Retention Rate in response to competitive or other pressures, either of which could materially and adversely affect our business, results of operations, and financial condition.

Future acquisitions, strategic investments, partnerships, or alliances could be difficult to identify and integrate, divert the attention of key management personnel, disrupt our business, dilute stockholder value, and harm our results of operations and financial condition.

The Merger Agreement with Salesforce provides for certain restrictions on our activities until the effective time of the Mergers or until the Merger Agreement is terminated, including restrictions on our ability to acquire any business. We have in the past acquired and may in the future seek to acquire, or invest in, businesses, products, or technologies that we believe could complement Slack, expand its breadth, enhance our technical capabilities, or otherwise offer growth opportunities. For example, in June 2020, we completed our acquisition of Rimeto, an enterprise directory platform. The pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating, and pursuing suitable acquisitions, whether or not they are consummated. Any acquisition, investment or business relationship may result in unforeseen operating difficulties and expenditures. In addition, we have limited experience in acquiring other businesses. If we acquire additional businesses, we may not be able to successfully integrate the acquired personnel, operations, and technologies, or effectively manage the combined business following the acquisition. Specifically, these risks include the following:

- failure to successfully evaluate, utilize, integrate, or further develop the acquired technology or personnel;
- inability to accurately forecast the financial impact of a transaction, including adverse tax consequences and accounting charges;
- loss of key employees of the acquired company and other challenges associated with integrating new employees into our culture;
- diversion of management time and focus from operating our business to addressing acquisition integration challenges;
- implementation or remediation of controls, procedures, and policies at the acquired company;
- integration of the acquired company's accounting, human resources, and other administrative systems, and coordination of product, engineering, and sales and marketing functions;
- assumption of contractual obligations that contain terms that are not beneficial to us, require us to license or waive intellectual property rights or increase our potential liability;
- failure to find commercial success with the products or services of the acquired company; and
- liability for activities of the acquired company before the acquisition, including shareholder or employee disputes, patent or trademark infringement claims, violations of laws, commercial disputes, tax liabilities, and other known and unknown liabilities.

We may not be able to find and identify desirable acquisition targets or we may not be successful in entering into an agreement with any one target. Acquisitions could also result in dilutive issuances of equity securities or the incurrence of debt, which could harm our results of operations. In addition, if an acquired business fails to meet our expectations, financial or otherwise, our business, results of operations, and financial condition may suffer. The risks associated with potential acquisitions will increase if in the future we acquire larger businesses or businesses with higher valuations.

We also make strategic investments in early stage companies developing products or technologies that we believe could complement Slack or expand its breadth, enhance our technical capabilities, or otherwise offer growth opportunities, both directly and through our subsidiary, Slack Fund. These investments are generally in early stage private companies for restricted stock. Such investments are generally illiquid and may never generate value. Further, the companies in which we invest may not succeed, and our investments would lose their value.

Our failure to raise additional capital or generate cash flows necessary to expand our operations and invest in new technologies and customer acquisition efforts in the future could reduce our ability to compete successfully and harm our results of operations.

Historically, we have funded our operations and capital expenditures primarily through equity issuances, convertible debt issuances, and cash generated from our operations. Although we currently anticipate that our existing cash and cash equivalents, marketable securities, cash flow from operations, and amounts available under our revolving credit facility will be sufficient to meet our cash needs for the foreseeable future, we may require additional financing, and we may not be able to obtain debt or equity financing on favorable terms, if at all. Furthermore, the Merger Agreement with Salesforce restricts our ability to issue equity or convertible debt until the effective time of the Mergers or until the Merger Agreement is terminated. If we raise equity or equity-linked financing to fund operations or on an opportunistic basis, our stockholders may experience significant dilution of their ownership interests. Our revolving credit facility restricts our ability to incur additional indebtedness, requires us to maintain specified minimum liquidity and revenue amounts, and restricts our ability to pay dividends. The terms of any additional debt financing may be similar or more restrictive. If we need additional capital and cannot raise it on acceptable terms, or at all, we may not be able to, among other things:

- develop new features, integrations, capabilities, and enhancements;
- continue to expand our product development, sales, and marketing organizations;
- hire, train, and retain employees;
- respond to competitive pressures or unanticipated working capital requirements; or
- pursue acquisition opportunities.

Our user metrics and other estimates can be difficult to measure, and actual or perceived inaccuracies in those metrics may harm and negatively affect our reputation and our business.

We regularly review business metrics, including our number of daily active users, number of paid customers, and other user engagement metrics, to evaluate growth trends, measure our performance, and make strategic decisions. These metrics are calculated using internal company data and our own methodologies and have not been validated by an independent third party. While these metrics are based on what we believe to be reasonable definitions of our user base and user engagement for the applicable period of measurement, there are inherent challenges in defining and measuring how Slack is used across large global populations. The definitions and methodologies used to measure these metrics require significant judgment and are also susceptible to algorithm or other technical errors. In addition, we are continually seeking to improve the way we evaluate and measure our user base and usage and our metrics may change due to improvements or changes in our methodology. We regularly review our processes for calculating these metrics, and from time to time we discover immaterial inaccuracies in our metrics or make adjustments to improve their accuracy, which can result in adjustments to our historical metrics. Our ability to recalculate our historical metrics may be impacted by data limitations or other factors that require us to apply different methodologies for such adjustments. We generally do not intend to update previously disclosed metrics for immaterial inaccuracies or adjustments. If investors or analysts do not perceive our metrics to be accurate representations of our business, or if we discover material inaccuracies in our metrics, our reputation, business, results of operations, and financial condition could be harmed.

Risks Related to Information Technology, Intellectual Property, and Data Security and Privacy

Real or perceived errors, failures, vulnerabilities, or bugs in Slack could harm our business, results of operations, and financial condition.

The software technology underlying and integrating with Slack is inherently complex and may contain material defects or errors, particularly when new features, integrations, or capabilities are released. Errors, failures, vulnerabilities, or bugs have in the past, and may in the future, occur in Slack, especially when updates are deployed or new features, integrations, or capabilities are rolled out. These risks may be heightened while our and our customers' workforces continue to work remotely during the COVID-19 pandemic. Slack is often used in connection with large-scale computing environments with different operating systems, system management software, integrations, equipment, and networking configurations, which may cause errors or failures, or affect other aspects of the computing environment in which Slack is used. In addition, use of Slack in complicated, large-scale computing environments may expose errors, failures, vulnerabilities, or bugs in Slack or integrations. Any such errors, failures, vulnerabilities, or bugs may not be found until after new features, integrations, or capabilities have been released to organizations on Slack. Furthermore, we will need to ensure that Slack can scale to meet the evolving needs of users and organizations on Slack, particularly as we continue to focus on larger organizations with Enterprise Grid. Real or perceived errors, failures, vulnerabilities, or bugs in Slack could result in negative publicity, loss or leaking of personal data and data of organizations on Slack, the issuance of credits under our service level agreements with paid customers, loss of or delay in market acceptance of Slack, loss of competitive position, regulatory fines or claims by organizations on Slack for losses sustained by them, all of which could harm our business, results of operations, and financial condition.

If there are interruptions or performance problems associated with the technology or infrastructure used to provide Slack, organizations on Slack may experience service outages, other organizations may be reluctant to adopt Slack, and our reputation could be harmed.

Our continued growth depends, in part, on the ability of existing and potential organizations on Slack to access Slack 24 hours a day, seven days a week, without interruption or degradation of performance. We have in the past and may in the future experience disruptions, data loss, outages, and other performance problems with our infrastructure due to a variety of factors, including infrastructure changes, introductions of new functionality, human or software errors, capacity constraints, denial-of-service attacks, ransomware attacks, or other security-related incidents. In some instances, we may not be able to identify the cause or causes of these performance problems immediately or in short order. We may not be able to maintain the level of service uptime and performance required by organizations on Slack, especially during peak usage times and as our user traffic and number of integrations increase. The increase in the use of Slack that we have experienced as a result of the COVID-19 pandemic has increased demands on our technical infrastructure. We have in the past, and may during the pendency of the COVID-19 pandemic, incur additional costs and make additional investments in order to meet the demands of increased customer usage of Slack and to expand the capacity of our global infrastructure. Additional product development efforts during this time may put additional pressure on our technical infrastructure. We may not be able to accommodate these demands, including as a result of our personnel working remotely during the pandemic. We have experienced intermittent connectivity issues and product issues in the past, including those that have prevented many organizations on Slack and their users from accessing Slack for a period of time. If Slack is unavailable or if organizations are unable to access Slack within a reasonable amount of time, or at all, our business would be harmed and, in some instances, we may be required to provide credits to certain paid customers under our service level agreements, harming our results of operations and financial condition. Since organizations on Slack rely on Slack to communicate, collaborate, and access and complete their work, which in many cases includes entire organizations that complete substantially all of their work functions on Slack, any outage on Slack would impair the ability of organizations on Slack and their users to perform their work, which would negatively impact our brand, reputation, and customer satisfaction, and could give rise to legal liability under our service level agreements with paid customers.

Moreover, we depend on services from various third parties to maintain our infrastructure, including AWS. If a service provider fails to provide sufficient capacity to support Slack or otherwise experiences service outages, such failure could interrupt access to Slack by users and organizations, which could adversely affect their perception of

Slack’s reliability, our brand, and our revenue and harm the businesses of organizations on Slack. Any disruptions in these services, including as a result of actions outside of our control, would significantly impact the continued performance of Slack. In the future, these services may not be available to us on commercially reasonable terms, or at all. Any loss of the right to use any of these services could result in decreased functionality of Slack until equivalent technology is either developed by us or, if available from another provider, is identified, obtained, and integrated into our infrastructure. If we do not accurately predict our infrastructure capacity requirements, organizations on Slack could experience service shortfalls or we may incur excess expenses. We may also be unable to effectively address capacity constraints, upgrade our systems as needed, and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology. Additionally, the effects of the COVID-19 pandemic have increased the risk of supply shortages or other disruptions in logistics or the supply chain for our technical infrastructure. As a result, we may not be able to procure sufficient equipment or services from third parties to satisfy our needs, or we may be required to procure such services or equipment on unfavorable terms.

Any of the above circumstances or events may harm our reputation, cause organizations on Slack to terminate their agreements with us, impair our ability to obtain subscription renewals from organizations on Slack, impair our ability to grow the base of users and organizations on Slack, subject us to financial penalties and liabilities under our service level agreements with our paid customers, and otherwise harm our business, results of operations, and financial condition.

A security incident may allow unauthorized access to our systems, networks, or data or the data of organizations on Slack, harm our reputation, create additional liability, and harm our financial results.

Increasingly, companies are subject to a wide variety of attacks on their systems on an ongoing basis. In addition to threats from traditional computer “hackers,” malicious code (such as malware, viruses, worms, and ransomware), employee theft or misuse, password spraying, phishing, credential stuffing, and denial-of-service attacks, we also face threats from sophisticated organized crime, nation-state, and nation-state supported actors who engage in attacks (including advanced persistent threat intrusions) that add to the risks to Slack, our internal systems and our partners’ systems, as well as the systems of organizations on Slack and the information that they store and process. Third parties may attempt to fraudulently induce employees, users, or organizations into disclosing sensitive information such as user names, passwords, or other information or otherwise compromise the security of our internal electronic systems, networks, and/or physical facilities in order to gain access to our data or the data of organizations on Slack, which could result in significant legal and financial exposure, a loss of confidence in the security of Slack, interruptions or malfunctions in our operations, and, ultimately, harm to our future business prospects and revenue. Users or organizations on Slack may also disclose or lose control of their API keys, secrets, or passwords, or use the same or similar secrets or passwords on third parties’ systems, which could lead to unauthorized access to their accounts and data within Slack (arising from, for example, an independent third-party data security incident that compromises those API keys, secrets, or passwords). Further, if a channel is shared between paid customers or workspaces, the above risks, vulnerabilities, and threats may be “inherited” or transferred from one paid customer or workspace to another. Despite significant efforts to create security barriers to such threats, it is virtually impossible for us to entirely mitigate these risks, especially where they are attributable to the behavior of independent third parties beyond our control. The security measures we have implemented or integrated into Slack and our internal systems and networks (including measures to audit third-party and custom applications), which are designed to detect unauthorized activity and prevent or minimize security breaches, may not function as expected or may not be sufficient to protect Slack and our internal systems and networks against certain attacks. For instance, we have experienced security incidents in the past, and may in the future, in which unauthorized third parties gained access to information maintained by us that included user names, email addresses, passwords, and information that users may have optionally added to their profiles, such as phone numbers. Furthermore, we and certain organizations on Slack have been contacted by third parties from time to time who claim to have obtained unauthorized access to customer data or user information. In addition, techniques used to sabotage or to obtain unauthorized access to systems and networks in which data is stored or through which data is transmitted change frequently and generally are not recognized until launched against a target. As a result, it may not be possible for us to anticipate these techniques or implement adequate preventative measures to prevent an electronic intrusion into our systems and networks and we may be required to expend significant capital and financial resources to protect against such threats or to alleviate problems caused by breaches in systems, network, or data security.

The storage, transmittal, and use of data by organizations on Slack concerning, among others, their employees, contractors, customers, and partners is essential to their use of Slack, which stores, transmits, and processes their sensitive and proprietary information, including business strategies, financial and operational data, personal or identifying information, and other related data. Security breaches impacting Slack or integrations on Slack could result in a risk of loss, unavailability, or unauthorized disclosure of this information, which, in turn, could lead to litigation, governmental audits, and investigations and possible liability (including regulatory fines), damage our relationships with existing users and organizations on Slack, and have a negative impact on our ability to attract new users and organizations and to grow or maintain our Net Dollar Retention Rate. Furthermore, any such breach, including a breach of the systems or networks of our partners or organizations on Slack, could compromise our systems or networks, creating system disruptions or slowdowns and exploiting security vulnerabilities of our networks or the networks of our partners and organizations on Slack, and the information stored on our network or the networks of our partners and organizations on Slack could be accessed, publicly disclosed, altered, lost, or stolen, which could subject us to liability and cause us financial harm. In addition, a breach of the security measures of one of our partners could result in the destruction, modification, or exfiltration of confidential corporate information, or other data that may provide additional avenues of attack. These breaches, or any perceived breach, of our systems or networks or the systems of our partners or organizations on Slack, whether or not any such breach is due to a vulnerability in Slack, may also undermine confidence in Slack or our industry and result in damage to our reputation, negative publicity, loss of users and organizations on Slack, partners, and sales, increased costs to remedy any problem, and costly litigation or regulatory fines.

We maintain errors, omissions, and cyber liability insurance policies covering certain security and privacy damages. However, we cannot be certain that our coverage will be available or adequate for all liabilities that might actually be incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. Further, if a high-profile security breach occurs with respect to another software company with a similar product to ours, integrations with Slack, or communication, collaboration, data collection, and integration features generally, our users and potential users could lose trust in the security of such solutions providers generally, which could adversely impact our ability to attract organizations to Slack or grow or maintain our Net Dollar Retention Rate.

In addition, changes in working environments as a result of the COVID-19 pandemic, including our own and our decision in June 2020 to allow many of our employees to work remotely on a permanent basis, could impact the security of our systems and the systems of organizations on Slack, as well as our ability to protect against attacks and detect and respond to them quickly. Any rapid adoption by us of third-party services designed to enable the transition to a remote workforce also may introduce security risk that is not fully mitigated prior to the use of these services. Recently, organizations worldwide, including governments and commercial enterprises, have seen an increase in cyber-attacks, such as phishing and ransomware attacks, by actors using the attention placed on the pandemic and remote workforces as opportunities for targeting systems and personnel. Our own systems and the systems of organizations on Slack are subject to such increased threats.

Any actual or perceived failure by us to comply with privacy, data protection, information security, consumer privacy, data residency, or telecommunications laws, regulations, government access requests, and obligations in one or multiple jurisdictions could result in proceedings, actions, or penalties against us and could harm our business and reputation. These laws are uncertain, evolving, and interpreted and applied in different ways in different countries and, as a result, our legal obligations in different countries, and our efforts to comply with those legal obligations, may be inadequate or in conflict.

The use and storage of data, files, and information by organizations on Slack concerning, among others, their employees, contractors, customers, and partners is essential to their use of Slack. We have implemented various features, integrations, and capabilities as well as contractual obligations intended to enable and encourage organizations on Slack to comply with applicable privacy and security requirements in their collection, use, and transmittal of data using Slack, but these features do not ensure their compliance and may not be effective against all potential privacy concerns. In addition, users and organization on Slack may not purchase the appropriate paid version of Slack to ensure their compliance with privacy and security features. Furthermore, we are subject to certain contractual obligations regarding the collection, use, storage, transfer, disclosure, and/or processing of personal data.

Around the world, there are numerous lawsuits and regulatory proceedings in process against various technology companies that process personal data. If those lawsuits or regulatory proceedings are successful, it could increase the likelihood that we may be exposed to liability for our own policies and practices concerning the processing of personal data and could hurt our business. Privacy, security, or data protection concerns, whether or not valid, may inhibit market adoption of Slack. For instance, Slack utilizes AWS data centers located in a limited number of locations and certain organizations, or categories of organizations, may limit their adoption or use of Slack unless we utilize additional local AWS data centers. Additionally, concerns about privacy, security, or data protection may result in the adoption of new legislation that restricts the implementation of technologies like ours or requires us to make modifications to Slack, which could significantly limit the adoption and deployment of our technologies or result in significant expense to us. Many jurisdictions have enacted or are considering enacting privacy and/or data security legislation, including laws and regulations applying to the collection, use, storage, transfer, disclosure, and/or processing of personal data. Such laws may include data residency or data localization requirements, which generally require that certain types of data collected within a certain country be stored and processed within that country and/or data export restrictions, or international transfer laws which prohibit or impose conditions upon the transfer of such data from one country to another. In addition, some jurisdictions have recently enacted or are currently considering enacting laws requiring online service providers to be able to decrypt encrypted content stored as part of their service, which may limit deployment and adoption of Slack. The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to the operations of organizations on Slack may limit the use and adoption of Slack and reduce overall demand for Slack. Moreover, the existence and need to comply with such privacy and data security laws could impact our ability to offer Slack in certain markets without taking additional compliance steps (including the use of local data centers) or in general. Further, these privacy and data security related laws and regulations are evolving and may result in increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions and impose regulatory challenges on our business. For instance, evolving and changing definitions of what constitutes “Personal Information” and “Personal Data” within the European Union, the United States, and elsewhere, especially relating to classification of IP addresses, machine, or device identification numbers, location data, and other information, may limit or inhibit our ability to operate or expand our business.

Although we continually work to comply with federal, state, and foreign laws and regulations, industry standards, contractual obligations, and other legal obligations that apply to us, such laws, regulations, standards, and obligations are evolving and may be modified, interpreted, and applied in an inconsistent manner from one jurisdiction to another, and may conflict with one another, other requirements or legal obligations, our practices, or the features of Slack. In particular, we may be obliged to disclose data pursuant to governmental requests under U.S. law or the laws of other countries. These requirements may make our platform less attractive to users and organizations. Further, compliance with such governmental requests may be inconsistent with local laws in other countries to which we and organizations on Slack are subject.

Any failure or perceived failure by us to comply with federal, state, or foreign laws or regulations, industry standards, Internet accessibility standards, contractual obligations, or other legal obligations, or any actual or suspected security incident, whether or not resulting in unauthorized access to, or acquisition, release, or transfer of personal or other data, may result in governmental enforcement actions and prosecutions, private litigation, fines, and penalties, or adverse publicity and could cause organizations on Slack to lose trust in us, which could have an adverse effect on our reputation and business. For example, fines of up to the greater of €20.0 million and 4% of our global turnover can be imposed for breaches of the E.U.’s General Data Protection Regulation. Additionally, California consumers whose information has been subject to a security incident may bring civil suits under the California Consumer Privacy Act, or the CCPA, for statutory damages between $100 and $750 per consumer. Any inability to adequately address privacy and security concerns, even if unfounded, or comply with applicable laws, regulations, policies, industry standards, contractual obligations, or other legal obligations could result in additional cost and liability to us, damage our reputation, inhibit sales, and adversely affect our business.

We also expect that there will continue to be new proposed laws, regulations, Internet accessibility standards, and industry standards concerning privacy, data protection, and information security in the United States, the

European Union, and other jurisdictions, and we cannot yet determine the impact such future laws, regulations, and standards may have on our business. For example, the CCPA took effect on January 1, 2020 and broadly defines personal information, gives California residents expanded privacy rights and protections and provides for civil penalties for violations and a private right of action for data breaches. Additionally, California voters approved the California Privacy Rights Act, or the CPRA, on November 3, 2020, which will amend and expand the CCPA, including by providing consumers with additional rights with respect to their personal data. The CPRA will come into effect on January 1, 2023, applying to information collected by businesses on or after January 1, 2022. The CPRA's implementing regulations are expected on or before July 1, 2022, and enforcement is scheduled to begin July 1, 2023. We will continue to monitor developments related to the CPRA and anticipate additional costs and expenses associated with CPRA compliance. Although we do not currently believe the CCPA or CPRA will have a material effect on our business, the implementation, interpretation, and enforcement of the CCPA and CPRA, as they relate to our business, remains uncertain at this time. Other U.S. states also are considering omnibus privacy legislation and privacy advocacy groups and technology and other industries are considering various new, additional, or different self-regulatory standards that may place additional burdens on us. Future laws, regulations, standards, and other obligations, including those related to the CCPA and CPRA, and changes in the interpretation of existing laws, regulations, standards, and other obligations could impair the ability of us or organizations on Slack to collect, use, or disclose information relating to consumers, which could decrease demand for Slack, increase our operating expenses, and impair our ability to maintain and grow the base of users and organizations on Slack and our revenue. Similarly, such laws could require changes to our technology, operations, and practices. New laws, amendments to, or re-interpretations of existing laws and regulations, industry standards, contractual obligations, and other obligations may require us to incur additional costs and restrict our business operations. Such laws and regulations may require companies to implement privacy and security policies, permit users to access, correct, and delete personal data stored or maintained by such companies, inform individuals of security breaches that affect their personal information, and, in some cases, obtain individuals' consent to use personal data for certain purposes. If we, or the third parties on which we rely, fail to comply with federal, state, and foreign data privacy laws and regulations, our ability to successfully operate our business and pursue our business goals could be harmed.

Failure by us to comply with applicable laws and regulations, or to protect such data, could result in enforcement actions against us, including fines and public censure, claims for damages by organizations on Slack and other affected persons, damage to our reputation, and loss of goodwill (both in relation to existing and prospective organizations on Slack), any of which could harm our business, results of operations, and financial condition.

Since many of the features of Slack involve the processing of personal data or other data of organizations on Slack and their employees, contractors, customers, partners, and others, any inability to adequately address privacy concerns, even if such concerns are unfounded, or to comply with applicable privacy or data security laws, regulations, and policies, could result in liability to us, inhibition of sales, and damage to our reputation and our business. Addressing these concerns could increase the length of our sales cycles. For example, cultural norms around privacy and employee expectations vary country to country and can drive a need to localize or customize certain features of Slack in order to address such varied privacy concerns, which can add cost and time to our development and sales cycles. In some markets, such as Germany, organizations as well as their employees through works councils, must both determine whether Slack is adopted, and organization and employee expectations around privacy do not always align. As a result, concerns by employees with respect to the protection of their privacy rights could affect adoption of Slack.

We publicly post our privacy policies and practices concerning our processing, use, and disclosure of the personal data provided to us by users, organizations, and website visitors. Our publication of our privacy policies and other statements we publish that provide promises and assurances about privacy and security can subject us to potential state and federal action, as well as enforcement action in other countries (particularly the European Union) if they are found to omit necessary information, be deceptive, or misrepresentative of our practices. If Slack is perceived to cause, or is otherwise unfavorably associated with, violations of privacy or data security requirements, it may subject us or organizations on Slack to public criticism and potential legal liability. Existing and potential privacy laws and regulations concerning privacy and data security and increasing sensitivity of consumers to unauthorized processing of personal data may create negative public reactions to technologies and products such as ours. This, in turn, may reduce the value of Slack and slow or eliminate the growth of our business.

We may face particular privacy, data security, and data protection risks in Europe particularly due to the European General Data Protection Regulation.

In relation to transfers of Personal Data out of the European Economic Area, or the EEA, and Switzerland to the United States, we are currently registered for both the E.U.-U.S. and the Swiss-U.S. Privacy Shield programs. On July 16, 2020, the Court of Justice of the European Union, or the E.U. Court, invalidated the EU-U.S. Privacy Shield on the grounds that the Privacy Shield program failed to offer adequate protections to E.U. personal data transferred to the U.S. The E.U. Court, in the same decision, deemed that an alternative transfer mechanism that we rely on known as the Standard Contractual Clauses, or SCCs, are valid, provided additional safeguards are in place. On November 10, 2020, the European Data Protect Board, or EDPB, issued recommendations on those additional safeguards. We are in the process of reviewing the decision and the recent EDPB guidance, which remains subject to public comment, and assessing any impacts on our data transfer mechanisms. It is possible that the ability to transfer personal data from the E.U. to the United States will be restricted. We (and many other companies) may be required to adopt additional measures to accomplish and maintain legitimate means for the transfer and receipt of personal data from the E.U. to the United States and other third countries. These efforts will be subject to new and evolving guidance from regulators, and there continue to be concerns about whether the SCCs will face additional challenges. Until the remaining legal uncertainties regarding how to legally continue these transfers are settled, we will continue to face uncertainty as to whether our efforts to comply with our obligations under European privacy laws will be sufficient. If we are investigated by a European data protection authority, we may face fines and other penalties. Any such investigation or charges by European data protection authorities could have a negative effect on our existing business and on our ability to attract and retain new customers. Our customers may view alternative data transfer mechanisms as being too costly, too burdensome, too legally uncertain or otherwise objectionable and therefore decide not to do business with us. For example, some of our customers or potential customers in the E.U. may require their vendors to host all personal data within the E.U. and may decide to do business with one of our competitors who hosts personal data within the E.U. instead of doing business with us. Any inability to transfer personal data from the E.U. to the U.S. in compliance with data protection laws may impede our ability to attract and retain customers and adversely affect our business. Depending on the evolving legal framework, we may find it necessary to establish systems to maintain Personal Data originating from the European Union in the EEA, which may involve substantial expense and may cause us to need to divert resources from other aspects of our business, all of which may adversely affect our business.

In addition, data protection regulation is an area of increased focus and changing requirements. The European Union adopted the General Data Protection Regulation 2016/679, or the GDPR, that took effect on May 25, 2018, largely replacing the current data protection laws of each E.U. member state. The GDPR applies to any organization with an establishment in the European Union for data processing purposes as well as to those outside the European Union if they process Personal Data of individuals in the European Union in connection with offering them goods or services or monitoring their behavior. The GDPR enhances data protection obligations for processors and controllers of Personal Data, including, for example, expanded disclosures about how Personal Data is to be used, limitations on retention of information, mandatory data breach notification requirements, and additional obligations on service providers (such as any third parties to whom we may transfer Personal Data). Non-compliance with the GDPR can trigger fines of up to the greater of €20 million or 4% of our global revenue. Given the breadth and depth of changes in data protection obligations, compliance has caused us to expend significant resources, and such expenditures are likely to continue into the future as we continue our compliance efforts and respond to new interpretations and enforcement actions. In addition, separate E.U. laws and regulations (and member states' implementations thereof) govern the protection of consumers and of electronic communications and these are also evolving. A draft of the new ePrivacy Regulation extends the strict opt-in marketing rules with limited exceptions to business-to-business communications, alters rules on third-party cookies, web beacons, and similar technology and significantly increases penalties. This law, as well as related changes to the European Union's telecommunications regime, could subject us to additional privacy obligations of the sort that have historically been imposed primarily on telecommunication service providers. We cannot yet determine the impact that such future laws, regulations, and standards may have on our business. Such laws and regulations are often subject to differing interpretations and may be inconsistent among jurisdictions. Further, the obligations imposed by E.U. data protection and related laws may conflict with the obligations imposed by other legal regimes, such as U.S. laws concerning government access to data. We may incur substantial expense in complying with the new obligations to be imposed by the GDPR, and we may be required to make significant changes in our business operations and product development, all of which may adversely affect our revenues and our business overall.

In addition, despite the enactment of the UK Data Protection Act, which substantially implements the GDPR and became effective in May 2018, it remains unclear exactly how the withdrawal of the United Kingdom from the European Union will affect transborder data flows, regulators' jurisdiction over our business, and other matters related to how we do business and how we comply with applicable data protection laws. Accordingly, we cannot predict the additional expense, impact on revenue, or other business impact that may stem from the United Kingdom's withdrawal from the European Union at this time.

Interruptions or delays in the services provided by third-party data centers or Internet service providers could impair Slack and our business could suffer.

We currently serve organizations on Slack from third-party data centers operated by AWS. Any damage to or failure of our systems generally would prevent us from operating our business. We rely on the Internet and, accordingly, depend upon the continuous, reliable, and secure operation of Internet servers, related hardware and software, and network infrastructure. The ongoing COVID-19 pandemic could potentially disrupt the supply chain of hardware needed to maintain these third-party systems and services or to run our business. We host Slack using AWS data centers, a provider of cloud infrastructure services. Our operations depend on protecting the virtual cloud infrastructure hosted in AWS by maintaining its configuration, architecture, and interconnection specifications, as well as the information stored in these virtual data centers and which third-party Internet service providers transmit. Furthermore, we have no physical access or control over the services provided by AWS. Although we have disaster recovery plans that utilize multiple AWS locations, the data centers that we use are vulnerable to damage or interruption from human error, intentional bad acts, earthquakes, floods, fires, severe storms, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures, and similar events, many of which are beyond our control, any of which could disrupt our service, destroy user content, or prevent us from being able to continuously back up or record changes in our users' content. In the event of significant physical damage to one of these data centers, it may take a significant period of time to achieve full resumption of our services, and our disaster recovery planning may not account for all eventualities. Further, a prolonged AWS service disruption affecting Slack for any of the foregoing reasons could damage our reputation with current and potential organizations, expose us to liability, cause us to lose organizations on Slack, or otherwise harm our business. We may also incur significant costs for using alternative equipment or taking other actions in preparation for, or in reaction to, events that damage the AWS services we use. Damage or interruptions to these data centers could harm our business. Moreover, negative publicity arising from these types of disruptions could damage our reputation and may adversely impact use of Slack. We may not carry sufficient business interruption insurance to compensate us for losses that may occur as a result of any events that cause interruptions in our service. Further, the contractual commitments that we provide to organizations on Slack with regard to data privacy are limited by the commitments that AWS has provided us.

AWS enables us to order and reserve server capacity in varying amounts and sizes distributed across multiple regions. AWS provides us with computing and storage capacity pursuant to an agreement that continues until terminated by either party. In some cases, AWS may terminate the agreement for cause upon 30 days' notice. Termination of the AWS agreement may harm our ability to access data centers we need to host Slack or to do so on terms as favorable as those we have with AWS.

Slack is accessed by a large number of organizations and users, and as we continue to expand the number of users and organizations on Slack and integrations available to organizations on Slack, we may not be able to scale our technology to accommodate the increased capacity requirements, which may result in interruptions or delays in service. In addition, the failure of AWS data centers or third-party Internet service providers to meet our capacity requirements could result in interruptions or delays in access to Slack or impede our ability to scale our operations. Capacity constraints could be due to a number of potential causes, including technical failures, natural disasters, pandemics such as COVID-19, fraud, or security attacks. In the event that our AWS service agreements are terminated, or there is a lapse of service, interruption of Internet service provider connectivity or damage to such facilities, we could experience interruptions in access to Slack as well as delays and additional expense in arranging new facilities and services, any of which could result in liability to us and harm our business.

If we fail to adequately protect our proprietary rights, our competitive position could be impaired and we may lose valuable assets, generate reduced revenue, and incur costly litigation to protect our rights.

Our success is dependent, in part, upon protecting our proprietary information and technology. We rely on a combination of patents, copyrights, trademarks, service marks, trade secret laws, and contractual restrictions to establish and protect our proprietary rights. However, the steps we take to protect our intellectual property may be inadequate. We will not be able to protect our intellectual property if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property. Despite our precautions, it may be possible for unauthorized third parties to copy Slack, or certain aspects of Slack, and use information that we regard as proprietary to create products that compete with Slack. Some license provisions protecting against unauthorized use, copying, transfer, and disclosure of Slack, or certain aspects of Slack, may be unenforceable under the laws of certain jurisdictions and foreign countries. Further, the laws of some countries do not protect proprietary rights to the same extent as the laws of the United States, and mechanisms for enforcement of intellectual property rights in some foreign countries may be inadequate. To the extent we expand our international activities, our exposure to unauthorized copying and use of Slack, or certain aspects of Slack, and proprietary information may increase. Further, competitors, foreign governments, foreign government-backed actors, criminals, or other third parties may gain unauthorized access to our proprietary information and technology. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon or misappropriating our technology and intellectual property.

We rely in part on trade secrets, proprietary know-how, and other confidential information to maintain our competitive position. Although we enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with the parties with whom we have strategic relationships and business alliances, no assurance can be given that these agreements will be effective in controlling access to and distribution of Slack, or certain aspects of Slack, and proprietary information. Further, these agreements do not prevent our competitors from independently developing technologies that are substantially equivalent or superior to Slack.

To protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these rights, and we may or may not be able to detect infringement by third parties. Litigation may be necessary in the future to enforce our intellectual property rights and to protect our trade secrets. Such litigation could be costly, time consuming, and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims, and countersuits attacking the validity and enforceability of our intellectual property rights. Our inability to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation, disputes, or diversion of our management's attention and resources, could delay further sales or the implementation of Slack, impair the functionality of Slack, delay introductions of new features, integrations, and capabilities, result in our substituting inferior or more costly technologies into Slack, or injure our reputation. In addition, we may be required to license additional technology from third parties to develop and market new features, integrations, and capabilities, and we cannot assure you that we would be able to license that technology on commercially reasonable terms or at all, and our inability to license this technology could harm our ability to compete.

Our results of operations may be harmed if we are subject to a protracted infringement claim, a claim that results in a significant damage award, or a claim that results in an injunction.

There is considerable patent, copyright, trademark, and other intellectual property development and enforcement activity in our industry. We have received, and may receive in the future, communications from third parties, including practicing entities and non-practicing entities, claiming that we have infringed or misappropriated their intellectual property rights. As we develop, acquire, and license technology, we expect that we may be subject to claims of infringement or misappropriation related to such technology. We also expect that companies in the software industry will increasingly be subject to infringement claims and litigation as the number of products and competitors grow and the functionality of products in different industry segments overlaps. Our future success depends in part on not infringing upon or misappropriating the intellectual property rights of others and successfully defending claims of infringement or misappropriation of the intellectual property rights of others when appropriate. If we were subject to a claim of infringement, regardless of the merit of the claim or our defenses, the claim could:

- require costly litigation to resolve and the payment of substantial damages;
- require and divert significant management time;
- cause us to enter into unfavorable royalty or license agreements;
- require us to discontinue some or all of the features, integrations, and capabilities available in Slack;
- require us to indemnify organizations on Slack or third-party service providers;
- require us to expend additional development resources to redesign Slack or certain aspects of Slack; and/or
- encourage other parties to pursue similar claims.

Our exposure to these risks may be increased as a result of acquisitions of other companies and as our business, business profile, and financial position grows. Any one or more of the above could harm our business, results of operations, and financial condition.

We use open source software, which could negatively affect our ability to offer Slack and subject us to litigation or other actions.

We use substantial amounts of open source software in Slack and may use more open source software in the future. We also contribute software source code under open source licenses. As a result of the use of open source software in Slack, and/or our open source code contributions, we may license or be required to license or disclose code and/or innovations that may be material to our business. From time to time, there have been claims against companies that incorporate open source software into their products challenging both the ownership of open source software and whether such incorporation is permissible under various open source licenses. The terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to commercialize Slack. As a result, we could be subject to lawsuits by parties claiming ownership of what we believe to be open source software, or breach of open source licenses. Litigation could be costly for us to defend, have a negative effect on our results of operations and financial condition, or require us to devote additional research and development resources to change Slack, or certain aspects of Slack. In addition, if we were to combine our proprietary source code or software with open source software in a certain manner, we could, under certain open source licenses, be required to release the source code of our proprietary software to the public. This would allow our competitors to create similar products with less development effort and time. If we inappropriately use open source software, or if the license terms for open source software that we use change, we may be required to re-engineer Slack, or certain aspects of Slack, incur additional costs, discontinue the sale of Slack or the availability of certain features, integrations, or capabilities of Slack, or take other remedial actions.

In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or assurance of title or controls on origin of the software. In addition, many of the risks associated with usage of open source software, such as the lack of warranties or assurances of title, cannot be eliminated, and could, if not properly addressed, negatively affect our business. We have established processes to help alleviate these risks, but we cannot be sure that all of our use of open source software is in a manner that is consistent with our current policies and procedures, or will not subject us to liability.

Indemnity provisions in various agreements potentially expose us to substantial liability for intellectual property infringement and other losses.

Our agreements with organizations on Slack and other third parties may include indemnification or other provisions under which we agree to indemnify or otherwise be liable to them for losses suffered or incurred as a result of claims of intellectual property infringement, damages caused by us to property or persons, or other liabilities relating to or arising from the use of Slack or other acts or omissions. The term of these contractual provisions often survives termination or expiration of the applicable agreement. As we continue to grow, the possibility of these and other intellectual property rights claims against us may increase. For any intellectual property rights indemnification claim against us or organizations on Slack, we may incur significant legal expenses and may have to pay damages, license fees, and/or stop using technology found to be in violation of the third party's rights. Large indemnity payments could harm our business, results of operations, and financial condition. We may also have to seek a license for the technology. Such license may not be available on reasonable terms, if at all, and may significantly increase our operating expenses or may require us to restrict our business activities and limit our ability to deliver Slack and/or certain features, integrations, and capabilities of Slack. As a result, we may also be required to develop alternative non-infringing technology, which could require significant effort and expense and/or cause us to alter Slack and/or certain of its features, integrations, and capabilities, any of which could negatively affect our business.

From time to time, organizations on Slack may require us to indemnify or otherwise be liable to them for breach of confidentiality, violation of applicable law, or failure to implement adequate security measures with respect to their data stored, transmitted, or accessed using Slack. Although we normally contractually limit our liability with respect to such obligations, the existence of such a dispute may have adverse effects on our relationship with organizations on Slack and reputation or such limitations may not be honored in every jurisdiction and we may still incur substantial liability related to them.

Any assertions by a third party, whether or not successful, with respect to such indemnification obligations could subject us to costly and time-consuming litigation, expensive remediation and licenses, divert management attention and financial resources, harm our relationship with that organization on Slack and other current and prospective organizations, reduce demand for Slack, and harm our brand, business, results of operations, and financial condition.

Risks Related to Legal, Regulatory, Accounting, and Tax Matters

We may be subject to liability claims if we breach our contracts and our insurance may be inadequate to cover our losses.

We are subject to numerous obligations in our contracts with organizations on Slack and our partners. Despite the procedures, systems, and internal controls we have implemented to comply with our contracts, we may breach these commitments, whether through a weakness in these procedures, systems, and internal controls, negligence, or the willful act of an employee or contractor. Our insurance policies, including our errors and omissions insurance, may be inadequate to compensate us for the potentially significant losses that may result from claims arising from breaches of our contracts, disruptions in our services, failures or disruptions to our infrastructure, catastrophic events, and disasters or otherwise. In addition, such insurance may not be available to us in the future on economically reasonable terms, or at all. Further, our insurance may not cover all claims made against us and defending a claim, regardless of its merit, could be costly and divert management's attention.

We may be subject to litigation for a variety of claims, which could harm our reputation and adversely affect our business, results of operations, and financial condition.

In the ordinary course of business, we may be involved in and subject to litigation for a variety of claims or disputes and receive regulatory inquiries. These claims, lawsuits, and proceedings could include labor and employment, wage and hour, commercial, antitrust, alleged securities law violations or other investor claims, and other matters. The number and significance of these potential claims and disputes are likely to increase as our business, business profile, and financial position grows. Further, our general liability insurance may not cover all potential claims made against us or be sufficient to indemnify us for all liability that may be imposed. Any claim against us, regardless of its merit, could be costly, divert management's attention and operational resources, and harm our reputation. As litigation is inherently unpredictable, we cannot assure you that any potential claims or disputes will not have a material adverse effect on our business, results of operations, and financial condition.

We may be subject to federal and state health privacy laws and regulations. If we are unable to comply or have not fully complied with such laws and regulations, we could face government enforcement actions, civil penalties, criminal sanctions, or damages, which could harm our reputation and adversely affect our business.

We may function as a HIPAA business associate for certain of our paid customers and, as such, are subject to applicable privacy and data security requirements. If we fail to comply with any of these requirements, we could be subject to significant liability, which could harm our reputation and adversely affect our business as well as our ability to attract new and retain existing paid customers.

The Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act, or HITECH, and their respective implementing regulations, or collectively, HIPAA, establish a set of federal privacy and security standards for the protection of individually identifiable health information that apply to health plans, healthcare clearinghouses, and healthcare providers that submit certain covered transactions, or "covered entities." A subset of these standards also applies to ''business associates,'' which are persons or entities that perform certain services for, or on behalf of, a covered entity that involve creating, receiving, maintaining, or transmitting protected health information. In addition, many state laws govern the privacy and security of health information in certain circumstances, many of which differ from HIPAA.

Certain of our paid customers are HIPAA covered entities and service providers, and in that context, we may function as a business associate under HIPAA. Among other things, this status means that for certain activities we must comply with applicable administrative, technical, and physical safeguards as required by HIPAA, including stringent data security obligations. Failure to comply with HIPAA can result in significant civil monetary penalties and, in certain circumstances, criminal penalties with fines and/or imprisonment.

The HIPAA covered entities and service providers to whom we serve as a business associate require us to enter into HIPAA-compliant business associate agreements with them. If we are unable to comply with our obligations as a HIPAA business associate, we could face contractual liability under the applicable business associate agreement. There may also be costs, both monetary and reputational, associated with responding to government investigations regarding alleged violations of these and other laws and regulations, even if there are ultimately no findings of violations or no penalties imposed. These costs can consume company resources and impact our business and, if public, harm our reputation.

If we are unable to meet the requirements of HIPAA, our business associate agreements, or state health privacy laws, we could face contractual liability or civil and criminal liability under HIPAA, all of which can have an adverse impact on our business and generate negative publicity, which, in turn, can have an adverse impact on our ability to attract new paid customers and to grow or maintain our Net Dollar Retention Rate.

We are subject to anti-corruption, anti-bribery, and similar laws, and non-compliance with such laws can subject us to criminal penalties or significant fines and harm our business and reputation.

We are subject to anti-corruption and anti-bribery and similar laws, such as the U.S. Foreign Corrupt Practices Act of 1977, as amended, or the FCPA, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the USA PATRIOT Act, the U.K. Bribery Act 2010, and other anti-corruption, anti-bribery and anti-money laundering laws in countries in which we conduct activities. Anti-corruption and anti-bribery laws have been enforced aggressively in recent years and are interpreted broadly and prohibit companies and their employees and agents from promising, authorizing, making, or offering improper payments or other benefits to government officials and others in the private sector. As we increase our international sales and business, our risks under these laws may increase. Noncompliance with these laws could subject us to investigations, sanctions, settlements, prosecution, other enforcement actions, disgorgement of profits, significant fines, damages, other civil and criminal penalties or injunctions, adverse media coverage, and other consequences. Any investigations, actions or sanctions could harm our business, results of operations, and financial condition.

In addition, we use third parties to sell access to Slack and conduct business on our behalf abroad. We or such third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities, and we can be held liable for the corrupt or other illegal activities of such third-party intermediaries, and our employees, representatives, contractors, partners, and agents, even if we do not explicitly authorize such activities. We have implemented an anti-corruption compliance program but cannot assure you that all our employees and agents, as well as those companies to which we outsource certain of our business operations, will not take actions in violation of our policies and applicable law, for which we may be ultimately held responsible. Any violation of the FCPA, other applicable anti-corruption laws, or anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions and, in the case of the FCPA, suspension or debarment from U.S. government contracts, any of which could have a materially adverse effect on our reputation, business, results of operations, and prospects.

We are subject to governmental export controls and economic sanctions laws that could impair our ability to compete in international markets and subject us to liability if we are not in full compliance with applicable laws.

Some of our business activities may be subject to various restrictions under U.S. and E.U. export controls and trade and economic sanctions laws, including, among others, the U.S. Commerce Department's Export Administration Regulations and economic and trade sanctions regulations maintained by the U.S. Treasury Department's Office of Foreign Assets Control. U.S. and E.U. export control laws and U.S. and E.U. economic sanctions laws may prohibit or restrict the sale or supply of certain products, including encryption items and technology, and services to certain governments, persons, and entities and countries and territories, including those that are the target of comprehensive sanctions. In addition, various countries regulate the import of certain encryption technology, including through import permitting and licensing requirements, and have enacted laws that could limit our ability to distribute Slack or could limit the ability of organizations on Slack to implement Slack in those countries. Although we take precautions to prevent Slack from being provided in violation of such laws and regulations, we cannot guarantee that such precautions will be fully effective and Slack may have been in the past, and could in the future be, provided inadvertently in violation of such laws, despite the precautions we take. If we fail to comply with these laws and regulations, we and certain of our employees could be subject to civil or criminal penalties, government investigation, loss of export privileges, and reputational harm. Further, obtaining the necessary authorizations, including any required licenses, for a particular transaction may be time-consuming, is not guaranteed, and may result in the delay or loss of sales opportunities. Although we take precautions to prevent transactions with sanction targets, we cannot guarantee that such precautions will be fully effective and we could inadvertently provide Slack to persons prohibited by U.S. and E.U. sanctions, which could result in negative consequences to us, including government investigations, penalties, and harm to our reputation.

In addition, changes in Slack, or future changes in export and import regulations may prevent our users with international operations from using Slack globally or, in some cases, prevent the export or import of Slack to certain countries, governments, or persons altogether. Any change in export or import regulations, economic sanctions or related legislation, or change in the countries, governments, persons, or technologies targeted by such regulations, could result in decreased use of Slack by, or in our decreased ability to export or sell subscriptions to Slack to, existing or potential users with international operations. Any decreased use of Slack or limitation on our ability to export or sell Slack would likely adversely affect our business, results of operations and financial condition.

We are subject to a variety of U.S. and international laws that could subject us to claims, increase our operating expenses, or otherwise harm our business due to changes in the laws, changes in the interpretations of the laws, greater enforcement of the laws, or investigations into compliance with the laws.

We are subject to compliance with various laws, including those covering copyright, consumer protection, child protection, and similar matters. There have been instances where improper or illegal content has been stored on Slack without our knowledge. As a service provider, with some exceptions, we do not monitor Slack to evaluate the legality of content stored on it. While to date we have not been subject to material legal or administrative actions as a result of the content stored on Slack or the activities conducted or organized using Slack, the laws in this area are currently in a state of flux and vary widely between jurisdictions. Accordingly, it may be possible that in the future we and our competitors may be subject to legal actions, along with the organizations on Slack and users who upload improper or illegal content, or engage in improper or illegal activities using Slack or the platforms of our competitors. In addition, regardless of any legal liability we may face, our reputation could be harmed should there be an incident generating negative publicity about the content stored on Slack, or the activities conducted or organized using Slack. Such publicity could harm our reputation and brand as well as our business, results of operations, and financial condition.

We may also be subject to consumer privacy or consumer protection laws that may impact our sales, marketing, and compliance efforts, including laws related to subscriptions, billing, and auto-renewal. These laws, as well as any changes in these laws, could adversely affect our free version of Slack and make it more difficult for us to grow or maintain our Net Dollar Retention Rate, upgrade organizations on Slack, and attract new organizations to Slack. Additionally, we have in the past, are currently, and may from time to time in the future become the subject of inquiries and other actions by regulatory authorities as a result of our business practices, including our subscription, billing, and auto-renewal policies. Consumer privacy and consumer protection laws may be interpreted or applied by regulatory authorities in a manner that could require us to make changes to Slack, our contracts, or our operations, or incur fines, penalties, or settlement expenses, which may result in harm to our business, results of operations, financial condition, and brand.

Further, in certain jurisdictions, we may be classified as a telecommunications service provider, or our classification may be uncertain. Such classification as a telecommunications service provider could restrict our ability to operate in certain markets without appropriate local authorization, or at all.

We are also subject to other U.S. and international laws. Although we take precautions to prevent violations of these laws, our exposure for violating these laws increases as we continue to expand our international presence and any failure to comply with such laws could harm our reputation and our business.

Action by governments to restrict access to Slack in their countries or to require us to disclose or provide access to information in our possession could harm our business, results of operations, and financial condition.

Slack depends on the ability of our users to access Slack and access to Slack could be blocked or restricted in some countries for various reasons. Further, it is possible that governments of one or more foreign countries may seek to limit access to, or certain features of, Slack in their countries, or impose other restrictions that may affect the availability of Slack, or certain features of Slack, in their countries for an extended period of time or indefinitely. For example, Russia and China are among a number of countries that have recently blocked certain online services, including AWS, which hosts Slack, making it very difficult for such services to access those markets. In addition, governments in certain countries may seek to restrict or prohibit access to Slack if they consider us to be in violation of their laws and may require us to disclose or provide access to information in our possession. If we fail to anticipate developments in the law, or fail for any reason to comply with relevant law, Slack could be further blocked or restricted and we could be exposed to significant liability that could harm our business. In the event that access to Slack is restricted, in whole or in part, in one or more countries or our competitors are able to successfully penetrate geographic markets that we cannot access, our ability to grow or maintain our Net Dollar Retention Rate may be adversely affected, we may not be able to maintain or grow our revenue as anticipated and our business, results of operations, and financial condition could be adversely affected.

Exposure to political developments in the United Kingdom, including the United Kingdom's decision to leave the European Union, could harm us.

On June 23, 2016, a referendum was held on the United Kingdom's membership in the European Union, the outcome of which was a vote in favor of leaving the European Union. Effective as of January 31, 2020, the United Kingdom formally withdrew its membership from the European Union. The United Kingdom's decision to leave the European Union has created an uncertain political and economic environment in the United Kingdom and across other European Union member states. The political and economic instability created by the United Kingdom's decision to leave the European Union has caused and may continue to cause volatility in global financial markets and the value of the British Pound or other currencies, including the Euro. In addition, this uncertainty may cause some of our customers or potential customers to curtail or delay spending. Depending on the market and regulatory effects of the United Kingdom's exit from the European Union, it is possible that there may be adverse practical or operational implications on our business. For example, the UK Data Protection Act, which substantially implements the GDPR, became effective in May 2018. It remains unclear, however, how United Kingdom data protection laws or regulations will develop and be interpreted in the medium to longer term and how data transfers to and from the United Kingdom will be regulated and how those regulations may differ from those in the European Union. Further, the United Kingdom's exit from the European Union may create increased compliance costs and an uncertain regulatory landscape for offering equity-based incentives to our employees in the United Kingdom. If we are unable to maintain equity-based incentive programs for our employees in the United Kingdom due to the departure of the United Kingdom from the European Union, our business in the United Kingdom may suffer and we may face legal claims from employees in the United Kingdom to whom we previously offered equity-based incentive programs.

Our activities in the United States subject us to various laws relating to foreign investment and the export of certain technologies, and our failure to comply with these laws or adequately monitor the compliance of our suppliers and others we do business with could subject us to fines, penalties, and even injunctions, the imposition of which on us could have a material adverse effect on the success of our business.

Because we are a U.S. business with substantial operations in the United States, we may be subject to U.S. laws that regulate foreign investments in U.S. businesses and access by foreign persons to technology developed and produced in the United States. These laws include Section 721 of the Defense Production Act of 1950, as amended by the Foreign Investment Risk Review Modernization Act of 2018, and the regulations at 31 C.F.R. Parts 800 and 801, as amended, administered by the Committee on Foreign Investment in the United States; and the Export Control Reform Act of 2018, which is being implemented in part through Commerce Department rulemakings to impose new export control restrictions on "emerging and foundational technologies" yet to be fully identified. Application of these laws, including as they are implemented through regulations being developed, may negatively impact our business in various ways, including by restricting our access to capital and markets; limiting the collaborations we may pursue; regulating the export of our service and technology from the United States and abroad; increasing our costs and the time necessary to obtain required authorizations and to ensure compliance; and threatening monetary fines and other penalties if we do not.

We may be required to defer recognition of some of our revenue, which may harm our financial results in any given period.

We may be required to defer recognition of revenue for a significant period of time after entering into an agreement due to a variety of factors, including, among other things, whether:

- the paid customer fails to deploy Slack to as many users as contemplated in the agreement given that, in many of our transactions, revenue is reduced in the form of fair billing credits we provide to paid customers when a user becomes inactive;
- contract modification or waiver is granted to reduce commitments, to lower fees, or modify payment schedules because of frequent service interruptions, because Slack did not meet the paid customer's needs or expectations, or due to a paid customer's inability to make full and timely payments because of the impacts of COVID-19;
- service outages result in failure to meet our quarterly uptime guarantee because revenue is reduced when we compensate paid customers in the form of credits promised under certain service level agreements;
- the transaction includes an option to renew at significantly higher discounts than what was provided under existing agreement and other comparable transactions;
- the transaction is contingent on future functionality that is not delivered within the paid customer's expected timeline; or
- the transaction involves acceptance criteria or other contingencies that may delay revenue recognition.

Because of these factors and other specific revenue recognition requirements under U.S. generally accepted accounting principles, or GAAP, we must have very precise terms in our contracts to recognize revenue when we initially provide access to Slack or perform services. Although we strive to enter into agreements that meet the criteria under GAAP for current revenue recognition on delivered elements, our agreements are often subject to negotiation and revision based on the demands of our paid customers. The final terms of our agreements sometimes result in deferred revenue recognition well after the time of delivery, which may adversely affect our financial results in any given period.

Furthermore, the presentation of our financial results requires us to make estimates and assumptions that may affect the timing of revenue recognition as well as how revenue is allocated between revenue categories. In some instances, we could reasonably use different estimates and assumptions, and changes in estimates are likely to occur from period to period as new updated information becomes available or when there is a change in prevailing conditions. Accordingly, actual results could differ significantly from our estimates.

Changes in laws and regulations related to the Internet or changes in the Internet infrastructure itself may diminish the demand for Slack, and could harm our business.

The future success of our business depends upon the continued use of the Internet as a primary medium for commerce, communication, and business applications. Federal, state, or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the Internet as a commercial medium. The adoption of any laws or regulations that could reduce the growth, popularity, or use of the Internet, including laws or practices limiting Internet neutrality, could decrease the demand for, or the usage of, Slack, increase our cost of doing business, and harm our results of operations. Changes in these laws or regulations could require us to modify Slack, or certain aspects of Slack, in order to comply with these changes. In addition, government agencies or private organizations have imposed and may impose additional taxes, fees, or other charges for accessing the Internet or commerce conducted via the Internet. These laws or charges could limit the growth of Internet-related commerce or communications generally, or result in reductions in the demand for Internet-based products such as ours. In addition, the use of the Internet as a business tool could be harmed due to delays in the development or adoption of new standards and protocols to handle increased demands of Internet activity, security, reliability, cost, ease-of-use, accessibility, and quality of service. Further, Slack depends on the quality of our users' access to the Internet. Certain features of Slack require significant bandwidth and fidelity to work effectively. Internet access is frequently provided by companies that have significant market power that could take actions that degrade, disrupt or increase the cost of user access to Slack, which would negatively impact our business. The performance of the Internet and its acceptance as a business tool has been harmed by "viruses," "worms" and similar malicious programs and the Internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure. If the use of the Internet is adversely affected by these issues, demand for Slack could decline and our business could be harmed.

If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, our ability to produce timely and accurate financial statements or comply with applicable regulations could be impaired.

The Sarbanes-Oxley Act of 2002, as amended, or the Sarbanes-Oxley Act, requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we will file with the SEC, is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that information required to be disclosed in reports under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is accumulated and communicated to our principal executive and financial officers. We are also continuing to improve our internal control over financial reporting. For example, during our transition to a public company, we worked to improve the controls around our key accounting processes and our quarterly close process, we implemented a number of new systems to supplement our core enterprise resource planning, or ERP, system as part of our control environment, and we hired additional accounting and finance personnel to help us implement these processes and controls. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have expended, and anticipate that we will continue to expend, significant resources, including accounting-related costs and significant management oversight. If any of these new or improved controls and systems do not perform as expected, we may experience material weaknesses in our controls. In addition to our results determined in accordance with GAAP, we believe certain non-GAAP measures and key metrics may be useful in evaluating our operating performance. We present certain non-GAAP financial measures and key metrics in this Annual Report on Form 10-K and intend to continue to present certain non-GAAP financial measures and key metrics in future filings with the SEC and other public statements. Any failure to accurately report and present our non-GAAP financial measures and key metrics could cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the market price of our Class A common stock.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. Further, weaknesses in our disclosure controls and internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls or any difficulties encountered in their implementation or improvement could harm our results of operations or cause us to fail to meet our reporting obligations and may result in a restatement of our consolidated financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting also could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we are required to include in our periodic reports filed with the SEC. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the market price of our Class A common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the New York Stock Exchange, or the NYSE.

Our independent registered public accounting firm is required to formally attest to the effectiveness of our internal control over financial reporting annually. Our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our internal control over financial reporting is documented, designed, or operating. Any failure to maintain effective disclosure controls and internal control over financial reporting could harm our business, results of operations, and financial condition and could cause a decline in the market price of our Class A common stock.

Changes in existing financial accounting standards or practices may harm our results of operations.

Changes in existing accounting rules or practices, new accounting pronouncements rules, or varying interpretations of current accounting pronouncements practice could harm our results of operations or the manner in which we conduct our business. Further, such changes could potentially affect our reporting of transactions completed before such changes are effective.

GAAP is subject to interpretation by the Financial Accounting Standards Board, or FASB, the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change. Any difficulties in implementing these pronouncements could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm investors' confidence in us.

If our estimates or judgments relating to our critical accounting policies prove to be incorrect, our results of operations could be adversely affected.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and related notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations." The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities, and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, convertible senior notes, deferred contract acquisition costs, and stock-based compensation. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of securities analysts and investors, resulting in a decline in the market price of our Class A common stock.

Changes in tax laws or regulations in the various tax jurisdictions we are subject to that are applied adversely to us or our paid customers could increase the costs of Slack and harm our business.

New income, sales, use or other tax laws, statutes, rules, regulations, or ordinances could be enacted at any time. Those enactments could harm our domestic and international business operations, and our business, results of operations, and financial condition. Further, existing tax laws, statutes, rules, regulations, or ordinances could be interpreted, changed, modified, or applied adversely to us. These events could require us or our paid customers to pay additional tax amounts on a prospective or retroactive basis, as well as require us or our paid customers to pay fines and/or penalties and interest for past amounts deemed to be due. If we raise our prices to offset the costs of these changes, existing and potential future paid customers may elect not to purchase Slack in the future. Additionally, new, changed, modified, or newly interpreted or applied tax laws could increase our paid customers' and our compliance, operating, and other costs, as well as the costs of Slack. Further, these events could decrease the capital we have available to operate our business. Any or all of these events could harm our business, results of operations, and financial condition.

As we expand the scale of our international business activities, any changes in the U.S. or foreign taxation of such activities may increase our worldwide effective tax rate and harm our business, results of operations, and financial condition. In addition, our headquarters and a plurality of our employees are located in San Francisco, California, a municipality that has enacted, and is currently considering enacting additional measures, to raise new or incremental taxes. Such measures may also adversely affect our results of operations and financial condition.

Additionally, the application of U.S. federal, state, local, and international tax laws to services provided electronically is unclear and continuously evolving. Existing tax laws, statutes, rules, regulations, or ordinances could be interpreted or applied adversely to us, possibly with retroactive effect, which could require us or our paid customers to pay additional tax amounts, as well as require us or our paid customers to pay fines or penalties, as well as interest for past amounts. If we are unsuccessful in collecting such taxes due from our paid customers, we could be held liable for such costs, thereby adversely affecting our results of operations and harming our business.

As a multinational organization, we may be subject to taxation in several jurisdictions around the world with increasingly complex tax laws, the application of which can be uncertain. The amount of taxes we pay in these jurisdictions could increase substantially as a result of changes in the applicable tax principles, including increased tax rates, new tax laws, or revised interpretations of existing tax laws and precedents, which could harm our liquidity and results of operations. In addition, the authorities in these jurisdictions could review our tax returns and impose additional tax, interest, and penalties, and the authorities could claim that various withholding requirements apply to us or our subsidiaries or assert that benefits of tax treaties are not available to us or our subsidiaries, any of which could harm us and our results of operations.

Our results of operations may be adversely affected if we are required to collect sales or other related taxes for subscriptions to Slack in jurisdictions where we have not historically done so.

States and some local taxing jurisdictions have differing rules and regulations governing sales and use taxes, and these rules and regulations are subject to varying interpretations that may change over time. The application of federal, state, local, and international tax laws to services provided electronically is evolving. In particular, the applicability of sales taxes to Slack in various jurisdictions is unclear. We collect and remit sales tax and value-added tax, or VAT, in a number of jurisdictions. It is possible, however, that we could face sales tax or VAT audits and that our liability for these taxes could exceed our estimates as state tax authorities could still assert that we are obligated to collect additional tax amounts from our paid customers and remit those taxes to those authorities. We could also be subject to audits in states and international jurisdictions for which we have not accrued tax liabilities. A successful assertion that we should be collecting additional sales or other taxes on our services in jurisdictions where we have not historically done so and do not accrue for sales taxes could result in substantial tax liabilities for past sales, discourage organizations from subscribing to Slack, or otherwise adversely affect our business, results of operations, and financial condition.

Further, one or more state or foreign authorities could seek to impose additional sales, use or other tax collection and record-keeping obligations on us or may determine that such taxes should have, but have not been, paid by us. Liability for past taxes may also include substantial interest and penalty charges. Any successful action by state, foreign, or other authorities to compel us to collect and remit sales tax, use tax or other taxes, either retroactively, prospectively or both, could adversely affect our business, results of operations, and financial condition.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

Our ability to use our net operating loss carryforwards and certain other tax attributes, such as research and development tax credits, may be subject to annual limitations, or other limitations, due to ownership change provisions under Sections 382 and 383 of the Code and other similar provisions. Under the Code, if a corporation undergoes an "ownership change", the corporation's ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes, such as tax credits, to offset its post-change taxable income or tax liability may be limited. We may have undergone ownership changes in the past and may undergo ownership changes in the future, including as a result of the completion of the Mergers. In addition, net operating loss carryforwards generated in tax years beginning after December 31, 2017 can be carried forward indefinitely but may only offset 80% of taxable income for taxable years beginning after December 31, 2020. For these reasons, we may not be able to realize a tax benefit from the use of our net operating losses or certain other tax attributes even if we attain profitability.

Risks Related to Ownership of Our Class A Common Stock

The market price of our Class A common stock may be volatile and may decline regardless of our operating performance.

Prior to the listing of our Class A common stock, there was no public market for shares of our Class A common stock. The market prices of the securities of other newly public companies have historically been highly volatile. The market price of our Class A common stock may be subject to wide fluctuations in response to the risk factors described in this Annual Report on Form 10-K and others beyond our control, including:

- the timing of, and our ability to close, the potential Mergers with Salesforce, as well as changes in factors that influence and the timing or likelihood of closing the potential Mergers;
- changes in the market price of Salesforce's common stock prior to consummation of the Mergers;
- overall performance of the equity markets and/or publicly-listed technology companies;
- the short- and long-term impact of the COVID-19 pandemic, including on the global economy, our results of operations, software spending, and business continuity;
- actual or anticipated fluctuations in our revenue or other operating metrics;
- our actual or anticipated operating performance and the operating performance of our competitors;
- changes in the financial projections we provide to the public or our failure to meet these projections;
- failure of a sufficient number of securities analysts to initiate coverage of us or, if they do initiate coverage, to maintain coverage of us;
- changes in financial estimates by any securities analysts who follow our company, or our failure to meet the estimates or the expectations of investors;
- any major change in our board of directors, management, or key personnel;

- the economy as a whole and market conditions in our industry;
- rumors and market speculation involving us or other companies in our industry;
- announcements by us or our competitors of significant innovations, new products, user metrics, new customers, services, features, integrations or capabilities, acquisitions, strategic investments, partnerships, joint ventures, or capital commitments;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business, including those related to law enforcement, data privacy, technology import and export, and cyber security in the U.S. or globally;
- the number of shares of our Class A common stock publicly owned and available for trading;
- lawsuits or claims threatened or filed against us;
- other events or factors, including those resulting from war, incidents of terrorism, pandemics, or responses to these events; and
- sales or expected sales of our Class A common stock by us, and our officers, directors, and principal stockholders.

In addition, stock markets, and the market for technology companies in particular, have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. Stock prices of many companies, including technology companies, have fluctuated in a manner often unrelated to the operating performance of those companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. For example, beginning in September 2019, seven purported class action lawsuits were filed in California state and federal court against us, our directors, certain of our officers, and certain investment funds associated with certain of our directors, each alleging violations of securities laws in connection with our Registration Statement. Although we believe these lawsuits are without merit and intend to vigorously defend them, these matters, and any other similar matters, could subject us to substantial costs, divert resources and the attention of management from our business, and harm our business, results of operations, and financial condition.

The dual class structure of our common stock has the effect of concentrating voting control with those stockholders who held our capital stock prior to the listing of our Class A common stock on the NYSE, including our directors, executive officers, and their respective affiliates. Further, the voting agreements between our Chief Executive Officer, Stewart Butterfield, and certain stockholders have the effect of concentrating voting power with our Chief Executive Officer. This ownership will limit or preclude your ability to influence corporate matters, including the election of directors, amendments of our organizational documents, and any merger, consolidation, sale of all or substantially all of our assets, or other major corporate transaction requiring stockholder approval.

Our Class B common stock has ten votes per share, and our Class A common stock, which is listed on the NYSE, has one vote per share. As of January 31, 2021, our directors, executive officers, and their respective affiliates beneficially held in the aggregate 61.3% of the voting power of our capital stock, including the shares covered by voting agreements in favor of Stewart Butterfield. Because of the ten-to-one voting ratio between our Class B and Class A common stock, the holders of our Class B common stock collectively could continue to control a significant percentage of the combined voting power of our common stock and therefore be able to control all matters submitted to our stockholders for approval until June 2029, when all outstanding shares of Class A common stock and Class B common stock will convert automatically into shares of a single class of common stock. This concentrated control may limit or preclude your ability to influence corporate matters for the foreseeable future, including the election of directors, amendments of our organizational documents, and any merger, consolidation, sale of all or substantially all of our assets, or other major corporate transaction requiring stockholder approval. In addition, this may prevent or discourage unsolicited acquisition proposals or offers for our capital stock that you may believe are in your best interest as one of our stockholders. Further, as a result of voting agreements between

Stewart Butterfield, our co-founder, Chairman of the board of directors, and Chief Executive Officer, and each of our three other co-founders, and the shares he holds, Mr. Butterfield will be able to exercise voting rights with respect to an aggregate of 73,959,180 shares of Class B common stock and 2,117,619 shares of Class A common stock, which together represents approximately 57.4% of the voting power of our outstanding capital stock as of January 31, 2021. As a director and officer, Mr. Butterfield owes a fiduciary duty to our stockholders to act in good faith in a manner he reasonably believes to be in the best interests of our stockholders. As a stockholder, Mr. Butterfield is entitled to vote his shares, and shares over which he has voting control as a result of voting agreements, in his own interests, which may not always be in the interests of our stockholders generally. Certain of our officers, directors, and stockholders, including Mr. Butterfield, have entered into voting agreements with Salesforce pursuant to which they have agreed, among other things, to vote their respective Slack shares in favor of the Mergers.

Future transfers by holders of Class B common stock will generally result in those shares converting to Class A common stock, subject to limited exceptions, such as certain transfers effected for estate planning purposes. The conversion of Class B common stock to Class A common stock will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term. As a result, it is possible that one or more of the persons or entities holding our Class B common stock could gain significant voting control as other holders of Class B common stock sell or otherwise convert their shares into Class A common stock.

In addition, any future issuances of Class B common stock would be dilutive to holders of Class A common stock.

We cannot predict the effect our dual class structure may have on the market price of our Class A common stock.

We cannot predict whether our dual class structure will result in a lower or more volatile market price of our Class A common stock, in adverse publicity, or other adverse consequences. For example, certain index providers have announced restrictions on including companies with multiple-class share structures in certain of their indices. In July 2017, FTSE Russell announced that it plans to require new constituents of its indices to have greater than 5% of the company’s voting rights in the hands of public stockholders, and S&P Dow Jones announced that it will no longer admit companies with multiple-class share structures to certain of its indices. Affected indices include the Russell 2000 and the S&P 500, S&P MidCap 400, and S&P SmallCap 600, which together make up the S&P Composite 1500. Also in 2017, MSCI, a leading stock index provider, opened public consultations on their treatment of no-vote and multi-class structures and temporarily barred new multi-class listings from certain of its indices; however, in October 2018, MSCI announced its decision to include equity securities “with unequal voting structures” in its indices and to launch a new index that specifically includes voting rights in its eligibility criteria. Under such announced policies, the dual class structure of our common stock would make us ineligible for inclusion in certain indices and, as a result, mutual funds, exchange-traded funds, and other investment vehicles that attempt to passively track those indices would not invest in our Class A common stock. These policies are relatively new and it is unclear what effect, if any, they will have on the valuations of publicly-traded companies excluded from such indices, but it is possible that they may depress valuations, as compared to similar companies that are included. Because of the dual class structure of our common stock, we will likely be excluded from certain indices and we cannot assure you that other stock indices will not take similar actions. Given the sustained flow of investment funds into passive strategies that seek to track certain indices, exclusion from certain stock indices would likely preclude investment by many of these funds and could make our Class A common stock less attractive to other investors. As a result, the market price of our Class A common stock could be adversely affected.

Sales of substantial amounts of our Class A common stock in the public markets or the perception that sales might occur, could cause the market price of our Class A common stock to decline.

Sales of a substantial number of shares of our Class A common stock into the public market, particularly sales by our directors, executive officers, and principal stockholders, or the perception that these sales might occur in large quantities, could cause the market price of our Class A common stock to decline.

The shares of common stock subject to outstanding options and restricted stock unit, or RSU, awards under our equity incentive plans and the shares reserved for future issuance under our equity incentive plans will become eligible for sale in the public market upon issuance, subject to applicable vesting requirements and compliance by affiliates with Rule 144. In addition, certain holders of our common stock will have rights, subject to some conditions, to require us to file registration statements for the public resale of shares of Class A common stock or to include such shares in registration statements that we may file for us or other stockholders. Any registration statement we file to register additional shares, whether as a result of registration rights or otherwise, could cause the market price of our Class A common stock to decline or be volatile.

Furthermore, a substantial number of shares of our Class A common stock is reserved for issuance upon the exercise of the Notes, as defined below. If we elect to satisfy our conversion obligation on the Notes solely in shares of our Class A common stock upon conversion of the Notes, we will be required to deliver the shares of our Class A common stock, together with cash for any fractional share, on the second business day following the relevant conversion date.

We also may issue our capital stock or securities convertible into our capital stock from time to time in connection with a financing, acquisition, investment, or otherwise. Any such issuance could result in substantial dilution to our existing stockholders and cause the market price of our Class A common stock to decline.

If securities or industry analysts do not publish, or cease publishing, research, or publish inaccurate or unfavorable research, about our business, the price of our Class A common stock and trading volume could decline.

The trading market for our Class A common stock will depend in part on the research and reports that securities or industry analysts publish about us and/or our business. If securities and industry analysts do not publish, or if those that do cease publishing, research on our company, the market price for our Class A common stock would be negatively affected. If one or more of the analysts who cover us downgrade our Class A common stock or publish inaccurate or unfavorable research about our business, our Class A common stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us on a regular basis, demand for our Class A common stock could decrease, which might cause our Class A common stock price and trading volume to decline.

We do not intend to pay dividends for the foreseeable future.

We have never declared or paid any cash dividends on our common stock and do not intend to pay any cash dividends in the foreseeable future. We anticipate that we will retain all of our future earnings for use in the operation of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our board of directors. In addition, our revolving credit facility and the Merger Agreement contain restrictions on our ability to pay dividends. Accordingly, investors must rely on sales of their Class A common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.

Provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove our current board of directors, and limit the market price of our Class A common stock.

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- provide that our board of directors is classified into three classes of directors with staggered three-year terms;
- permit our board of directors to establish the number of directors and fill any vacancies and newly-created directorships;

- require super-majority voting to amend some provisions in our amended and restated certificate of incorporation and amended and restated bylaws;
- authorize the issuance of “blank check” preferred stock that our board of directors could use to implement a stockholder rights plan;
- provide that only the Chairperson of our board of directors, our Chief Executive Officer, or a majority of our board of directors are authorized to call a special meeting of stockholders;
- provide for a dual class common stock structure in which holders of our Class B common stock have the ability to control the outcome of matters requiring stockholder approval, even if they own significantly less than a majority of the outstanding shares of our Class A and Class B common stock, including the election of directors and significant corporate transactions, such as a merger, including the Mergers with Salesforce, or other sale of our company or its assets;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws; and
- advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

Moreover, Section 203 of the Delaware General Corporation Law may discourage, delay, or prevent a change in control of our company. Section 203 imposes certain restrictions on mergers, business combinations, and other transactions between us and holders of 15% or more of our common stock.

Our amended and restated bylaws designate state or federal courts located within the State of Delaware as the exclusive forum for certain litigation that may be initiated by our stockholders, which could limit stockholders’ ability to obtain a favorable judicial forum for disputes with us.

Our amended and restated bylaws provide that, unless we consent in writing to the selection of an alternative forum, to the fullest extent permitted by law, the Court of Chancery of the State of Delaware will be the exclusive forum for:

- any derivative action or proceeding brought on our behalf;
- any action asserting a claim of breach of fiduciary duty;
- any action asserting a claim arising pursuant to the Delaware General Corporation Law, our amended and restated certificate of incorporation, or our amended and restated bylaws; or
- or any action asserting a claim that is governed by the internal affairs doctrine, or the Delaware Forum Provision.

The Delaware Forum Provision will not apply to any causes of action arising under the Securities Act of 1933, as amended, or the Securities Act, or the Exchange Act. Further, our amended and restated bylaws provide that, unless we consent in writing to the selection of an alternative forum, the United States District Court for the Northern District of California will be the sole and exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act, or the Federal Forum Provision, as we are based in the State of California. In addition, our amended and restated bylaws provide that any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock is deemed to have notice of and consented to the Delaware Forum Provision and the Federal Forum Provision; provided, however, that stockholders cannot and will not be deemed to have waived our compliance with the U.S. federal securities laws and the rules and regulations thereunder.

The Delaware Forum Provision and the Federal Forum Provision in our amended and restated bylaws may impose additional litigation costs on stockholders in pursuing any such claims. Additionally, these forum selection clauses may limit our stockholders' ability to bring a claim in a judicial forum that they find favorable for disputes with us or our directors, officers, or employees, which may discourage the filing of lawsuits against us and our directors, officers, and employees, even though an action, if successful, might benefit our stockholders. In addition, while the Delaware Supreme Court ruled in March 2020 that federal forum selection provisions purporting to require claims under the Securities Act be brought in federal court are "facially valid" under Delaware law, there is uncertainty as to whether other courts will enforce our Federal Forum Provision. If the Federal Forum Provision is found to be unenforceable, we may incur additional costs associated with resolving such matters. The Federal Forum Provision may also impose additional litigation costs on stockholders who assert that the provision is not enforceable or invalid. The Court of Chancery of the State of Delaware and the United States District Court for the District of Delaware may also reach different judgments or results than would other courts, including courts where a stockholder considering an action may be located or would otherwise choose to bring the action, and such judgments may be more or less favorable to us than our stockholders.

Risks Related to Our Indebtedness and Outstanding Convertible Senior Notes

Our revolving credit facility provides our lenders with a first-priority lien against substantially all of our assets, and contains financial covenants and other restrictions on our actions that may limit our operational flexibility or otherwise adversely affect our results of operations.

We are party to a revolving credit and guaranty agreement, which contains a number of covenants that restrict our and our subsidiaries' ability to, among other things, incur additional indebtedness, create or incur liens, merge or consolidate with other companies, sell substantially all of our assets, liquidate or dissolve, make distributions to its equity holders or its subsidiaries' equity interests, pay dividends, make redemptions and repurchases of stock, or engage in transactions with affiliates. We are also required to maintain certain financial covenants, including a minimum liquidity balance and a minimum revenue amount. The terms of our revolving credit facility may restrict our current and future operations and could adversely affect our ability to finance our future operations or capital needs or to execute business strategies in the means or manner desired. In addition, complying with these covenants may make it more difficult for us to successfully execute our business strategy, invest in our growth strategy, and compete against companies who are not subject to such restrictions.

A failure by us to comply with the covenants or payment requirements specified in the revolving credit and guaranty agreement could result in an event of default under the agreement, which would give the lenders the right to terminate their commitments to provide additional loans under our revolving credit facility and to declare any and all borrowings outstanding, together with accrued and unpaid interest and fees, to be immediately due and payable. In addition, the lenders would have the right to proceed against the collateral in which we granted a security interest to them, which consists of substantially all our assets. If the debt under our revolving credit facility were to be accelerated, we may not have sufficient cash or be able to borrow sufficient funds to refinance the debt or sell sufficient assets to repay the debt, which could immediately materially and adversely affect our cash flows, business, results of operations, and financial condition. Further, the terms of any new or additional financing may be on terms that are more restrictive or on terms that are less desirable to us.

Further, borrowings under our revolving credit facility use the London Interbank Offered Rate, or LIBOR, as a reference rate. On July 27, 2017, the United Kingdom's Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. These reforms may cause LIBOR to cease to exist, new methods of calculating LIBOR to be established, or alternative reference rates to be established. It is unclear if LIBOR will cease to exist or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. If LIBOR ceases to exist, we will need to agree to an alternative rate of interest that gives due consideration to the then prevailing market convention for determining a rate of interest for similar syndicated loans in the United States, which will require an amendment to our revolving credit facility. The potential consequences of these actions cannot be fully predicted and may result in exposure to additional interest rate risk.

Servicing our debt may require a significant amount of cash. We may not have sufficient cash flow from our business to pay our indebtedness, and we may not have the ability to raise the funds necessary to settle for cash

conversions of the Notes or to repurchase the Notes for cash upon a fundamental change, which could adversely affect our business and results of operations.

In April 2020, we completed the private offering of Notes, issuing an aggregate principal amount of $862.5 million 0.50% convertible senior notes due 2025. The interest rate is fixed at 0.50% per annum and is payable semi-annually in arrears on April 15 and October 15 of each year, beginning on October 15, 2020. Our ability to make scheduled payments of the principal of, to pay interest on, or to refinance our indebtedness, including the Notes, depends on our future performance, which is subject to economic, financial, competitive, and other factors beyond our control. Our business may not generate cash flows from operations in the future that are sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flows, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt, or obtaining additional debt financing or equity capital on terms that may be onerous or highly dilutive. Our ability to refinance any future indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations. In addition, any of our future debt agreements may contain restrictive covenants that may prohibit us from adopting any of these alternatives.

Holders of the Notes have the right to require us to repurchase their Notes upon the occurrence of a fundamental change (as defined in the indenture governing the Notes) at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any. If consummated, the Mergers are expected to constitute both a “fundamental change” and a “make-whole fundamental change” under the indenture. We expect that such “make-whole fundamental change” would result in an increase to the conversion rate for a holder who elects to convert its Notes in connection therewith. Any such increase would be determined by reference to a “make-whole” table included in the indenture governing the Notes. Upon conversion, unless we elect to deliver solely shares of our Class A common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Notes being converted. We may not have enough available cash or be able to obtain financing at the time we are required to make repurchases in connection with such conversion and our ability to pay may additionally be limited by law, by regulatory authority, or by agreements governing our existing and future indebtedness. Our failure to repurchase the Notes at a time when the repurchase is required by the indenture governing the Notes or to pay any cash payable on future conversions as required by such indenture would constitute a default under such indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our existing and future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or make cash payments upon conversions thereof.

In addition, our indebtedness, combined with our other financial obligations and contractual commitments, could have other important consequences. For example, it could:

- make us more vulnerable to adverse changes in general U.S. and worldwide economic, industry, and competitive conditions and adverse changes in government regulation;
- limit our flexibility in planning for, or reacting to, changes in our business and our industry;
- place us at a disadvantage compared to our competitors who have less debt;
- limit our ability to borrow additional amounts for funding acquisitions, for working capital, and for other general corporate purposes; and
- make an acquisition of our company less attractive or more difficult.

Any of these factors could harm our business, results of operations, and financial condition. In addition, if we incur additional indebtedness, the risks related to our business and our ability to service or repay our indebtedness would increase.

The conditional conversion feature of the Notes may adversely affect our financial condition and results of operations.

The conditional conversion feature of the Notes, which was triggered during the three months ended January 31, 2021, entitles holders of Notes to convert the Notes at any time during specified periods at their option. This conditional conversion feature was triggered when the last reported sale price of our Class A common stock was more than or equal to 130% of the conversion price for at least 20 trading days (whether or not consecutive) in the period of 30 consecutive trading days ending on January 31, 2021 (the last trading day of the fiscal quarter), and therefore the Notes are currently convertible, in whole or in part, at the option of the holders between February 1, 2021 and April 30, 2021. Whether the Notes will be convertible following such period will depend on the continued satisfaction of this condition or another conversion condition in the future. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our Class A common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

Transactions relating to our Notes may affect the value of our Class A common stock.

The conversion of some or all of the Notes would dilute the ownership interests of existing stockholders to the extent we satisfy our conversion obligation by delivering shares of our Class A common stock upon any conversion of such Notes. Our Notes are currently convertible at the option of their holders during the period between February 1, 2021 and April 30, 2021, and may again become convertible at the option of their holders under certain circumstances if the holders of the Notes do not elect to convert during this current period. If holders of our Notes elect to convert their Notes, we may settle our conversion obligation by delivering to them a significant number of shares of our Class A common stock, which would cause dilution to our existing stockholders.

In addition, in connection with the pricing of the Notes, we entered into privately negotiated capped call transactions, or the Capped Calls with certain financial institutions, or the Option Counterparties. The Capped Calls are expected generally to reduce the potential dilution to our Class A common stock upon any conversion or settlement of the Notes and/or offset any cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset subject to a cap.

In connection with establishing their initial hedges of the Capped Calls, the Option Counterparties or their respective affiliates entered into various derivative transactions with respect to our Class A common stock and/or purchased shares of our Class A common stock concurrently with or shortly after the pricing of the Notes.

From time to time, the Option Counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivative transactions with respect to our Class A common stock and/or purchasing or selling our Class A common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes (and are likely to do so following any conversion of the Notes, any repurchase of the Notes by us on any fundamental change repurchase date, any redemption date, or any other date on which the Notes are retired by us, in each case, if we exercise our option to terminate the relevant portion of the Capped Calls). This activity could cause a decrease and/or increased volatility in the market price of our Class A common stock.

We do not make any representation or prediction as to the direction or magnitude of any potential effect that the transactions described above may have on the price of the Notes or our Class A common stock. In addition, we do not make any representation that the Option Counterparties will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

We are subject to counterparty risk with respect to the Capped Calls.

The Option Counterparties are financial institutions, and we will be subject to the risk that any or all of them might default under the Capped Calls. Our exposure to the credit risk of the Option Counterparties will not be secured by any collateral. Past global economic conditions have resulted in the actual or perceived failure or financial difficulties of many financial institutions. If an Option Counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under the Capped Calls with such Option Counterparty. Our exposure will depend on many factors but, generally, an increase in our exposure will be correlated to an increase in the market price and in the volatility of our Class A common stock. In addition, upon a default by an Option Counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our Class A common stock. We can provide no assurances as to the financial stability or viability of the Option Counterparties.

The accounting method for convertible debt securities that may be settled in cash, such as the Notes, could have a material effect on our reported financial results.

Under FASB ASC Subtopic 470-20, *Debt with Conversion and Other Options*, or ASC 470-20, an entity must separately account for the liability and equity components of convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer’s economic interest cost. ASC 470-20 requires the value of the conversion options of the Notes, representing the equity component, to be recorded as additional paid-in capital within stockholders’ equity in our consolidated balance sheet and as a discount to the Notes, which reduces their initial carrying value. The carrying value of the Notes, net of the applicable discount recorded, will be accreted up to the principal amount of the Notes, as the case may be, from the issuance date until maturity, which will result in non-cash charges to interest expense in our consolidated statement of operations. Accordingly, we will report lower net income or higher net loss in our financial results because ASC 470-20 requires interest to include both the current period’s accretion of the debt discount and the instrument’s coupon interest, which could adversely affect our reported or future financial results, the trading price of our Class A common stock, and the respective trading price of the Notes.

In addition, under certain circumstances, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash are currently permitted to be accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of the Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of the Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of Class A common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. For example, in July 2019, the FASB published an exposure draft proposing to amend these accounting standards to eliminate the treasury stock method for convertible instruments and instead require application of the “if-converted” method. We currently already apply the “if-converted” method for calculating any potential dilutive effect of the conversion options embedded in the Notes on diluted net income per share, which assumes that all of the Notes were converted solely into shares of Class A common stock at the beginning of the reporting period, unless the result would be anti-dilutive.

General Risks

Adverse general economic and market conditions and reductions in IT spending may reduce demand for Slack, which could harm our revenue, results of operations, and cash flows.

Our revenue, results of operations, and cash flows depend on the overall demand for and use of Slack. Concerns about the systemic impact of a recession (in the United States or globally), energy costs, geopolitical issues, the recent U.S. presidential election, pandemics, or the availability and cost of credit could lead to increased market volatility, decreased consumer confidence, and diminished growth expectations in the U.S. economy and abroad, which in turn could result in reductions in IT spending by existing and prospective organizations. The COVID-19 pandemic has resulted in, and any prolonged economic slowdowns may continue to result in, organizations on Slack requesting to renegotiate existing contracts on less advantageous terms to us than those currently in place, defaulting on payments due on existing contracts, not renewing at the end of the contract term, or choosing to renew with a smaller commitment than previous contracts. For example, in an effort to assist both new and existing paid customers facing challenges due to the economic impact of the COVID-19 pandemic, we have entered into, and expect to continue to enter into, more custom contracts and billing arrangements with new and existing paid customers, which may be less advantageous to us than our standard term contracts. These arrangements have included provisions such as the ability to defer payments, to pay in installments or over longer time periods, and other collection flexibility. We have also granted, and may in the future grant, billing concessions to existing paid customers. Any of these arrangements could harm our business, results of operations, and financial condition.

Organizations on Slack may merge with other entities who use alternative software that addresses one or more of the problems that Slack solves, including at a lower cost, and, during weak economic times, there is an increased risk that one or more of our paid customers will default on payment or file for bankruptcy protection, either of which may harm our revenue, profitability, and results of operations. We also face risk from international paid customers that file for bankruptcy or similar protection in foreign jurisdictions, particularly given that the application of foreign bankruptcy laws and similar laws may be more difficult to predict. In addition, we may determine that the cost of pursuing any claim may outweigh the recovery potential of such claim. As a result, a broadening or protracted economic downturn could harm our business, revenue, results of operations, cash flows, and financial condition.

We may face exposure to foreign currency exchange rate fluctuations.

Our contracts with paid customers outside of the United States are sometimes denominated in local currencies. In addition, the majority of our foreign costs are denominated in local currencies. Over time, an increasing portion of our contracts with paid customers outside of the United States may be denominated in local currencies. Therefore, fluctuations in the value of the U.S. dollar and foreign currencies may affect our results of operations when translated into U.S. dollars. We do not currently engage in currency hedging activities to limit the risk of exchange rate fluctuations. However, in the future, we may use derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. Moreover, the use of hedging instruments may introduce additional risks if we are unable to structure effective hedges with such instruments.

We depend on our executive officers and other key employees, and the loss of one or more of these employees or an inability to attract and retain other highly skilled employees could harm our business.

Our success depends largely upon the continued services of our executive officers and other key employees. We rely on our leadership team in the areas of research and development, operations, security, marketing, sales, customer experience, and general and administrative functions, and on individual contributors in our research and development and operations. From time to time, there may be changes in our executive management team resulting from the hiring or departure of executives, which could disrupt our business. We do not have employment agreements with our executive officers or other key personnel that require them to continue to work for us for any specified period and, therefore, they could terminate their employment with us at any time. The loss of one or more of our executive officers, especially our Chief Executive Officer, or key employees could harm our business. Changes in our executive management team may also cause disruptions in, and harm to, our business.

In addition, to execute our growth plan, we must attract and retain highly qualified personnel. Competition for these personnel in the San Francisco Bay Area, where our headquarters is located, and in other locations where we maintain offices or actively recruit, is intense, especially for engineers experienced in designing and developing software and Software-as-a-Service applications and experienced sales professionals. We have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications and at an appropriate cost, which may be compounded during the COVID-19 pandemic. In addition, certain domestic immigration laws restrict or limit our ability to recruit internationally. Any changes to U.S. immigration policies that restrain the flow of technical and professional talent may inhibit our ability to recruit and retain highly qualified employees. Many of the companies with which we compete for experienced personnel have greater resources than we have. If we hire employees from competitors or other companies, their former employers may attempt to assert that these employees or we have breached certain legal obligations, resulting in a diversion of time and resources, and potential liability for us or our employees. In addition, job candidates and existing employees often consider the value of the equity awards they receive in connection with their employment. If the perceived value of our equity awards declines, it may harm our ability to recruit and retain highly skilled employees. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects could be harmed. On the other hand, additions of executive-level management and large numbers of employees could significantly and adversely impact our culture.

Volatility or lack of appreciation in the stock price of our Class A common stock may also affect our ability to attract and retain our key employees. Many of our senior personnel and other key employees have become, or will soon become, vested in a substantial amount of stock or stock options. Employees may be more likely to leave us if the shares they own or the shares underlying their vested options or RSUs, have significantly appreciated in value relative to the original purchase price of the shares or the exercise price of the options, or conversely, if the exercise price of the options that they hold are significantly above the market price of our Class A common stock. If we do not maintain and continue to develop our corporate culture as we grow and evolve, it could harm our ability to foster the innovation, craftsmanship, teamwork, curiosity, and diversity, that we believe is necessary to support our growth.

Our management team has limited experience managing a public company.

Most members of our management team have limited experience managing a publicly-traded company, interacting with public company investors and complying with the increasingly complex laws pertaining to public companies. Our management team may not successfully or efficiently manage our recent transition to being a public company subject to significant regulatory oversight and reporting obligations under federal securities laws and the continuous scrutiny of securities analysts and investors. These new obligations and constituents will require significant attention from our senior management and could divert their attention away from the day-to-day management of our business, which could harm our business, results of operations, and financial condition.

Catastrophic events may disrupt our business.

Natural disasters or other catastrophic events may cause damage or disruption to our operations, international commerce, and the global economy, and thus could harm our business. In particular, the COVID-19 pandemic, including the reactions of governments, markets, and the general public to the COVID-19 pandemic, may result in a number of adverse consequences for our business and results of operations, the details of which would be difficult to predict. We have our headquarters and a large employee presence in San Francisco, California, a region that contains active earthquake zones. In the event of a major earthquake, hurricane, or catastrophic event such as fire, power loss, telecommunications failure, cyber-attack, war, pandemic, or terrorist attack, we may be unable to continue our operations as usual, or at all, and may endure system interruptions, reputational harm, delays in our application development, lengthy interruptions in Slack, breaches of data security, and loss of critical data, all of which could harm our business, results of operations, financial condition, and brand. Acts of terrorism, actions by state actors, and similar events could also cause disruptions to the Internet or the economy as a whole. In addition, the insurance we maintain would likely not be adequate to cover our losses resulting from disasters or other business interruptions.

The requirements of being a public company may strain our resources, divert management's attention, and affect our ability to attract and retain executive management and qualified board members.

As a public company, we are subject to the reporting requirements of the Exchange Act, the listing standards of the NYSE, and other applicable securities rules and regulations. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting, and financial compliance costs, make some activities more difficult, time-consuming, and costly, and place significant strain on our personnel, systems, and resources. For example, the Exchange Act requires, among other things, that we file annual, quarterly, and current reports with respect to our business and results of operations. As a result of the complexity involved in complying with the rules and regulations applicable to public companies, our management's attention may be diverted from other business concerns, which could harm our business, results of operations, and financial condition. Although we have already hired additional employees to assist us in complying with these requirements, we may need to hire more employees in the future or engage outside consultants, which will increase our operating expenses.

In addition, changing laws, regulations, and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs, and making some activities more time-consuming. These laws, regulations, and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest substantial resources to comply with evolving laws, regulations, and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from business operations to compliance activities. If our efforts to comply with new laws, regulations, and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

We also expect that being a public company and these new rules and regulations will make it more expensive for us to obtain director and officer liability insurance, and we may accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit and risk committee and compensation committee, and qualified executive officers.

As a result of disclosure of information in filings required of a public company, our business and financial condition will become more visible, which may result in an increased risk of threatened or actual litigation, including by competitors and other third parties, or make it more difficult for us to successfully defend or prosecute pending litigation, regardless of the merits of our defenses or claims. If such claims against us are successful, or valid claims of ours fail, our business, results of operations, and financial condition could be harmed, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business, results of operations, and financial condition.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters is located in San Francisco, California, and covers 230,208 square feet pursuant to a lease that expires in 2028 and 210,573 square feet pursuant to a lease that expires in 2030. We also lease and purchase service memberships to additional facilities in San Francisco, California; Denver, Colorado; New York, New York; Chicago, Illinois; Dublin, Ireland; London, United Kingdom; Toronto, Canada; Vancouver, Canada; Melbourne, Australia; Sydney, Australia; Tokyo, Japan; Osaka, Japan; Pune, India; Munich, Germany; Seoul, South Korea; and Paris, France.

We lease or purchase service memberships to all of our facilities and do not own any real property. We believe that our facilities are generally suitable to meet our current needs. We intend to expand our facilities as we add employees and enter new geographic markets, and we believe that suitable additional or alternative space will be available as needed to accommodate any such growth.

ITEM 3. LEGAL PROCEEDINGS

We are regularly subject to claims, demands, lawsuits, arbitration proceedings, administrative actions, government investigations, and other legal and regulatory proceedings involving employment, anti-discrimination, commercial disputes, competition, intellectual property disputes, including infringement of patents and other intellectual property, and other matters, and we may become subject to additional types of claims, demands, lawsuits, arbitration proceedings, administrative actions, government investigations, and legal and regulatory proceedings in the future and as our business grows, including proceedings related to acquisitions, securities issuances or business practices, or public disclosures about our business. Some of these are initiated by us and some are initiated against us. There are inherent uncertainties in these legal matters, some of which are beyond management's control, making the ultimate outcomes difficult to predict. Moreover, management's views and estimates related to these matters may change in the future, as new events and circumstances arise and the matters continue to develop. Other than the matters described in Note 11, *Commitments and Contingencies*, of the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K, which are incorporated by reference herein, we are not party to any material pending legal proceedings.

In July 2020, we filed a complaint against Microsoft with the European Commission for engaging in certain behaviors that we believe are unlawful and anti-competitive. The complaint process is costly and time-consuming and we cannot provide assurance that the outcome of the process with the European Commission will be successfully resolved in our favor.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information for Class A Common Stock

Our Class A common stock has been listed on the NYSE, under the symbol "WORK" since June 20, 2019. Prior to that date, there was no public trading market for our Class A common stock.

Holders of Record

As of February 28, 2021, there were 51 holders of record of our Class A and Class B common stock. The actual number of stockholders is greater than this number of record holders and includes stockholders who are beneficial owners but whose shares are held in street name by brokers and other nominees.

Dividend Policy

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to applicable laws, and will depend on a number of factors, including our financial condition, results of operations, capital requirements, contractual restrictions, general business conditions, and other factors that our board of directors may deem relevant. In addition, the terms of the Merger Agreement and our revolving credit facility place certain limitations on the amount of cash dividends we can pay.

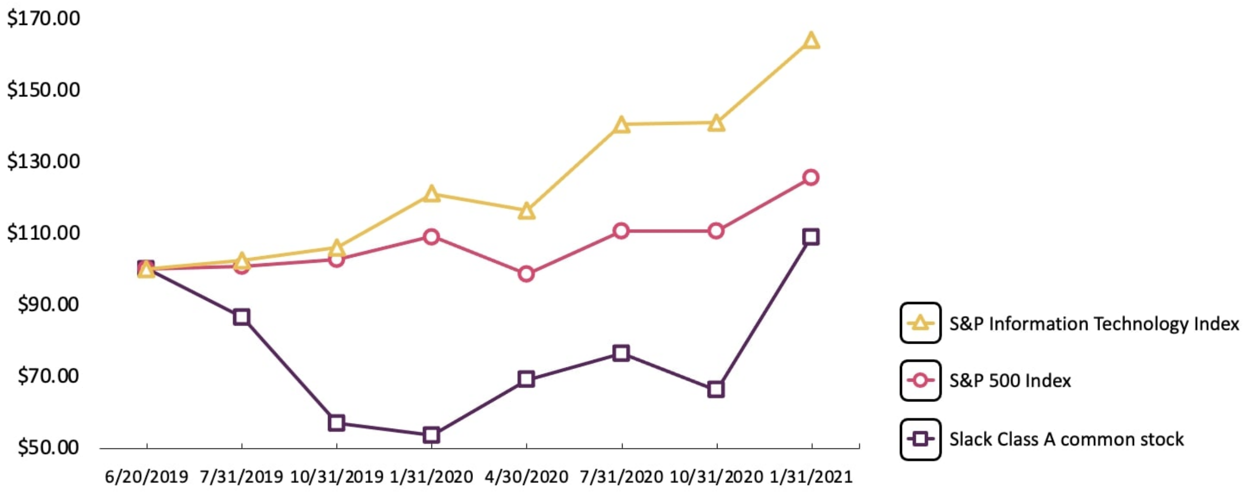
Securities Authorized for Issuance under Equity Compensation Plans

See the section titled "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" for information regarding securities authorized for issuance.

Stock Performance Graph

This performance graph shall not be deemed "soliciting material" or to be "filed" with the SEC for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that section, and shall not be deemed to be incorporated by reference into any of our filings under the Securities Act.

The following graph compares the cumulative total stockholder return on our Class A common stock from June 20, 2019 (the date our Class A common stock commenced trading on the NYSE) through January 31, 2021 with the cumulative total return of the Standard & Poor's 500 Index and Standard & Poor's Information Technology Index over the same period. All values assume a $100 initial investment and data for the Standard & Poor's 500 Index and Standard & Poor's Information Technology Index assume reinvestment of dividends. The graph uses the closing market price on June 20, 2019 of $38.62 per share as the initial value of our Class A common stock. The comparisons are based on historical data and are not indicative of, nor intended to forecast, the future performance of our Class A common stock. As discussed above, we have never declared or paid a cash dividend on our Class A common stock and do not anticipate declaring or paying a cash dividend in the foreseeable future.



Company/Index	Base period 6/20/2019	7/31/2019	10/31/2019	1/31/2020	4/30/2020	7/31/2020	10/31/2020	1/31/2021
Slack Technologies, Inc.	$ 100.00	$ 86.54	$ 56.97	$ 53.68	$ 69.11	$ 76.51	$ 66.24	$ 109.19
S&P 500 Index	100.00	100.89	102.82	109.18	98.59	110.73	110.69	125.73
S&P 500 Information Technology Index	100.00	102.59	106.20	121.16	116.43	140.59	141.04	164.24

Unregistered Sales of Equity Securities

None.

Issuer Purchases of Equity Securities

None.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K. The consolidated statements of operations data for each of the years ended January 31, 2021, 2020, and 2019 and the consolidated balance sheet data as of January 31, 2021 and 2020, are derived from our audited consolidated financial statements that are included elsewhere in this Annual Report on Form 10-K. The consolidated statement of operations data for the years ended January 31, 2018 and 2017 and the consolidated balance sheet data as of January 31, 2019 and 2018 are derived from our audited consolidated financial statements not included in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of our future results. The selected consolidated financial data in this section are not intended to replace the consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K and are qualified in their entirety by the consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K.

	Year Ended January 31,				
	2021	**2020**	**2019**	**2018**	**2017**
	(In thousands, except per share data)				
Consolidated Statements of Operations Data:					
Revenue	$ 902,610	$ 630,422	$ 400,552	$ 220,544	$ 105,153
Cost of revenue (1)	121,692	97,191	51,301	26,364	15,517
Gross profit	780,918	533,231	349,251	194,180	89,636
Operating expenses:					
Research and development (1)	382,145	457,364	157,538	141,350	96,678
Sales and marketing (1)	460,709	402,780	233,191	140,188	104,006
General and administrative (1)	221,148	261,365	112,730	56,493	37,455
Total operating expenses	1,064,002	1,121,509	503,459	338,031	238,139
Loss from operations	(283,084)	(588,278)	(154,208)	(143,851)	(148,503)
Interest expense	(38,105)	(858)	(434)	—	—
Interest income and other income, net	28,386	21,368	16,580	4,581	1,749
Loss before income taxes	(292,803)	(567,768)	(138,062)	(139,270)	(146,754)
Provision for (benefit from) income taxes	(315)	589	840	793	155
Net loss	(292,488)	(568,357)	(138,902)	(140,063)	(146,909)
Net income (loss) attributable to noncontrolling interest (2)	7,934	2,701	1,781	22	(45)
Net loss attributable to Slack	(300,422)	(571,058)	(140,683)	(140,085)	(146,864)
Less: Deemed dividends to preferred stockholders	—	—	—	40,883	—
Net loss attributable to Slack common stockholders	$ (300,422)	$ (571,058)	$ (140,683)	$ (180,968)	$ (146,864)
Basic and diluted net loss per share:					
Net loss per share attributable to Slack common stockholders, basic and diluted	$ (0.53)	$ (1.43)	$ (1.16)	$ (1.47)	$ (1.28)
Weighted-average shares used in computing net loss per share attributable to Slack common stockholders, basic and diluted	567,152	399,461	121,732	122,865	114,887

(1) Includes stock-based compensation as follows:

	Year Ended January 31,				
	2021	2020	2019	2018	2017
	(In thousands)				
Cost of revenue	$ 10,748	$ 16,013	$ 732	$ 491	$ 630
Research and development	115,047	226,507	9,948	35,260	34,546
Sales and marketing	58,705	98,797	2,677	8,044	9,744
General and administrative	42,863	85,207	9,775	4,288	5,171
Total stock-based compensation	$ 227,363	$ 426,524	$ 23,132	$ 48,083	$ 50,091

In fiscal year 2020, we recorded cumulative stock-based compensation of $245.1 million for all outstanding RSUs as the performance vesting condition was satisfied upon the completion of our direct listing of our Class A common stock, or the Direct Listing. Stock-based compensation for fiscal years 2021, 2020, 2019, 2018, and 2017 included compensation expense of $0, $0, $14.8 million, $0, and $26.5 million, respectively, related to secondary sales of common stock by certain of our current and former employees and $0, $0, $0, $39.4 million, and $8.0 million, respectively, related to cash payments attributable to tender offers and repurchases for our outstanding common stock.

(2) Our consolidated financial statements include our majority-owned subsidiary, Slack Fund. The ownership interest of minority investors in Slack Fund is recorded as a noncontrolling interest.

	As of January 31,			
	2021	2020	2019	2018
	(In thousands)			
Consolidated Balance Sheet Data:				
Cash, cash equivalents, and marketable securities	$ 1,587,252	$ 768,592	$ 841,071	$ 548,761
Working capital	1,187,275	450,463	650,324	440,258
Total assets	2,433,700	1,441,706	1,198,956	697,780
Total deferred revenue	510,605	376,714	241,873	125,453
Convertible senior notes, net	651,398	—	—	—
Convertible preferred stock (1)	—	—	1,392,101	965,221
Total stockholders' equity	857,441	723,899	841,606	519,288

(1) Prior to the completion of the Direct Listing in fiscal year 2020, all of the 373.4 million shares of convertible preferred stock converted into an equivalent number of shares of Class B common stock.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with the "Selected Consolidated Financial Data" and the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. As described in the section titled "Note About Forward-Looking Statements," this discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, those set forth under the section titled "Risk Factors" or in other parts of this Annual Statement on Form 10-K. Our fiscal year ends January 31.

Overview

Slack is a new layer of the business technology stack where people can work together more effectively, connect all their other software tools and services, and find the information they need to do their best work. Slack has very general and broad applicability. It is not aimed at any one specific purpose, but at nearly anything that people do together at work. Slack is used to review job candidates, coordinate election coverage, diagnose network problems, negotiate budgets, plan marketing campaigns, approve menus, and organize disaster response teams, along with countless other tasks.

Slack provides an easy way for users to share and aggregate information from other software, take action on notifications, and advance workflows in a multitude of third-party applications, over 2,450 of which are listed in the Slack App Directory. Developers have collectively created more than 850,000 third-party applications or custom integrations that were used in a typical week during the year ended January 31, 2021. Further, Slack's platform capabilities extend beyond integrations with third-party applications and allow for easy integrations with an organization's internally-developed software.

We generate revenue primarily from the sale of subscriptions for Slack. Paid customers typically pay on a monthly or annual basis, based on the number of users that they have on Slack. We offer four subscription plans to serve the varying needs of organizations on Slack: Free, Standard, Plus, and Enterprise Grid. We have a fair billing policy under which certain paid customers are charged a fee per user, and their billing is reconciled on a monthly or quarterly basis based on usage. As part of this policy, these paid customers are entitled to a credit if they have not used the entirety of the contracted number of users for which they have paid during the contractual term of the arrangement. Other paid customers have a type of subscription agreement where they are charged a fee based on the number of purchased user subscriptions, but billing is fixed and independent of usage.

We serve organizations of all sizes across various industries, ranging from software companies to consumer retail companies, financial services companies, and government entities. Slack is currently used in over 150 countries and available in ten languages (English (U.S.), English (U.K.), French, German, Italian, Japanese, Korean, Portuguese (Brazil), Spanish (Latin America), and Spanish (Spain)). In the years ended January 31, 2021, 2020 and 2019, 39%, 37%, and 36%, respectively, of our revenue was generated outside of the United States.

Our go-to-market approach combines a web-based, self-service approach with direct sales efforts that focus on growing users within larger organizations that generally already have Slack users and acquiring new large organizations as paid customers. We believe that these go-to-market approaches reinforce one another; self-service users often become leads for our direct sales force and users within larger enterprises create organic awareness of Slack inside and outside of their organizations. We complement these activities with an obsessive focus on customer experience and customer success to support the growth of the number of users on free and paid subscriptions.

We have experienced rapid growth in recent periods. Our revenue was $902.6 million, $630.4 million, and $400.6 million for the years ended January 31, 2021, 2020, and 2019, respectively, representing annual growth of 43% and 57%, respectively. We generated net losses for the years ended January 31, 2021, 2020, and 2019 of $300.4 million, $571.1 million, and $140.7 million, respectively, which included $227.4 million, $426.5 million, and $23.1 million, respectively, of stock-based compensation. Our net losses excluding the impact from stock-based compensation have been decreasing as a percentage of revenue over time as revenue growth has outpaced the growth in operating expenses. We plan to continue to invest in adding organizations to Slack in order to increase our revenues, decrease our operating losses, and eventually reach profitability. However, there can be no guarantee as to when we will eventually reach profitability, if at all.

Proposed Transaction with Salesforce

On December 1, 2020, we entered into the Merger Agreement. The Merger Agreement provides for the merger of Merger Sub I with and into Slack, with Slack continuing as the surviving corporation and as a wholly owned subsidiary of Salesforce, or the First Merger, immediately followed by a second merger of the surviving corporation into either Merger Sub II or Salesforce, or the Second Merger, with either Merger Sub II or Salesforce continuing as the surviving company.

Under the terms of the Merger Agreement, all of our issued and outstanding shares of Class A common stock and Class B common stock will be converted into the right to receive (a) 0.0776 shares of Salesforce common stock and (b) $26.79 in cash, without interest. The Mergers are intended to be treated as a single integrated transaction that will qualify as a “reorganization” within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, or the Code. As a result of the Mergers, we will cease to be a publicly traded company.

The Merger Agreement contains customary representations, warranties, and covenants. The consummation of the Mergers is conditioned on the receipt of the approval of our stockholders, as well as the satisfaction of other customary closing conditions, including domestic and foreign regulatory approvals and performance in all material respects by each party of its obligations under the Merger Agreement. Consummation of the Mergers is not subject to a financing condition. In March 2021, our stockholders approved the proposal to adopt the Merger Agreement and approve the transactions contemplated thereby, including the Mergers. The Mergers are anticipated to close in the second quarter of our fiscal year 2022 (the quarter ending July 31, 2021), subject to receipt of required regulatory approvals, and other customary closing conditions. We cannot predict with certainty, however, whether and when all of the required closing conditions will be satisfied or if the Mergers will close.

The Merger Agreement contains certain customary termination rights for us and Salesforce, including if the First Merger is not consummated by August 1, 2021, subject to two extensions of up to three months each in order to obtain required regulatory approvals. If the Merger Agreement is terminated under certain specified circumstances, including (i) a termination by us to enter into a superior proposal, (ii) a termination by Salesforce following a change or withdrawal of the Company’s board of directors’ recommendation of the Mergers to our stockholders, or (iii) a termination by Salesforce as a result of a material breach of our non-solicitation obligations under the Merger Agreement, then we will be obligated to pay to Salesforce a termination fee equal to $900.0 million in cash.

As part of Salesforce after the completion of the Mergers, we expect our company will be positioned to scale and further our mission. Following the completion of the Mergers, Slack will become an operating unit of Salesforce and continue to be led by our Chief Executive Officer, Stewart Butterfield, driving forward a continued focus on our mission, customers, users, and community. See the section titled “Risk Factors—Risks Related to our Proposed Transaction with Salesforce” included under Part I, Item 1A of this Annual Report on Form 10-K for more information regarding the risks associated with the Mergers.

The foregoing summary of the Merger Agreement and the transactions contemplated thereby does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the Merger Agreement, which is filed as Exhibit 2.1 of our Current Report on Form 8-K filed on December 1, 2020 and incorporated by reference herein.

COVID-19 Update

In March 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and the related public health measures, including orders to shelter-in-place, travel restrictions, and mandated business closures, have adversely affected workforces, organizations, customers, economies, and financial markets globally, leading to an economic downturn and increased market volatility. It has also disrupted the normal operations of many businesses, including ours.

We have experienced volatility in customer demand and buying habits due to the COVID-19 pandemic, including an increase in net new Paid Customers, but also an increase in paid customer churn and a decrease in expansion within existing paid customers during the year ended January 31, 2021. We expect these paid customer churn and expansion trends to continue due to the ongoing effects of the COVID-19 pandemic. We define paid customer churn as paid customers reducing the number of users within their organizations or electing not to renew their paid subscriptions.

The COVID-19 pandemic and its adverse effects have been more prevalent in the locations where we, our customers, suppliers, and third-party business partners conduct business. This outbreak, as well as intensified measures undertaken to contain the spread of COVID-19, have decreased IT spending for many organizations, adversely affected demand for Slack including attrition rates, and inhibited the ability of our salespeople to travel to potential customers and of our customer success team to conduct in-person trainings and consulting work. Additionally, the COVID-19 pandemic has negatively impacted spending from certain new and existing customers, increased sales cycle times, negatively impacted collections of accounts receivable, caused certain of our paid customers to file for bankruptcy protection or go out of business, and harmed our business, results of operations, and financial condition. We expect these negative impacts will continue due to the ongoing effects of the COVID-19 pandemic. In addition, to prepare for potential surges in demand, we have incurred, and may continue to incur, additional costs and make additional investments in order to meet the demands of increased customer usage of Slack and additional product development efforts during this time may put additional pressure on our technical infrastructure. The broader implications of COVID-19 on our results of operations and overall financial performance remain uncertain.

The COVID-19 pandemic has resulted in, and any prolonged economic slowdowns may continue to result in, paid customers on Slack requesting to renegotiate existing contracts on less advantageous terms to us than those currently in place, defaulting on payments due on existing contracts, not renewing at the end of the contract term, or choosing to renew with a smaller commitment than previous contracts. For example, in an effort to assist both new and existing paid customers facing challenges due to the economic impact of the COVID-19 pandemic, we have entered into, and expect to continue to enter into, more custom contracts and billing arrangements with new and existing paid customers, which may be less advantageous to us than our standard term contracts. These arrangements have included provisions such as the ability to defer payments, to pay in installments or over longer time periods, and other collection flexibility. We have also granted, and may in the future grant, billing concessions to existing paid customers. We do not expect these billing arrangements to have a significant impact on our future revenue, but they will negatively impact our future Calculated Billings and Free Cash Flow.

The COVID-19 pandemic also presents challenges as our entire workforce is currently working remotely and shifting to assisting new and existing customers who are also generally working remotely. All of our currently planned customer, employee, and industry events have been shifted to virtual-only experiences, and we may deem it advisable to similarly alter, postpone, or cancel entirely, additional customer, partner, employee, or industry events in the future. Furthermore, in June 2020, we announced that we would allow many of our employees to work remotely on a permanent basis. We have a limited history of having a remote workforce and the long-term impact on, and the resulting types of continuing investments for, our employee base is uncertain. In addition, we may incur increased workforce costs, including costs associated with implementing additional personnel and workplace safety protocols, the accrual of unused paid time off, and workplace or labor claims and disputes related to COVID-19.

While we have developed and continue to develop plans to help mitigate the potential negative impact of the outbreak on our business, these efforts may not be effective and a protracted economic downturn will likely limit the effectiveness of our mitigation efforts. Due to our subscription-based business model, the effect of the COVID-19 pandemic may not be fully reflected in our results of operations until future periods, if at all. We are continuing to understand the long-term net effect and anticipated future magnitude of the above factors on our results for future periods and such forecasts are inherently uncertain. See Part I, Item 1A, “Risk Factors” for further discussion of the possible impact of the COVID-19 pandemic on our business, financial condition, and results of operations.

Key Business Metrics

We review the following key business metrics to measure our performance, identify trends, formulate financial projections, and make strategic decisions. We are not aware of any uniform standards for calculating these key metrics, which may hinder comparability with other companies who may calculate similarly-titled metrics in a different way.

We define an organization as a separate entity, such as a company, educational or government institution, or distinct business unit of a company, that is on a subscription plan, whether free or paid. Once an organization has three or more users on a paid subscription plan, we count them as a Paid Customer, and when disclosing the number of Paid Customers, we round down to the nearest thousand.

	As of January 31,		
	2021	2020	2019
Paid Customers	156,000	110,000	88,000
Paid Customers >$100,000	1,183	893	575
Net Dollar Retention Rate	123 %	132 %	143 %

Paid Customers

We believe that the growth in our Paid Customer base reflects our value proposition and positions us for future growth as our Paid Customers often expand their adoption over time and Paid Customers increase awareness of Slack, which leads to organic adoption by new organizations. Our Paid Customers base has expanded through increasing awareness of Slack, further developing our go-to-market strategy and continuing to build features tuned to different industry needs. Our Paid Customer base includes organizations of all sizes across a wide range of industries.

Paid Customers >$100,000

We focus on growing the number of Paid Customers >$100,000 as a measure of our ability to scale with organizations on Slack and attract larger organizations to Slack. We believe that our ability to increase the number of Paid Customers >$100,000 is a key indicator for important components of the growth of our business, including our success in expanding the number of users within a Paid Customer, providing the functionality required by large organizations and developing our direct sales force. In fiscal years 2021, 2020, and 2019, approximately 49%, 46%, and 40%, respectively, of our revenue was generated from our Paid Customers >$100,000.

We define Paid Customers >$100,000 as those organizations on a paid subscription plan that had more than $100,000 in ARR as of a period end. ARR is based on monthly recurring revenue, or MRR, for the most recent month at period end, multiplied by twelve. For Paid Customers that have a type of subscription agreement where billing is reconciled on a monthly or quarterly basis based on usage, MRR is calculated by multiplying the monthly subscription price, inclusive of discounts, by the number of active subscriptions as of the month end. For Paid Customers that have a type of subscription agreement where billing is fixed and independent of usage, MRR is calculated by multiplying the monthly subscription price, inclusive of discounts, by the number of purchased subscriptions.

Net Dollar Retention Rate

We disclose Net Dollar Retention Rate as a supplemental measure of our organic revenue growth. We believe Net Dollar Retention Rate is an important metric that provides insight into the long-term value of our subscription agreements and our ability to retain, and grow revenue from, our Paid Customers.

We calculate Net Dollar Retention Rate as of a period end by starting with the MRR from all Paid Customers as of twelve months prior to such period end, or Prior Period MRR. We then calculate the MRR from these same Paid Customers as of the current period end, or Current Period MRR. Current Period MRR includes expansion within Paid Customers and is net of contraction or attrition over the trailing twelve months, but excludes revenue from new Paid Customers in the current period, including those organizations that were only on Free subscription plans in the prior period and converted to paid subscription plans during the current period. We then divide the total Current Period MRR by the total Prior Period MRR to arrive at our Net Dollar Retention Rate. Our Net Dollar Retention Rate has declined from 143% as of January 31, 2019 to 132% as of January 31, 2020 to 123% as of January 31, 2021 as our base of revenue has grown the past few years and our penetration within existing, long-term Paid Customers has increased. Our Net Dollar Retention Rate will fluctuate in future periods due to a number of factors, including the growing level of our revenue base, the level of penetration within our Paid Customer base, expansion of products and features, and our ability to retain our Paid Customers.

Non-GAAP Financial Measures

In addition to our results determined in accordance with GAAP, we believe the below non-GAAP measures are useful in evaluating our operating performance. We use the below non-GAAP financial information, collectively, to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that non-GAAP financial information, when taken collectively, may be helpful to investors because it provides consistency and comparability with past financial performance, and assists in comparisons with other companies, some of which use similar non-GAAP financial information to supplement their GAAP results. The non-GAAP financial information is presented for supplemental informational purposes only, and should not be considered a substitute for financial information presented in accordance with GAAP, and may be different from similarly-titled non-GAAP measures used by other companies. A reconciliation is provided below for each non-GAAP financial measure to the most directly comparable financial measure stated in accordance with GAAP. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures.

	Year Ended January 31,		
	2021	2020	2019
	(In thousands)		
Calculated Billings	$ 1,036,501	$ 765,263	$ 516,972
Free Cash Flow	$ 62,207	$ (62,015)	$ (97,239)

Calculated Billings

Calculated Billings consists of our revenue plus the change in our deferred revenue in a given period. The Calculated Billings metric is intended to reflect sales to new paid customers plus renewals and additional sales to existing paid customers. Our management uses Calculated Billings to measure and monitor our sales growth because we generally bill our paid customers at the time of sale, but may recognize a portion of the related revenue ratably over time. For subscriptions, we typically invoice our paid customers at the beginning of the term, in annual or monthly installments and, from time to time, in multi-year installments. Only amounts invoiced to a paid customer in a given period are included in Calculated Billings. While we believe that Calculated Billings provides valuable insight into the cash that will be generated from sales of our subscriptions, this metric may vary from period-to-period for a number of reasons, and therefore has a number of limitations as a quarter-over-quarter or year-over-year comparative measure. These reasons include, but are not limited to, the following: (i) a variety of contractual terms could result in some periods having a higher proportion of annual subscriptions than other periods, (ii) as we focus on sales to large organizations, the lengthening of our sales cycle, and the variability in the timing of the execution of these larger transactions, (iii) fluctuations in payment terms affecting the billings recognized in a particular period, and (iv) seasonality in our billings, with a greater proportion of our billings occurring in our fourth quarter, following typical enterprise software buying patterns. Because of these and other limitations, you should consider Calculated Billings along with revenue and our other GAAP financial results.

The following table presents a reconciliation of revenue, the most directly comparable financial measure calculated in accordance with GAAP, to Calculated Billings, for each of the periods presented:

	Year Ended January 31,		
	2021	2020	2019
	(In thousands)		
Revenue	$ 902,610	$ 630,422	$ 400,552
Add: Total deferred revenue, end of year	510,605	376,714	241,873
Less: Total deferred revenue, beginning of year	(376,714)	(241,873)	(125,453)
Calculated Billings	$ 1,036,501	$ 765,263	$ 516,972

Free Cash Flow

Free Cash Flow is a non-GAAP financial measure that we calculate as net cash provided by (used in) operating activities less purchases of property and equipment. We believe that Free Cash Flow is a useful indicator of liquidity that provides information to management and investors about the amount of cash generated from our core operations that, after the purchases of property and equipment, can be used for strategic initiatives, including investing in our business, making strategic acquisitions, and strengthening our balance sheet. Free Cash Flow has limitations as an analytical tool, and it should not be considered in isolation or as a substitute for analysis of other GAAP financial measures, such as net cash provided by operating activities. Some of the limitations of Free Cash Flow are that this metric does not reflect our future contractual commitments and may be calculated differently by other companies in our industry, limiting its usefulness as a comparative measure. We expect our Free Cash Flow to fluctuate in future periods as we invest in our business to support our plans for growth. These activities, along with certain increased operating expenses as described below, may result in a decrease in Free Cash Flow as a percentage of revenue in future periods.

The following table summarizes our cash flows for the periods presented and provides a reconciliation of net cash from operating activities, the most directly comparable financial measure calculated in accordance with GAAP, to Free Cash Flow for each of the periods presented:

	Year Ended January 31,		
	2021	2020	2019
	(In thousands)		
Net cash provided by (used in) operating activities	$ 72,439	$ (12,389)	$ (41,059)
Purchases of property and equipment	(10,232)	(49,626)	(56,180)
Free Cash Flow	$ 62,207	$ (62,015)	$ (97,239)
Net cash provided by (used in) investing activities	$ (263,098)	330,128	$ (333,421)
Net cash provided by financing activities	$ 773,017	$ 18,490	$ 437,677

Key Components of Results of Operations

Revenue

We generate substantially all of our revenue through sales of subscriptions of Slack to organizations. We recognize subscription revenue on a straight-line basis over the term of the contract subscription period beginning on the date access to Slack is granted, provided all other revenue recognition criteria have been met. Our subscriptions are generally non-cancellable and typically do not contain general rights of return. We maintain a fair billing policy, under which certain organizations on a paid subscription plan are entitled to credit if they have not used the entirety of the contracted number of users for which they have paid during the contractual term of the arrangement. These credits, accounted for as a part of deferred revenue, may be carried over to offset future billings and are not refundable for cash. On occasion, we also provide professional services to organizations on Slack. Professional services revenue has not been material to date.

Overhead Allocation and Employee Compensation Costs

We allocate shared costs, such as facilities (including rent, utilities, and depreciation on equipment shared by all departments) and information technology (IT) costs to all departments based on headcount. As such, allocated shared costs are reflected in cost of revenue and each operating expense category. Employee compensation costs, or personnel costs, include salaries, bonuses, benefits, and stock-based compensation for cost of revenue and each operating expense category and also include sales commissions for sales and marketing.

Cost of Revenue

Cost of revenue consists primarily of expenses related to hosting Slack and providing ongoing customer support for paid customers. These expenses include employee compensation (including stock-based compensation) and other employee-related expenses for customer experience, professional services, and technical operations staff, payments to outside service providers, third-party hosting costs, payment processing fees, and amortization expense associated with internally-developed and purchased technology. We expect our cost of revenue to continue to increase in absolute dollar amounts as we grow our business and revenue.

Operating Expenses

Research and Development. Research and development expenses consist primarily of personnel costs and allocated overhead. Our research and development efforts focus on maintaining and enhancing existing functionality of, and adding new functionality to, Slack. We plan to increase the dollar amount of our investment in research and development for the foreseeable future as we focus on developing new features and enhancements. We expect, however, that our research and development expenses will decrease as a percentage of our revenue over time as our revenue grows, although the percentage may fluctuate from period to period depending on fluctuations in the timing and extent of our research and development expenses.

Sales and Marketing. Sales and marketing expenses consist primarily of personnel costs, expenses associated with our marketing and business development programs, including Frontiers, our annual user conference. Sales and marketing expenses also include allocated third-party hosting costs as well as customer experience and technical operations employee overhead costs for users of our free version of Slack. Sales commissions that are directly related to acquiring sales contracts, as well as associated payroll taxes, are deferred upon execution of a non-cancellable contract with an organization, and subsequently amortized to sales and marketing expense over the estimated period of benefit, typically four years. We plan to increase the dollar amount of our investment in sales and marketing for the foreseeable future, primarily for increased headcount for our direct sales organization and investment in brand and product marketing efforts. We expect to continue to incur sales and marketing expenses to the extent that we continue to see a high-growth market opportunity to support the growth of our business. If the growth in our business lessens over time, we plan to decrease the rate of growth in our sales and marketing expenses. We expect, however, that our sales and marketing expenses will decrease as a percentage of our revenue over time as our revenue grows, although the percentage may fluctuate from period to period depending on fluctuations in the timing and extent of our sales and marketing expenses.

General and Administrative. General and administrative expenses consist primarily of personnel costs for our finance and accounting, legal, human resources, and other administrative teams as well as for certain executives and professional fees, including audit, legal, and recruiting services. We expect to increase the size of our general and administrative function to support the growth of our business. We also expect to incur additional expenses as a result of operating as a public company, including costs to comply with the rules and regulations applicable to companies listed on a U.S. securities exchange and costs related to compliance and reporting obligations pursuant to the rules and regulations of the SEC, and increased expenses in the areas of insurance, investor relations, and professional services. As a result, we expect the dollar amount of our general and administrative expenses to increase for the foreseeable future. We expect, however, that our general and administrative expenses will decrease as a percentage of our revenues over time, although the percentage may fluctuate from period to period depending on fluctuations in our revenue and the timing and extent of our general and administrative expenses.

Interest Expense

In April 2020, we completed the private offering of the Notes, issuing $862.5 million aggregate principal amount of 0.50% convertible senior notes due April 15, 2025. After our issuance of the Notes, interest expense consists primarily of contractual interest expense and amortization of the discount and debt issuance costs on the Notes.

Interest Income and Other Income, Net

Interest income and other income, net consists primarily of interest income earned on our cash, cash equivalents, and marketable securities, the change in fair value of our strategic investments, and gains or losses on foreign currency exchange.

Provision for (benefit from) Income Taxes

Provision for (benefit from) income taxes consists primarily of U.S. federal, state income taxes, and income taxes in certain foreign jurisdictions in which we conduct business. Since inception, we have incurred operating losses and, accordingly, have not recorded a provision for income taxes for any of the periods presented other than provisions for foreign income tax. As of January 31, 2021, we had net operating loss carryforwards for both federal and state income tax purposes of $2.0 billion and $1.5 billion, respectively. We also had federal research and development tax credit carryforwards of $110.4 million and state research and development tax credit carryforwards of $81.5 million.

Since the realization of deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain, we have recorded a valuation allowance of $776.0 million as of January 31, 2021, against our net deferred tax asset balance of $779.9 million. If not utilized, a portion of the federal and state net operating loss and tax credit carryforwards will begin to expire in 2029. Utilization of these net operating losses and credit carryforwards may be subject to an annual limitation that is applicable if we experience an “ownership change” through a change in significant stockholder allocation or equity structure.

Results of Operations

The following tables set forth our results of operations for the periods presented in dollars and as a percentage of our revenue:

	Year Ended January 31,		
	2021	2020	2019
	(In thousands)		
Revenue	$ 902,610	$ 630,422	$ 400,552
Cost of revenue(1)	121,692	97,191	51,301
Gross profit	780,918	533,231	349,251
Operating expenses:			
Research and development(1)	382,145	457,364	157,538
Sales and marketing(1)	460,709	402,780	233,191
General and administrative(1)	221,148	261,365	112,730
Total operating expenses	1,064,002	1,121,509	503,459
Loss from operations	(283,084)	(588,278)	(154,208)
Interest expense	(38,105)	(858)	(434)
Interest income and other income, net	28,386	21,368	16,580
Loss before income taxes	(292,803)	(567,768)	(138,062)
Provision for (benefit from) income taxes	(315)	589	840
Net loss	(292,488)	(568,357)	(138,902)
Net income attributes to noncontrolling interest(2)	7,934	2,701	1,781
Net loss attributable to Slack	$ (300,422)	$ (571,058)	$ (140,683)

(1) Includes stock-based compensation as follows:

	Year Ended January 31,		
	2021	2020	2019
	(In thousands)		
Cost of revenue	$ 10,748	$ 16,013	$ 732
Research and development	115,047	226,507	9,948
Sales and marketing	58,705	98,797	2,677
General and administrative	42,863	85,207	9,775
Total stock-based compensation	$ 227,363	$ 426,524	$ 23,132

(2) Our consolidated financial statements include our majority-owned subsidiary, Slack Fund. The ownership interest of minority investors in Slack Fund is recorded as a noncontrolling interest.

	Year Ended January 31,		
	2021	2020	2019
	(as a % of revenue)		
Revenue	100 %	100 %	100 %
Cost of revenue	13	15	13
Gross profit	87	85	87
Operating expenses:			
Research and development	42	73	39
Sales and marketing	51	64	57
General and administrative	25	41	28
Total operating expenses	118	178	125
Loss from operations	(31)	(93)	(38)
Interest expense	(4)	—	—
Interest income and other income, net	3	3	4
Loss before income taxes	(32)	(90)	(34)
Provision for (benefit from) income taxes	—	—	1
Net loss	(32)	(90)	(35)
Net income attributable to noncontrolling interest	1	—	—
Net loss attributable to Slack	(33)%	(90)%	(35)%

Comparison of the Years Ended January 31, 2021 and 2020

Revenue and Cost of Revenue

	Year Ended January 31,			
	2021	2020	$ Change	% change
	(In thousands)			
Revenue	$ 902,610	$ 630,422	$ 272,188	43 %
Cost of revenue	121,692	97,191	24,501	25
Gross profit	$ 780,918	$ 533,231	$ 247,687	46

Revenue increased $272.2 million, or 43%, for the year ended January 31, 2021 compared to the year ended January 31, 2020. The increase in revenue was primarily due to expansion within our existing Paid Customers, as reflected by our Net Dollar Retention Rate of 123% as of January 31, 2021, and the addition of new Paid Customers, as our number of Paid Customers increased by 42% in the year ended January 31, 2021 compared to the prior year. In addition, revenue generated from Paid Customers > $100,000 in the year ended January 31, 2021 increased to 49% compared to 46% in the year ended January 31, 2020.

Cost of revenue increased $24.5 million, or 25%, for the year ended January 31, 2021 compared to the year ended January 31, 2020. The increase was primarily driven by an $18.0 million increase in third-party hosting costs as the number of organizations on, and usage of, Slack in general increased, a $9.9 million increase in personnel costs related to increased headcount, and a $3.0 million increase in credit card payment processing fees as the volume of sales transactions increased. These increases were partially offset by a $6.1 million decrease in stock-based compensation and related employer payroll taxes, as compared to the year ended January 31, 2020, when stock-based compensation and related employer payroll taxes were higher due primarily to the satisfaction of the performance vesting condition on outstanding RSUs in connection with the Direct Listing in June 2019.

Operating Expenses

	Year Ended January 31, 2021	2020	$ Change	% change
	(In thousands)			
Operating expenses:				
Research and development	$ 382,145	$ 457,364	$ (75,219)	(16)%
Sales and marketing	460,709	402,780	57,929	14
General and administrative	221,148	261,365	(40,217)	(15)
Total operating expenses	$ 1,064,002	$ 1,121,509	$ (57,507)	(5)

Research and Development

Research and development expenses decreased $75.2 million, or 16%, for the year ended January 31, 2021 compared to the year ended January 31, 2020. The decrease was primarily due to a $117.8 million decrease in stock-based compensation and related employer payroll taxes, as compared to the year ended January 31, 2020, when stock-based compensation and related employer payroll taxes were higher due primarily to the satisfaction of the performance vesting condition on outstanding RSUs in connection with the Direct Listing in June 2019, a $3.4 million decrease in travel costs due to COVID-19 travel restrictions, and a $3.1 million decrease in corporate expenses mainly related to local business taxes. This decrease was partially offset by a $47.5 million increase in personnel costs related to increased headcount.

Sales and Marketing

Sales and marketing expenses increased $57.9 million, or 14%, for the year ended January 31, 2021 compared to the year ended January 31, 2020. The increase was primarily due to a $66.3 million increase in personnel costs, which include customer experience and infrastructure employee costs for users of our free version, a $21.3 million increase in marketing expenses due to more spending on brand and advertising, a $14.5 million increase in third-party hosting costs for users on a Free subscription plan of Slack, primarily due to continuing growth in our user base, and a $4.7 million increase in facility- and IT-related overhead costs to support our headcount growth. This increase was partially offset by a $40.9 million decrease in stock-based compensation and related employer payroll taxes, as compared to the year ended January 31, 2020 when stock-based compensation and related employer payroll taxes were higher due primarily to the satisfaction of the performance vesting condition on outstanding RSUs in connection with the Direct Listing in June 2019, and an $8.5 million decrease in travel costs due to COVID-19 travel restrictions.

General and Administrative

General and administrative expenses decreased $40.2 million, or 15%, for the year ended January 31, 2021 compared to the year ended January 31, 2020. The decrease was primarily due to a $44.4 million decrease in stock-based compensation and related employer payroll taxes, as compared to the year ended January 31, 2020 when stock-based compensation and related employer payroll taxes were higher due primarily to the satisfaction of the performance vesting condition on outstanding RSUs in connection with the Direct Listing in June 2019, a $30.4 million decrease in fees related to financial advisory services, audit, and legal expenses, which we incurred in connection with the Direct Listing, and a $5.5 million decrease in travel costs due to COVID-19 travel restrictions. This decrease was partially offset by a $24.7 million increase in legal fees and acquisition-related costs that include transaction expenses associated with the proposed merger with Salesforce of $8.7 million, and a $16.6 million increase in personnel costs related to increases in our administrative, finance and accounting, legal, IT, and human resources headcount.

Interest Expense

Interest expense increased by $37.2 million for the year ended January 31, 2021 compared to the year ended January 31, 2020 due to contractual interest expense and amortization of the discount and issuance costs on the Notes issued in April 2020.

Interest Income and Other Income, Net

Interest income and other income, net was $28.4 million for the year ended January 31, 2021, an increase of $7.0 million from the year ended January 31, 2020. The increase in interest income and other income, net was primarily driven by a net increase in realized and unrealized gains from our strategic investments of $14.7 million, and an increase of net foreign exchange gains of $3.7 million, partially offset by a decrease of interest income of $10.4 million due primarily to a decrease in interest rates.

Provision for (benefit from) Income Taxes

The benefit from income taxes was $0.3 million for the year ended January 31, 2021, compared to the provision for income taxes of $0.6 million for the year ended January 31, 2020, primarily related to the tax benefit resulting from stock-based compensation in our foreign jurisdictions.

Comparison of the Years Ended January 31, 2020 and 2019

Revenue and Cost of Revenue

	Year Ended January 31,			
	2020	2019	$ Change	% change
	(In thousands)			
Revenue	$ 630,422	$ 400,552	$ 229,870	57 %
Cost of revenue	97,191	51,301	45,890	89
Gross profit	$ 533,231	$ 349,251	$ 183,980	53

Revenue increased $229.9 million, or 57%, for the year ended January 31, 2020 compared to the year ended January 31, 2019. The increase in revenue was primarily due to expansion within our existing Paid Customers, as reflected by our Net Dollar Retention Rate of 132% as of January 31, 2020, and the addition of new Paid Customers, as our number of Paid Customers increased by 25% in the year ended January 31, 2020 compared to the prior year. In addition, revenue generated from Paid Customers > $100,000 in the year ended January 31, 2020 increased to 46% compared to 40% in the year ended January 31, 2019.

Cost of revenue increased $45.9 million, or 89%, for the year ended January 31, 2020 compared to the year ended January 31, 2019. The increase was primarily due to a $16.4 million increase in stock-based compensation and related employer payroll taxes, driven by the satisfaction of the performance vesting condition on outstanding RSUs in connection with the Direct Listing in June 2019. The increase was also driven by a $12.4 million increase in third-party hosting costs as the number of organizations on, and usage of, Slack in general increased, an $8.8 million increase in personnel costs related to increased headcount, and a $3.9 million increase in facility- and IT-related overhead costs to support our headcount growth and the continued development and scalability of Slack.

Operating Expenses

	Year Ended January 31,			
	2020	2019	$ Change	% change
	(In thousands)			
Operating expenses:				
Research and development	$ 457,364	$ 157,538	$ 299,826	190 %
Sales and marketing	402,780	233,191	169,589	73
General and administrative	261,365	112,730	148,635	132
Total operating expenses	$ 1,121,509	$ 503,459	$ 618,050	123

Research and Development

Research and development expenses increased $299.8 million, or 190%, for the year ended January 31, 2020 compared to the year ended January 31, 2019. The increase was primarily due to a $231.1 million increase in stock-based compensation and related employer payroll taxes, driven by the satisfaction of the performance vesting condition on outstanding RSUs in connection with the Direct Listing in June 2019. The increase was also driven by a $50.0 million increase in personnel costs related to increased headcount, and a $10.7 million increase in facility- and IT-related overhead costs to support our headcount growth and the continued development and scalability of Slack.

Sales and Marketing

Sales and marketing expenses increased $169.6 million, or 73%, for the year ended January 31, 2020 compared to the year ended January 31, 2019. The increase was primarily due to a $101.8 million increase in stock-based compensation and related employer payroll taxes, driven by the satisfaction of the performance vesting condition on outstanding RSUs in connection with the Direct Listing in June 2019. Personnel costs, which include customer experience and infrastructure employee costs for users of our free version, increased by $47.7 million related to increased sales and marketing headcount to support our growth. The increase was also driven by a $16.2 million increase in facility- and IT-related overhead costs to support our headcount growth, a $9.9 million increase in third-party hosting costs for users on a Free subscription plan of Slack due to continuing growth in our user base, and a $6.7 million increase in travel related costs due to increased sales activities. These increases were partially offset by a decrease in marketing expenses of $14.4 million due primarily to reduced spending on advertising by $23.6 million, partially offset by increased public relations, marketing content, and business development programs of $8.7 million, including Frontiers, our annual user conference.

General and Administrative

General and administrative expenses increased $148.6 million, or 132%, for the year ended January 31, 2020 compared to the year ended January 31, 2019. The increase was primarily due to an $80.9 million increase in stock-based compensation and related employer payroll taxes, driven by the satisfaction of the performance vesting condition on outstanding RSUs in connection with the Direct Listing in June 2019. The increase was also driven by one-time fees of $30.4 million related to financial advisory services, audit, and legal expenses in connection with the Direct Listing, a $23.7 million increase in personnel costs related to increases in our administrative, finance and accounting, legal, IT, and human resources headcount, and a $4.3 million increase in facility- and IT-related overhead costs due to additional headcount.

Interest Expense

Interest expense increased by $0.4 million for the year ended January 31, 2020 compared to the year ended January 31, 2019 due primarily to the fees related to the revolving credit facility.

Interest Income and Other Income, Net

Interest income and other income, net $21.4 million for the year ended January 31, 2020, an increase of $4.8 million from the year ended January 31, 2019. The increase in interest income and other income, net was primarily due to an increase in interest income of $3.2 million due to overall increase in cash, cash equivalents, and marketable securities and a net increase in realized and unrealized gains from our strategic investments of $1.9 million, partially offset by a decrease of net foreign exchange gains of $1.3 million.

Provision for Income Taxes

The provision for income taxes was $0.6 million for the year ended January 31, 2020, a decrease of $0.3 million from the year ended January 31, 2019, primarily related to the tax benefit resulting from stock-based compensation in our foreign jurisdictions.

Quarterly Results of Operations

The following tables set forth our unaudited quarterly statements of operations data for each of the eight quarters ended January 31, 2021, as well as the percentage of revenue that each line item represents for each quarter. The information for each of these quarters has been prepared on the same basis as the audited annual financial statements included elsewhere in this Annual Report on Form 10-K and, in the opinion of management, includes all adjustments, which includes only normal recurring adjustments, necessary for the fair statement of the results of operations for these periods. This data should be read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. These quarterly results of operations are not necessarily indicative of our future results of operations that may be expected for any future period.

	Three Months Ended							
	January 31, 2021	October 31, 2020	July 31, 2020	April 30, 2020	January 31, 2020	October 31, 2019	July 31, 2019	April 30, 2019
	(In thousands)							
Revenue	$ 250,598	$ 234,498	$ 215,864	$ 201,650	$ 181,903	$ 168,725	$ 144,973	$ 134,821
Cost of revenue[1]	35,175	32,528	28,387	25,602	24,371	23,140	31,106	18,574
Gross profit	215,423	201,970	187,477	176,048	157,532	145,585	113,867	116,247
Operating expenses:								
Research and development[1]	100,695	96,024	94,201	91,225	93,639	94,853	217,769	51,103
Sales and marketing[1]	121,922	119,345	109,122	110,320	103,340	96,210	136,392	66,838
General and administrative[1]	65,438	52,268	52,788	50,654	51,741	49,524	123,356	36,744
Total operating expenses	288,055	267,637	256,111	252,199	248,720	240,587	477,517	154,685
Loss from operations	(72,632)	(65,667)	(68,634)	(76,151)	(91,188)	(95,002)	(363,650)	(38,438)
Interest expense	(11,969)	(11,742)	(11,552)	(2,842)	(279)	(258)	(208)	(113)
Interest income and other income, net	4,082	12,644	6,952	4,708	3,466	7,393	3,319	7,190
Loss before income taxes	(80,519)	(64,765)	(73,234)	(74,285)	(88,001)	(87,867)	(360,539)	(31,361)
Provision for (benefit from) income taxes	786	(1,162)	(81)	142	1,093	(101)	(923)	520
Net loss	(81,305)	(63,603)	(73,153)	(74,427)	(89,094)	(87,766)	(359,616)	(31,881)
Net income (loss) attributable to noncontrolling interest[2]	656	4,799	1,695	784	(91)	1,395	(54)	1,451
Net loss attributable to Slack	$ (81,961)	$ (68,402)	$ (74,848)	$ (75,211)	$ (89,003)	$ (89,161)	$ (359,562)	$ (33,332)

(1) Includes stock-based compensation as follows:

	Three Months Ended							
	January 31, 2021	October 31, 2020	July 31, 2020	April 30, 2020	January 31, 2020	October 31, 2019	July 31, 2019	April 30, 2019
	(In thousands)							
Cost of revenue	$ 2,642	$ 2,645	$ 2,544	$ 2,354	$ 2,342	$ 2,673	$ 10,952	$ 46
Research and development	29,342	29,129	29,157	27,419	33,390	40,077	151,405	1,635
Sales and marketing	14,572	15,703	14,917	14,075	16,005	17,638	64,772	382
General and administrative	11,207	11,123	10,670	9,863	11,500	13,473	58,658	1,576
Total stock-based compensation	$ 57,763	$ 58,600	$ 57,288	$ 53,711	$ 63,237	$ 73,861	$ 285,787	$ 3,639

In the second quarter of fiscal year 2020, we recorded cumulative stock-based compensation of $245.1 million related to all then-outstanding RSUs as the performance vesting condition was satisfied upon the completion of the Direct Listing.

(2) Our consolidated financial statements include our majority-owned subsidiary, Slack Fund. The ownership interest of minority investors in Slack Fund is recorded as a noncontrolling interest.

	Three Months Ended							
	January 31, 2021	October 31, 2020	July 31, 2020	April 30, 2020	January 31, 2020	October 31, 2019	July 31, 2019	April 30, 2019
	(as a % of revenue)							
Revenue	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Cost of revenue	14	14	13	13	13	14	21	14
Gross profit	86	86	87	87	87	86	79	86
Operating expenses:								
Research and development	41	41	44	45	52	56	151	38
Sales and marketing	49	51	51	55	57	57	94	50
General and administrative	26	22	24	25	28	29	85	27
Total operating expenses	116	114	119	125	137	142	330	115
Loss from operations	(30)	(28)	(32)	(38)	(50)	(56)	(251)	(29)
Interest expense	(5)	(5)	(5)	(1)	—	—	—	—
Interest income and other income, net	2	5	3	2	2	4	2	6
Loss before income taxes	(33)	(28)	(34)	(37)	(48)	(52)	(249)	(23)
Provision for (benefit from) income taxes	—	(1)	—	—	1	—	(1)	1
Net loss	(33)	(27)	(34)	(37)	(49)	(52)	(248)	(24)
Net income (loss) attributable to noncontrolling interest	—	2	1	—	—	1	—	1
Net loss attributable to Slack	(33)%	(29)%	(35)%	(37)%	(49)%	(53)%	(248)%	(25)%

Quarterly Trends

Revenue and Cost of Revenue

Our revenue increased sequentially for all periods presented primarily due to higher sales of subscriptions to both our existing and new Paid Customers. We have typically experienced larger billings in the fourth quarter of our fiscal year, though this seasonality is sometimes not immediately apparent in our revenue due to the fact that we recognize subscription revenue over the term of the contract.

Total cost of revenue increased sequentially for all periods presented, excluding the impact from stock-based compensation, primarily due to increases in personnel costs and third-party hosting costs necessary to support our growth in revenue.

Operating Expenses

Total operating expenses increased sequentially for all periods presented, excluding the impact from the Direct Listing related fees and stock-based compensation, primarily due to increases in employee headcount and the expansion of our business.

Liquidity and Capital Resources

As of January 31, 2021, our principal sources of liquidity were cash and cash equivalents of $1.1 billion and marketable securities of $505.9 million. Cash and cash equivalents are comprised of bank deposits, money market funds, certificates of deposit, and U.S. government securities. Restricted cash consists of cash deposited with financial institutions as collateral for our obligations under the facility leases in San Francisco, California and Denver, Colorado. As of January 31, 2021, our restricted cash totaled $38.5 million. Marketable securities are comprised of certificates of deposit, U.S. agency securities, U.S. government securities, and corporate bonds. As of January 31, 2021, 95% of all cash and cash equivalents are held in the United States. Since our inception, we have financed our operations primarily through proceeds from the issuance of our convertible preferred stock, the Notes, common stock, and cash generated from the sale of our subscriptions.

We have generated significant losses from operations and negative cash flows from operating activities in the past as reflected in our accumulated deficit of $1.5 billion as of January 31, 2021. We expect to continue to incur operating losses for the foreseeable future due to the investments that we intend to make in our business and, as a result, we may require additional capital resources to grow our business.

In May 2019, we entered into a $215.0 million revolving credit and guaranty agreement with a syndicate of financial institutions. The revolving credit facility has an accordion option, which, if exercised, would allow us to increase the aggregate commitments by up to the greater of $200.0 million and 100% of the consolidated adjusted EBITDA of us and our subsidiaries, plus an unlimited amount subject to satisfaction of certain leverage ratio based compliance tests after giving effect to the exercise, in each case subject to obtaining additional lender commitments and satisfying certain conditions. Pursuant to the terms of the revolving credit facility, we may issue letters of credit under the revolving credit facility, which reduce the total amount available for borrowing under such facility. The revolving credit facility terminates on May 30, 2024. As of January 31, 2021, we had no amounts or letters of credit issued and outstanding under the revolving credit facility. Our total available borrowing capacity under the revolving credit facility was $215.0 million as of January 31, 2021.

In April 2020, we completed our private offering of the Notes and received aggregate proceeds of $862.5 million, before deducting issuance costs of $21.2 million. In connection with the Notes, we also entered into the Capped Calls with respect to our Class A common stock. We used an aggregate amount of $105.6 million of the net proceeds from the sale of the Notes to purchase the Capped Calls.

We believe that current cash, cash equivalents, marketable securities, and available borrowing capacity under the revolving credit facility will be sufficient to fund our operations for at least the next 12 months. Our future capital requirements, however, will depend on many factors, including our subscription growth rate, our Net Dollar Retention Rate, the timing and extent of spending to support our research and development efforts, the expansion of sales and marketing activities, the introduction of new and enhanced products and features, particularly for large organizations and for networks between organizations and the continuing market adoption of Slack. We may in the future enter into arrangements to acquire or invest in complementary businesses, services, and technologies, including intellectual property rights. We may seek to raise additional funds at any time through equity, equity-linked arrangements, and debt. If we are unable to raise additional capital when desired and at reasonable rates, our business, results of operations, and financial condition would be adversely affected. See the section titled “Risk Factors—Risks Related to Our Business and Industry—Our failure to raise additional capital or generate cash flows necessary to expand our operations and invest in new technologies and customer acquisition efforts in the future could reduce our ability to compete successfully and harm our results of operations.”

On December 1, 2020 we entered into the Merger Agreement with Salesforce. We have agreed to various covenants and agreements, including, among others, agreements to conduct our business in the ordinary course during the period between the execution of the Merger Agreement and the effective time of the Mergers. Outside of certain limited exceptions, we may not take, authorize, commit, resolve, or agree to do certain actions without Salesforce’s consent, including:

- acquiring businesses and disposing of significant assets;
- incurring expenditures above specified thresholds;
- issuing additional debt facilities; and
- repurchasing shares of our outstanding common stock.

We do not believe these restrictions will prevent us from meeting our ongoing costs of operations, working capital needs, or capital expenditure requirements.

Cash Flows

The following table summarizes our cash flows for the periods indicated:

	Year Ended January 31,		
	2021	2020	2019
		(In thousands)	
Net cash provided by (used in) operating activities	$ 72,439	$ (12,389)	$ (41,059)
Net cash provided by (used in) investing activities	(263,098)	330,128	(333,421)
Net cash provided by financing activities	773,017	18,490	437,677
Net increase in cash, cash equivalents and restricted cash	$ 582,358	$ 336,229	$ 63,197

Cash Provided by (Used in) Operating Activities

Our largest source of operating cash is cash collections from organizations on a paid subscription plan. Our primary uses of cash from operating activities are for employee-related expenditures, sales and marketing expenses, and third-party hosting costs. Historically, we have generated negative cash flows from operating activities and have supplemented working capital requirements through net proceeds from the private sale of equity securities.

During the year ended January 31, 2021, operating activities provided $72.4 million in cash. The primary factors affecting our operating cash flows during this period were our net loss of $292.5 million, impacted by $323.1 million of non-cash charges and $41.8 million of cash provided from changes in our operating assets and liabilities. The non-cash charges primarily consisted of $227.4 million in stock-based compensation, $37.6 million of non-cash lease expenses, $33.7 million of amortization of debt discount and issuance costs, $28.8 million of depreciation and amortization, and $15.8 million of amortization of deferred contract acquisition costs, partially offset by a $20.3 million gain as a result of the change in fair value of our strategic investments, and a $2.2 million gain from net amortization of bond discounts on debt securities available for sale. The cash provided from changes in our operating assets and liabilities was primarily due to a $132.9 million increase in deferred revenue due to additional billings with new and existing paid customers, a $43.7 million increase in accrued compensation and benefits, and a $3.2 million increase other liabilities. These amounts were partially offset by a $92.4 million increase in accounts receivable reflecting increased billings, $25.6 million of operating lease payments, a $16.6 million increase in prepaid expenses and other assets mainly due to an increase in deferred contract acquisition costs, and a $3.4 million decrease in accounts payable.

During the year ended January 31, 2020, operating activities used $12.4 million in cash. The primary factors affecting our operating cash flows during this period were our net loss of $568.4 million, impacted by $462.8 million of non-cash charges and $93.2 million of cash provided from changes in our operating assets and liabilities. The non-cash charges primarily consisted of $426.5 million in stock-based compensation, $27.1 million of depreciation and amortization, $9.0 million of non-cash lease expenses, and $8.2 million of amortization of deferred contract acquisition costs, partially offset by a $5.6 million gain as a result of the change in fair value of our strategic investments, and a $2.2 million gain from net amortization of bond discounts on debt securities available for sale. The cash provided from changes in our operating assets and liabilities was primarily due to a $134.8 million increase in deferred revenue due to additional billings with new and existing paid customers and a $46.6 million increase in accounts payable, accrued expenses including compensation and benefits, and accrued expenses and other liabilities as a result of our increased spending and headcount associated with the growth of our business. These amounts were partially offset by a $58.2 million increase in accounts receivable reflecting increased billings, a $20.6 million increase in prepaid expenses and other assets mainly due to an increase in deferred contract acquisition costs, and $9.5 million of operating lease payments

During the year ended January 31, 2019, operating activities used $41.1 million in cash. The primary factors affecting our operating cash flows during this period were our net loss of $138.9 million, impacted by $39.2 million non-cash charges and $58.7 million of cash provided from changes in our operating assets and liabilities. The non-cash charges primarily consisted of $23.1 million in stock-based compensation, $16.8 million of depreciation and amortization, $3.2 million of amortization of deferred contract acquisition costs, and a $2.3 million loss on disposal of property and equipment, partially offset by a $3.7 million gain as a result of the change in fair value of our strategic investments and a $3.1 million gain from net amortization of bond discount on debt securities available for sale. The cash provided from changes in our operating assets and liabilities was primarily due to a $116.4 million increase in deferred revenue due to increased billings, and a $45.6 million increase in accounts payable, accrued expenses including compensation and benefits, and other liabilities as a result of our increased spending and headcount associated with the growth of our business. These amounts were partially offset by a $53.1 million increase in prepaid expenses and other assets mainly due to a $22.8 million increase in prepaid hosting services and a $12.7 million increase in deferred contract acquisition costs, and a $50.3 million increase in accounts receivable, reflecting increased billings.

Cash Provided by (Used in) Investing Activities

Net cash used in investing activities during the year ended January 31, 2021 was $263.1 million, which was primarily driven by purchases of marketable securities of $561.2 million, strategic investments of $20.0 million, property and equipment of $10.2 million, an acquisition of intangible assets of $2.4 million, partially offset by maturities and sales of marketable securities of $322.9 million and net cash acquired from a business combination of $6.6 million.

Net cash provided by investing activities during the year ended January 31, 2020 was $330.1 million, which was primarily driven by sales and maturities of marketable securities of $683.7 million, partially offset by cash used to purchase marketable securities of $290.2 million, property and equipment of $49.6 million, and strategic investments of $14.1 million.

Net cash used in investing activities during the year ended January 31, 2019 was $333.4 million, which was primarily used to purchase marketable securities of $967.1 million, property and equipment of $56.2 million, business and intangible assets of $47.7 million, and strategic investments of $2.3 million, partially offset by sales and maturities of marketable securities of $738.9 million.

Cash Provided by Financing Activities

Net cash provided by financing activities for the year ended January 31, 2021 was $773.0 million, primarily driven by proceeds from the issuance of the Notes of $841.3 million, net of issuance costs, proceeds from employee purchases of common stock under the employee stock purchase plan of $29.8 million, and the exercise of stock options of $13.1 million, partially offset by a payment for Capped Calls related to the Notes of $105.6 million and payments of contingent consideration for acquisitions of $5.3 million.

Net cash provided by financing activities for the year ended January 31, 2020 was $18.5 million, primarily driven by the exercise of stock options to purchase common stock of $14.2 million, proceeds from employee purchases of common stock under the 2019 Employee Stock Purchase Plan, or the ESPP, of $7.4 million, and capital contributions from noncontrolling interest holders of $3.8 million, partially offset by a payment of contingent consideration for an acquisition of $5.0 million and distributions to noncontrolling interest holders of $1.4 million.

Net cash provided by financing activities for the year ended January 31, 2019 was $437.7 million, reflecting proceeds from issuance of convertible preferred stock of $426.9 million, proceeds from issuance of common stock to a third party of $6.1 million, and the exercise of stock options to purchase common stock of $4.8 million.

Contractual Obligations and Commitments

Our principal contractual commitments primarily consist of the convertible senior notes and obligations under leases for office space and datacenter operations.

The following table summarizes our consolidated principal contractual cash obligations, as of January 31, 2021, and is supplemented by the discussion following the table:

	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(In thousands)		
Convertible senior notes[1]	$ 881,727	$ 4,313	$ 8,625	$ 868,789	$ —
Operating lease obligations[2]	458,808	34,943	102,944	107,212	213,709
Hosting commitments[3]	329,987	63,737	172,500	93,750	—
Other commitments[4]	26,340	10,501	4,805	3,878	7,156
Total	$ 1,696,862	$ 113,494	$ 288,874	$ 1,073,629	$ 220,865

(1) Consists of principal and interest payments. The $862.5 million in principal is due April 2025. For more information regarding the Notes, refer to Note 10 of the Notes to our Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

(2) Consists of future non-cancelable minimum lease payments under operating leases for our offices.

(3) In April 2020, we executed an amendment to our existing agreement with Amazon Web Services. The amended agreement was effective as of May 1, 2020 and continues through April 30, 2025. We have minimum annual commitments of $75.0 million which will increase by $5.0 million annually, for a total minimum commitment of $425.0 million.

(4) Consists of future minimum payments under non-cancelable purchase commitments primarily related to IT operations, sales activities and acquisition related obligations.

In addition to the contractual obligations set forth above, as of January 31, 2021, we had $38.5 million in standby letters of credit outstanding related to our office facilities in San Francisco, California and Denver, Colorado.

Off-Balance Sheet Arrangements

As of January 31, 2021, we did not have any relationships with unconsolidated entities or financial partnerships, such as structured finance or special purpose entities that were established for the purpose of facilitating off-balance sheet arrangements or other purposes.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs, and expenses, and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

We believe that of our significant accounting policies, which are described in Note 1 to our consolidated financial statements, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations.

Revenue Recognition

We recognize revenue from contracts with organizations on a paid subscription plan using the five-step method described in Note 1 in our consolidated financial statements. We derive substantially all revenue from monthly, annual, and multi-year subscription fees earned from organizations on a paid subscription plan accessing Slack.

In our contracts, we typically have one performance obligation of providing access to Slack. On occasion, we also provide professional services to organizations on Slack, which are separate performance obligations. Professional services revenue has not been material to date.

In general, we satisfy our performance obligations over time as we provide the promised services to organizations on a paid subscription plan. We maintain a fair billing policy, under which certain organizations on a paid subscription plan are entitled to credit if they have not used the entirety of the contracted number of users for which they have paid during the contractual term of the arrangement. These credits, accounted for as a part of deferred revenue, may be carried over to offset future billings and are not refundable for cash. A majority of our contracts give a right to bill for additional usage, and this is deemed variable consideration. The variable consideration is allocated to the distinct day the services are completed, as services provided to the additional users are specific to the period that the usage occurs. To the extent that we believe it is probable that a significant reversal would not occur, an estimate is made for the revenue associated with incremental usage during a period. The incremental revenue recognized associated with these estimates has not been material through fiscal year 2021.

Convertible Senior Notes

The Notes are accounted for in accordance with the FASB, issued Accounting Standards Codification, or ASC, Subtopic 470-20, Debt with Conversion and Other Options. Pursuant to ASC Subtopic 470-20, issuers of certain convertible debt instruments, such as the Notes, that have a net settlement feature and may be settled wholly or partially in cash upon conversion are required to separately account for the liability (debt) and equity (conversion option) components of the instrument. The carrying amount of the liability component of the instrument is computed by estimating the fair value of a similar liability without the conversion option using a market-based approach. The amount of the equity component is then calculated by deducting the fair value of the liability component from the principal amount of the instrument. The difference between the principal amount and the liability component represents a debt discount that is amortized to interest expense over the respective terms of the Notes using an effective interest rate method. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. In accounting for the issuance costs related to the Notes, the allocation of issuance costs incurred between the liability and equity components was based on their relative values.

Deferred Contract Acquisition Costs

Sales commissions earned by our sales force are considered to be incremental and recoverable costs of obtaining a contract with a customer. As a result, sales commissions for new revenue contracts, including incremental sales to existing customers, are deferred and then amortized on a straight-line basis over a period of benefit, which we have determined to be generally four years. The period of benefit has been determined by considering factors such as historical customer attrition rates, the useful life of our technology, and the impact of competition in our industry as well as other factors.

Stock-Based Compensation

We measure compensation expense for all stock-based payment awards, including stock options, RSUs, restricted stock awards, or RSAs, restricted stock, and purchase rights issued under the ESPP granted to employees, directors, and other service providers, based on the estimated fair value of the awards on the date of grant. The fair value of each stock option and purchase rights issued under the ESPP granted is estimated using the Black-Scholes option pricing model. Stock-based compensation is recognized on a straight-line basis over the requisite service period, except for the RSUs granted under our 2009 Stock Plan, or the 2009 Plan.

Under the 2009 Plan, we granted RSUs to our employees, directors and service providers with both a service-based vesting condition and a performance-based vesting condition. The service-based vesting period for these awards was typically four years with a cliff vesting period of one year and continued vesting quarterly thereafter. The fair value of RSUs was estimated based on the fair market value of our common stock at the date of grant. On June 20, 2019, the performance vesting condition was satisfied upon the completion of the Direct Listing and as a result, we recorded cumulative stock-based compensation of $245.1 million related to all then-outstanding RSUs granted under the 2009 Plan. We recognize stock compensation associated with the RSUs granted under the 2009 Plan using the accelerated attribution method over the requisite service period.

Under the 2019 Stock Option and Incentive Plan, or the 2019 Plan, we grant RSUs to employees, directors and service providers with a service-based vesting condition. The service-based vesting period for these awards is typically four years with a cliff vesting period of one year and continued vesting quarterly thereafter.

Recent Accounting Pronouncements

See the section titled “Description of Business and Summary of Business and Significant Accounting Policies” in Note 1 of the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for more information.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks in the ordinary course of our business. These risks primarily include:

Interest Rate Risk

We had cash and cash equivalents of $1,081.4 million and marketable securities of $505.9 million as of January 31, 2021, which consisted of bank deposits, money market accounts, certificates of deposit, U.S. agency securities, U.S. government securities, and corporate bonds. The cash and cash equivalents are held primarily for working capital purposes. Such interest-earning instruments carry a degree of interest rate risk. To date, fluctuations in interest income have not been significant. The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure. Due to the short-term nature of our investments, we have not been exposed to, nor do we anticipate being exposed to, material risks due to changes in interest rates. A hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our consolidated financial statements.

In April 2020, we issued the Notes with an aggregate principal amount of $862.5 million. The Notes have a fixed annual interest rate of 0.50%; accordingly, we do not have economic interest rate exposure on the Notes. However, the fair market value of the Notes is exposed to interest rate risk. Generally, the fair market value of the fixed interest rate of the Notes will increase as interest rates fall and decrease as interest rates rise. In addition, the fair market value of the Notes fluctuates when the market price of our Class A common stock fluctuates. The fair market value was determined based on the quoted bid price of the Notes in an over-the-counter market on the last trading day of the reporting period. See Note 4 of the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for more information.

Currency Exchange Risk

The functional currency of our foreign subsidiaries is generally the U.S. dollar. Monetary assets and liabilities are remeasured using foreign currency exchange rates at the end of the period, and non-monetary assets are remeasured based on historical exchange rates. Gains and losses due to foreign currency are the result of either the remeasurement of subsidiary balances or transactions denominated in currencies other than the foreign subsidiaries' functional currency and are included in interest income and other income, net in our consolidated statements of operations.

We have foreign currency exchange risks related to our revenue and operating expenses denominated in currencies other than the U.S. dollar, principally the Euro, British Pound, Japanese Yen, and Canadian Dollar. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. We have experienced and will continue to experience fluctuations in foreign exchange gains (losses) related to changes in foreign currency exchange rates. In the event our foreign currency denominated assets, liabilities, sales, or expenses increase, our results of operations may be more greatly affected by fluctuations in the exchange rates of the currencies in which we do business.

We do not currently engage in any hedging activity to reduce our potential exposure to currency fluctuations, although we may choose to do so in the future. A hypothetical 10% change in foreign currency exchange rates during any of the periods presented would not have had a material impact on our consolidated financial statements.

Inflation Risk

We do not believe that inflation has had a material effect on our business, results of operations, or financial condition.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SLACK TECHNOLOGIES, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The supplementary financial information required by this Item 8 is included in Item 7 under the caption "Quarterly Results of Operations."

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Slack Technologies, Inc.:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated balance sheets of Slack Technologies, Inc. and subsidiaries (the Company) as of January 31, 2021 and 2020, the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the years in the three-year period ended January 31, 2021, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of January 31, 2021, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of January 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the three-year period ended January 31, 2021, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 31, 2021 based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases as of November 1, 2019 due to the adoption of Financial Accounting Standards Board's Accounting Standards Codification (ASC) Topic 842, Leases.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Sufficiency of audit evidence over subscription revenue

As discussed in Note 1 to the consolidated financial statements, the Company recorded $902.6 million of total revenue for the year ended January 31, 2021, of which substantially all is related to subscriptions. There are high volumes of subscription transactions processed across multiple information technology (IT) systems.

We identified the evaluation of the sufficiency of audit evidence over subscription revenue as a critical audit matter. This matter required especially subjective auditor judgment because of the number of IT applications involved in the subscription revenue recognition process. This included determining the nature and extent of audit evidence obtained over subscription revenue, and the need to involve IT professionals with specialized skills and knowledge to assist with the performance of certain audit procedures.

The following are the primary procedures we performed to address the critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls over the Company's subscription revenue process including associated IT controls. We applied auditor judgment to determine the nature and extent of procedures to be performed over subscription revenue, including the determination of the IT applications subject to testing. We assessed the recorded subscription revenue by selecting transactions and comparing the amounts recognized for consistency with the underlying documentation, including customer contracts. We also involved IT professionals with specialized skills and knowledge, who assisted in testing certain IT applications that are used by the Company in its subscription revenue process. We evaluated the sufficiency of audit evidence obtained over subscription revenue by assessing the results of procedures performed, including the appropriateness of such audit evidence.

/s/ KPMG LLP

We have served as the Company's auditor since 2015.

San Francisco, California

March 19, 2021

SLACK TECHNOLOGIES, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share amounts)

	As of January 31,	
	2021	**2020**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,081,357	$ 498,999
Marketable securities	505,895	269,593
Accounts receivable, net	237,439	145,844
Prepaid expenses and other current assets	59,702	55,967
Total current assets	1,884,393	970,403
Restricted cash	38,490	38,490
Strategic investments	68,161	28,814
Property and equipment, net	87,908	102,340
Operating lease right-of-use assets	219,195	197,830
Intangible assets, net	17,885	13,530
Goodwill	76,204	48,598
Other assets	41,464	41,701
Total assets	$ 2,433,700	$ 1,441,706
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 13,145	$ 16,893
Accrued compensation and benefits	108,868	65,196
Accrued expenses and other current liabilities	29,864	32,123
Operating lease liability	34,930	30,465
Deferred revenue	510,311	375,263
Total current liabilities	697,118	519,940
Convertible senior notes, net	651,398	—
Operating lease liability, noncurrent	225,266	196,378
Deferred revenue, noncurrent	294	1,451
Other liabilities	2,183	38
Total liabilities	1,576,259	717,807
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, $0.0001 par value: Class A common stock - 5,000,000 shares authorized; 501,494 and 360,557 shares issued and outstanding as of January 31, 2021 and 2020, respectively; Class B common stock - 700,000 shares authorized; 79,091 and 194,803 shares issued and outstanding as of January 31, 2021 and 2020, respectively	58	56
Additional paid-in-capital	2,371,676	1,945,446
Accumulated other comprehensive income (loss)	102	(71)
Accumulated deficit	(1,537,043)	(1,236,621)
Total Slack Technologies, Inc. stockholders' equity	834,793	708,810
Noncontrolling interest	22,648	15,089
Total stockholders' equity	857,441	723,899
Total liabilities and stockholders' equity	$ 2,433,700	$ 1,441,706

See accompanying notes to consolidated financial statements.

SLACK TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	Year Ended January 31,		
	2021	2020	2019
Revenue	$ 902,610	$ 630,422	$ 400,552
Cost of revenue	121,692	97,191	51,301
Gross profit	780,918	533,231	349,251
Operating expenses:			
Research and development	382,145	457,364	157,538
Sales and marketing	460,709	402,780	233,191
General and administrative	221,148	261,365	112,730
Total operating expenses	1,064,002	1,121,509	503,459
Loss from operations	(283,084)	(588,278)	(154,208)
Interest expense	(38,105)	(858)	(434)
Interest income and other income, net	28,386	21,368	16,580
Loss before income taxes	(292,803)	(567,768)	(138,062)
Provision for (benefit from) income taxes	(315)	589	840
Net loss	(292,488)	(568,357)	(138,902)
Net income attributable to noncontrolling interest	7,934	2,701	1,781
Net loss attributable to Slack	$ (300,422)	$ (571,058)	$ (140,683)
Basic and diluted net loss per share:			
Net loss per share attributable to Slack common stockholders, basic and diluted	$ (0.53)	$ (1.43)	$ (1.16)
Weighted-average shares used in computing net loss per share attributable to Slack common stockholders, basic and diluted	567,152	399,461	121,732

See accompanying notes to consolidated financial statements.

SLACK TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	Year Ended January 31,		
	2021	**2020**	**2019**
Net loss	$ (292,488)	$ (568,357)	$ (138,902)
Other comprehensive income, net of tax:			
Change in unrealized gain or loss on marketable securities	173	427	591
Other comprehensive income, net of tax	173	427	591
Comprehensive loss	(292,315)	(567,930)	(138,311)
Comprehensive income attributable to noncontrolling interest	7,934	2,701	1,781
Comprehensive loss attributable to Slack	$ (300,249)	$ (570,631)	$ (140,092)

See accompanying notes to consolidated financial statements.

SLACK TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands)

	Convertible Preferred Stock		Common Stock		Additional Paid-In-Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance at January 31, 2018	337,483	$ 965,221	119,735	$ 12	$ 71,885	$ (1,089)	$ (524,880)	$ 8,139	$ 519,288
Exercise of stock options	—	—	4,888	1	4,166	—	—	—	4,167
Vesting of early exercised stock options	—	—	—	—	366	—	—	—	366
Issuance of Series H preferred stock, net of issuance cost	33,470	398,082	—	—	—	—	—	—	398,082
Issuance of Series H-1 preferred stock	2,419	28,798	—	—	—	—	—	—	28,798
Issuance of restricted stock awards (RSAs), net of cancellation	—	—	2,178	—	—	—	—	—	—
Issuance of Class A common stock to a third party	—	—	900	—	6,084	—	—	—	6,084
Repurchase of early exercised stock options	—	—	(128)	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	—	591	—	—	591
Stock-based compensation	—	—	—	—	23,132	—	—	—	23,132
Net income (loss)	—	—	—	—	—	—	(140,683)	1,781	(138,902)
Balance at January 31, 2019	373,372	1,392,101	127,573	13	105,633	(498)	(665,563)	9,920	841,606
Exercise of stock options	—	—	13,268	1	13,619	—	—	—	13,620
Vesting of early exercised stock options	—	—	—	—	260	—	—	—	260
Issuance of restricted stock awards (RSAs), net of cancellation	—	—	495	—	—	—	—	—	—
Repurchase of early exercised stock options	—	—	(2)	—	—	—	—	—	—
Conversion of convertible preferred stock to common stock in connection with direct listing	(373,372)	(1,392,101)	373,372	38	1,392,063	—	—	—	—
Issuance of common stock upon settlement of restricted stock units (RSUs)	—	—	40,318	4	(4)	—	—	—	—
Issuance of common stock for employee share purchase plan	—	—	336	—	7,351	—	—	—	7,351
Capital contributions from noncontrolling interest holders	—	—	—	—	—	—	—	3,840	3,840
Distributions to noncontrolling interest holders	—	—	—	—	—	—	—	(1,372)	(1,372)
Other comprehensive income	—	—	—	—	—	427	—	—	427
Stock-based compensation	—	—	—	—	426,524	—	—	—	426,524
Net income (loss)	—	—	—	—	—	—	(571,058)	2,701	(568,357)
Balance at January 31, 2020	—	—	555,360	56	1,945,446	(71)	(1,236,621)	15,089	723,899
Exercise of stock options	—	—	3,602	—	7,746	—	—	—	7,746
Vesting of early exercised stock options	—	—	—	—	3,823	—	—	—	3,823
Issuance of common stock upon settlement of restricted stock units (RSUs)	—	—	18,517	2	(2)	—	—	—	—
Equity component of convertible senior notes, net of issuance costs	—	—	—	—	223,622	—	—	—	223,622
Purchases of capped calls related to convertible senior notes	—	—	—	—	(105,570)	—	—	—	(105,570)
Shares issued related to a business combination	—	—	1,660	—	39,495	—	—	—	39,495
Issuance of common stock for employee share purchase plan	—	—	1,446	—	29,753	—	—	—	29,753
Distributions to noncontrolling interest holders	—	—	—	—	—	—	—	(375)	(375)
Other comprehensive income	—	—	—	—	—	173	—	—	173
Stock-based compensation	—	—	—	—	227,363	—	—	—	227,363
Net income (loss)	—	—	—	—	—	—	(300,422)	7,934	(292,488)
Balance at January 31, 2021	—	$ —	580,585	$ 58	2,371,676	$ 102	$ (1,537,043)	$ 22,648	$ 857,441

See accompanying notes to consolidated financial statements.

SLACK TECHNOLOGIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended January 31,		
	2021	2020	2019
Cash flows from operating activities:			
Net loss	$ (292,488)	$ (568,357)	$ (138,902)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	28,818	27,127	16,816
Loss on disposal of property and equipment	—	39	2,281
Stock-based compensation	227,363	426,524	23,132
Amortization of debt discount and issuance costs	33,690	—	—
Non-cash operating lease expense	37,615	8,963	—
Amortization of deferred contract acquisition costs	15,767	8,153	3,154
Net amortization of bond premium (discount) debt securities available for sale	2,173	(2,180)	(3,057)
Change in fair value of strategic investments	(20,278)	(5,599)	(3,701)
Other non-cash adjustments	(2,052)	(249)	546
Changes in operating assets and liabilities:			
Accounts receivable	(92,361)	(58,202)	(50,305)
Prepaid expenses and other assets	(16,601)	(20,594)	(53,072)
Accounts payable	(3,411)	6,726	2,846
Operating lease liabilities	(25,603)	(9,495)	—
Accrued compensation and benefits	43,669	19,045	22,504
Deferred revenue	132,901	134,841	116,420
Other current and long-term liabilities	3,237	20,869	20,279
Net cash provided by (used in) operating activities	72,439	(12,389)	(41,059)
Cash flows from investing activities:			
Purchases of marketable securities	(561,161)	(290,188)	(967,055)
Maturities of marketable securities	316,979	517,583	727,616
Sales of marketable securities	5,900	166,074	11,271
Acquisitions of businesses, net of cash acquired	6,571	—	(45,313)
Acquisitions of intangible assets	(2,375)	(2,500)	(2,382)
Purchases of property and equipment	(10,232)	(49,626)	(56,180)
Sales of property and equipment	—	—	762
Capitalized software development costs	—	—	(840)
Purchases of strategic investments	(20,045)	(14,132)	(2,276)
Proceeds from liquidation of strategic investments	1,265	2,917	976
Net cash provided by (used in) investing activities	(263,098)	330,128	(333,421)
Cash flows from financing activities:			
Proceeds from issuance of convertible senior notes, net of issuance costs	841,329	—	—
Purchases of capped calls related to convertible senior notes	(105,570)	—	—
Proceeds from exercise of stock options	13,130	14,227	4,783
Payments of contingent consideration for acquisitions	(5,250)	(5,000)	—
Issuance of common stock for employee stock purchase plan	29,753	7,351	—
Net proceeds from issuance of convertible preferred stock	—	—	426,880
Capital contributions from noncontrolling interest holders	—	3,840	—
Distributions to noncontrolling interest holders	(375)	(1,372)	—
Issuance of common stock to third party	—	—	6,084
Other financing activities	—	(556)	(70)
Net cash provided by financing activities	773,017	18,490	437,677
Net increase in cash, cash equivalents and restricted cash	582,358	336,229	63,197
Cash, cash equivalents and restricted cash at beginning of year	537,489	201,260	138,063
Cash, cash equivalents and restricted cash at end of year	$ 1,119,847	$ 537,489	$ 201,260

Supplemental disclosure of cash flow information:						
Cash paid for income taxes	$	3,028	$	2,296	$	876
Cash paid for interest	$	2,228	$	—	$	—
Non-cash investing and financing activities:						
Increase (decrease) in purchases of property and equipment included in liabilities	$	(1,992)	$	(11,435)	$	6,334
Fair value of common stock issued as consideration for a business combination	$	39,495	$	—	$	—
Vesting of early exercised stock options	$	3,823	$	260	$	366
Unrealized short-term gain (loss) on marketable securities	$	163	$	578	$	791
Acquisition of intangible assets, not yet paid	$	1,000	$	—	$	—

See accompanying notes to consolidated financial statements.

SLACK TECHNOLOGIES, INC.

Notes to Consolidated Financial Statements

Note 1. Description of Business and Summary of Significant Accounting Policies

Business

Slack Technologies, Inc. (the “Company” or “Slack”) operates a business technology software platform that brings together people, applications, and data and sells its offering under a software-as-a-service model. The Company was incorporated in Delaware in 2009 as Tiny Speck, Inc. In 2014, the Company changed its name to Slack Technologies, Inc. and publicly launched its current offering. The Company is headquartered in San Francisco, California.

Fiscal Year

The Company’s fiscal year ends on January 31. References to fiscal year 2021, for example, refer to the fiscal year ended January 31, 2021.

Proposed Transaction with Salesforce

On December 1, 2020 the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with salesforce.com, inc. (“Salesforce”), Skyline Strategies I Inc., a Delaware corporation and a wholly owned subsidiary of Salesforce (“Merger Sub I”), and Skyline Strategies II LLC, a Delaware limited liability company and a wholly owned subsidiary of Salesforce (“Merger Sub II”). The Merger Agreement provides for the merger of Merger Sub I with and into the Company, with the Company continuing as the surviving corporation and as a wholly owned subsidiary of Salesforce (the “First Merger”), immediately followed by a second merger of the surviving corporation into either Merger Sub II or Salesforce, with either Merger Sub II or Salesforce continuing as the surviving company (the “Second Merger” and together with the First Merger, the “Mergers”).

Under the terms of the Merger Agreement, all of the Company’s issued and outstanding shares of Class A common stock and Class B common stock will be converted into the right to receive (a) 0.0776 shares of Salesforce common stock and (b) $26.79 in cash, without interest. The Mergers are intended to be treated as a single integrated transaction that will qualify as a “reorganization” within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the “Code”). As a result of the Mergers, the Company will cease to be a publicly traded company.

The Merger Agreement contains customary representations, warranties, and covenants. The consummation of the Mergers is conditioned on the receipt of the approval of the Company’s stockholders, as well as the satisfaction of other customary closing conditions, including domestic and foreign regulatory approvals and performance in all material respects by each party of its obligations under the Merger Agreement. Consummation of the Mergers is not subject to a financing condition. In March 2021, the Company’s stockholders approved the proposal to adopt the Merger Agreement and approve the transactions contemplated thereby, including the Mergers. The Mergers are anticipated to close in the second quarter of the Company’s fiscal year 2022 (the quarter ending July 31, 2021), subject to Company receipt of required regulatory approvals, and other customary closing conditions. The Company cannot predict with certainty, however, whether and when all of the required closing conditions will be satisfied or if the Mergers will close.

The Merger Agreement contains certain customary termination rights for the Company and Salesforce, including if the First Merger is not consummated by August 1, 2021, subject to two extensions of up to three months each in order to obtain required regulatory approvals. If the Merger Agreement is terminated under certain specified circumstances, including (i) a termination by the Company to enter into a superior proposal, (ii) a termination by Salesforce following a change or withdrawal of the Company’s board of directors’ recommendation of the Mergers to the Company’s stockholders, or (iii) a termination by Salesforce as a result of a material breach of the Company’s non-solicitation obligations under the Merger Agreement, then the Company will be obligated to pay to Salesforce a termination fee equal to $900.0 million in cash.

The foregoing summary of the Merger Agreement and the transactions contemplated thereby does not purport to be complete and is subject to, and qualified in its entirety by, the full text of the Merger Agreement, which is filed as Exhibit 2.1 of the Company's Current Report on Form 8-K filed on December 1, 2020.

Other than transaction expenses associated with the proposed merger of $8.7 million recorded in general and administrative expense in the accompanying consolidated statements of operations for the year ended January 31, 2021, the terms of the Merger Agreement did not impact the Company's consolidated financial statements.

Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), and include the accounts of the Company and its wholly owned and majority-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The consolidated financial statements include 100% of the accounts of wholly owned and majority-owned subsidiaries and the ownership interest of minority investors is recorded as noncontrolling interest.

Direct Listing

On June 20, 2019, the Company completed a direct listing of its Class A common stock (the "Direct Listing") on the New York Stock Exchange ("NYSE"). The Company incurred nonrecurring fees related to financial advisory service, audit, and legal expenses in connection with the Direct Listing and recorded $30.4 million in general and administrative expense for the year ended January 31, 2020. Prior to the Direct Listing, all shares of outstanding convertible preferred stock were converted into an equivalent number of shares of Class B common stock.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates are based on information available as of the date of the consolidated financial statements. On a regular basis, management evaluates these estimates and assumptions; however, actual results could materially differ from these estimates due to risks and uncertainties, including uncertainty in the current economic environment related to the outbreak of the novel coronavirus pandemic ("COVID-19").

The Company's most significant estimates and judgments involve revenue recognition, stock-based compensation including the estimation of fair value of common stock, valuation of strategic investments, valuation of acquired goodwill and intangibles from acquisitions, period of benefit for deferred contract acquisition costs, fair value of the liability and equity components of convertible senior notes, and uncertain tax positions.

Revenue Recognition

The Company derives substantially all revenue from monthly and annual subscription fees earned from customers accessing Slack. The Company's policy is to exclude sales and other indirect taxes when measuring the transaction price of its subscription agreements. The Company accounts for revenue contracts with customers through the following steps:

- Identification of the contract, or contracts, with the customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of the revenue when, or as, the Company satisfies a performance obligation.

Subscription revenue is recognized on a straight-line basis over the contractual term of the arrangement beginning on the date that the service is made available to the customer. The Company's subscription service contracts are generally one month to thirty-six months in duration and are generally non-cancellable. Customers are billed either annually or monthly generally in advance of services. The contracts do not provide customers with the right to take possession of the software supporting Slack. The Company's arrangements do not contain general rights of return. Amounts that have been invoiced are recorded in accounts receivable and in revenue or deferred revenue, depending on whether the performance obligation has been satisfied. For certain multi-year agreements, revenue recognition may occur in advance of invoicing, resulting in a contract asset when a conditional right to consideration exists and transfer of control for the services rendered. These contract assets are included in prepaid expenses and other current assets. The Company maintains a fair billing policy, under which certain customers maintain a credit balance if they have not used the entirety of the allotment of users for which they have paid during the contractual term of their respective arrangements. These credits, accounted for as a part of deferred revenue, may be carried over to offset billings related to increases in a customer's number of active users and are not refundable for cash. A majority of the Company's contracts give a right to bill for additional usage, and this is deemed variable consideration. The variable consideration is allocated to the distinct day the services are completed, as services provided to the additional users are specific to the period that the usage occurs. To the extent that the Company believes it is probable that a significant reversal would not occur, an estimate is made for the revenue associated with incremental usage during a period. The incremental revenue recognized associated with these estimates has not been material for any period presented.

Cost of Revenue

Cost of revenue consists primarily of expenses related to hosting Slack and providing ongoing customer experience support for paid customers, including employee compensation (including stock-based compensation) and other employee-related expenses for customer experience and technical operations staff, payments to outside service providers, third-party hosting costs, payment processing fees and amortization of internally-developed and purchased technology.

Stock-Based Compensation

The Company measures compensation for all stock-based payment awards, including stock options, restricted stock units ("RSUs"), restricted stock awards ("RSAs"), restricted stock, and purchase rights issued under the 2019 Employee Stock Purchase Plan ("ESPP") granted to employees, directors, and nonemployees, based on the estimated fair value of the awards on the date of grant. The fair value of each stock option and purchase rights issued under the ESPP granted is estimated using the Black-Scholes option pricing model. Stock-based compensation is recognized on a straight-line basis over the requisite service period, except for the RSUs granted under the 2009 Stock Plan (the "2009 Plan").

Under the 2009 Plan, the Company granted RSUs to its employees and directors with both a service-based vesting condition and a performance-based vesting condition. The service-based vesting period for these awards was typically four years with a cliff vesting period of one year and continued vesting quarterly thereafter. The fair value of RSUs was estimated based on the fair market value of the Company's common stock at the date of grant. On June 20, 2019, the performance vesting condition was satisfied upon the completion of the Direct Listing and as a result, the Company recorded cumulative stock-based compensation of $245.1 million related to all then-outstanding RSUs granted under the 2009 Plan. The Company recognizes stock compensation associated with the RSUs granted under the 2009 Plan using the accelerated attribution method over the requisite service period.

The Company also granted stock options and RSAs to its employees and directors under the 2009 Plan with a service-based vesting condition. The service-based vesting period for these awards is typically four years with a cliff vesting period of one year and continued vesting monthly thereafter. The fair value of each stock option is estimated using the Black-Scholes option pricing model. The fair value of RSAs is estimated based on the fair market value of the Company's common stock at the date of grant.

Under the 2019 Stock Option and Incentive Plan (the "2019 Plan"), the Company grants RSUs and stock options to its employees and directors with a service-based vesting condition. The service-based vesting period for these awards is typically four years with a cliff vesting period of one year and continued vesting quarterly thereafter.

Research and Development Costs

Research and development costs are expensed as incurred and consist primarily of personnel costs and allocated overhead.

Advertising Costs

Advertising costs are expensed as incurred and were $45.7 million, $38.1 million, and $61.7 million for the years ended January 31, 2021, 2020, and 2019, respectively. Advertising costs are included in sales and marketing expense in the accompanying consolidated statements of operations.

Income Taxes

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized.

The Company accounts for uncertain tax positions based on an evaluation as to whether it is more likely than not that a tax position will be sustained on audit, including resolution of any related appeals or litigation processes. This evaluation is based on all available evidence and assumes that the appropriate tax authorities have full knowledge of all relevant information concerning the tax position. The tax benefit recognized is based on the largest amount that is greater than 50% likely of being realized upon ultimate settlement. The Company includes interest expense and penalties related to its uncertain tax positions in interest expense and other expense, respectively.

Financial Information about Segments and Geographical Areas

The Company has one business activity and there are no segment managers who are held accountable for operations, results of operations, or plans for levels or components below the consolidated unit level. The Company’s chief operating decision maker is its Chief Executive Officer, who reviews the financial information presented on a consolidated basis for purposes of allocating resources and evaluating the Company’s financial performance. Accordingly, the Company has determined that it operates in a single operating and reporting segment. See Note 2 and 16 for information regarding the Company’s revenue and long-lived assets by geographic area.

Foreign Currency Translation

The functional currency of the Company’s foreign subsidiaries is the U.S. dollar. Accordingly, each foreign subsidiary remeasures monetary assets and liabilities at period-end exchange rates, while nonmonetary items are remeasured at historical rates. Revenue and expense accounts are remeasured at the average exchange rate in effect during the year. Remeasurement adjustments are recognized in the accompanying consolidated statements of operations as transaction gains or losses in the year of occurrence as other income (expense).

Cash and Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents consist of funds deposited into money market funds, and commercial paper. Restricted cash consists of cash deposited with financial institutions as collateral for the Company’s obligations under its facility leases.

A reconciliation of cash, cash equivalents and restricted cash to the accompanying consolidated statements of cash flows is as follows (in thousands):

	As of January 31,	
	2021	2020
Cash and cash equivalents	$ 1,081,357	$ 498,999
Restricted cash	38,490	38,490
Total cash, cash equivalents and restricted cash	$ 1,119,847	$ 537,489

Marketable Securities

The Company determines the appropriate classification of its investments in marketable securities at the time of purchase and reevaluates such designation at each balance sheet date. The Company has classified and accounted for its marketable securities as available-for-sale. All of the Company's available-for-sale investments consist of debt securities, adjusted for amortization of premiums and discounts to maturity and such amortization is included in interest income and other income, net on the accompanying consolidated statements of operations. After consideration of the Company's capital preservation objectives, as well as its liquidity requirements, the Company may sell securities prior to their stated maturities. As the Company views these securities as available to support current operations, it has classified all available-for-sale securities as short-term. The Company carries its available-for-sale securities at fair value and reports the unrealized gains and losses as a component of stockholders' equity, except for unrealized losses determined to be other than temporary.

The Company evaluates its investments periodically for possible other-than-temporary impairment. A decline in fair value below the amortized costs of debt securities is considered an other-than-temporary impairment if the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security before recovery of the entire amortized cost basis. In those instances, an impairment charge equal to the difference between the fair value and the amortized cost basis is recognized in earnings. Regardless of the Company's intent or requirement to sell a debt security, impairment is considered other than temporary if the Company does not expect to recover the entire amortized cost basis.

Strategic Investments

In December 2015, the Company committed $13.0 million to a newly formed entity, Slack Fund L.L.C. ("Slack Fund"), in exchange for a 52% voting interest. Slack Fund is in the business of purchasing, selling, investing and trading in minority equity and convertible debt securities of privately-held companies that develop applications that have potential for substantial contribution to Slack and its ecosystem. Slack Fund has a duration of ten years and its duration may be extended for three additional years. At dissolution, Slack Fund will be liquidated and the remaining assets of the Slack Fund will be distributed to the investors based on their voting interest. As of January 31, 2020, the Company had contributed its full commitment of $13.0 million. Additionally, the minority investors in Slack Fund are also investors in the Company. By the end of fiscal year 2021, Slack Fund invested all of the capital initially committed by Slack and its partners and the Company has continued to invest in companies with funding for these investments coming solely from Slack. The Company has elected the measurement alternative, defined as cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. These investments are valued using significant unobservable inputs or data in inactive markets which require judgment due to the absence of market prices and inherent lack of liquidity. This could result in volatility in interest income and other income, net on the accompanying consolidated statements of operations in future periods due to the valuation and timing of identical or similar investments of the same issuer.

In March 2021, the Company entered into a transfer agreement by and among Slack (as manager and a member of Slack Fund), Slack Fund, and each of the members of Slack Fund (the "Transfer Agreement"). Pursuant to the

Transfer Agreement, the Company purchased all the outstanding LLC interests from the other members for $22.6 million.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk primarily consist of cash and cash equivalents, restricted cash, marketable securities, and accounts receivable. For cash, cash equivalents, restricted cash, and marketable securities, the Company is exposed to credit risk in the event of default by the financial institutions to the extent of the amounts recorded on the accompanying consolidated balance sheets that are in excess of federal insurance limits. For accounts receivable, the Company is exposed to credit risk in the event of nonpayment by customers to the extent of the amounts recorded on the accompanying consolidated balance sheets. The Company sells its services to a wide variety of customers. If the financial condition or results of operations of any significant customers deteriorates substantially, operating results could be adversely affected. To reduce credit risk, management performs credit evaluations of the financial condition of significant customers. The Company does not require collateral from its credit customers and maintains reserves for estimated credit losses on customer accounts when considered necessary. Actual credit losses may differ from the Company's estimates.

No customer accounted for 10% or greater of total accounts receivable as of January 31, 2021 and 2020. There were no customers representing 10% or greater of revenue for the years ended January 31, 2021, 2020, and 2019.

Fair Value of Financial Instruments

The Company records its financial assets and liabilities at fair value. The carrying amounts of the Company's financial instruments, which include cash, restricted cash, accounts receivable, and accounts payable, approximate their fair values due to their short-term nature. The accounting guidance for fair value provides a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value as follows:

- Level 1 inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Accounts Receivable, Net

Trade accounts receivable are recorded at invoiced amounts and do not bear interest. The Company generally does not require collateral and performs ongoing credit evaluations of its customers and provides for expected losses. The expectation of collectability is based on the Company's review of credit profiles of customers, contractual terms and conditions, current economic trends, and historical payment experience. If events or changes in circumstances indicate that specific receivable balances may be impaired, further consideration is given to the collectability of those balances and an allowance is recorded accordingly. Past-due receivable balances are written off when internal collection efforts have been unsuccessful in collecting the amount due.

The allowance for doubtful accounts reflects the Company's best estimate of probable losses inherent in the receivables portfolio determined on the basis of historical experience, specific allowances for known troubled accounts and other currently available evidence. The Company has not experienced significant credit losses from accounts receivable. The allowance for doubtful accounts and the changes in the allowance for doubtful accounts were not material, for the years ended January 31, 2021 and 2020.

Deferred Contract Acquisition Costs, Net

Sales commissions earned by the Company's sales force are considered to be incremental and recoverable costs of obtaining a contract with a customer. As a result, these amounts have been capitalized as deferred contract acquisition costs within prepaid expenses and other current assets and other assets on the accompanying consolidated balance sheets.

Deferred contract acquisition costs are typically amortized over a period of benefit of four years. The period of benefit is estimated by considering factors such as historical customer attrition rates, the useful life of the Company's technology, and the impact of competition in its industry as well as other factors. Amortized costs are included in sales and marketing expense in the accompanying consolidated statements of operations.

Property and Equipment, Net

Property and equipment, net is stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful life of the related asset, which is typically two years for computer equipment and software, five years for furniture and fixtures, and in the case of leasehold improvements, the remaining term of the lease, unless the useful life of the asset is shorter. Maintenance and repairs are charged to expense as incurred.

Internal-Use Software Development Costs

The Company capitalizes qualifying internal-use software development costs and implementation costs incurred in cloud computing arrangements that are incurred during the application development stage. Capitalization of costs begins when two criteria are met: (i) the preliminary project stage is completed and (ii) it is probable that the software will be completed and used for its intended function. Capitalization ceases when the software is substantially complete and ready for its intended use, including the completion of all significant testing. Costs related to preliminary project activities and post-implementation operating activities are expensed as incurred.

Capitalized costs are included in property and equipment. These costs are amortized over the estimated useful life of the software (generally two years) on a straight-line basis. Management evaluates the useful life of these assets on an annual basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. The amortization of costs related to the platform applications is included in cost of revenue.

Business Combinations

The Company applies the acquisition method of accounting for business combinations. Under this method of accounting, all assets acquired and liabilities assumed are recorded at their respective fair values at the date of the acquisition. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, intangibles, and other asset lives, among other items. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market participants are assumed to be buyers and sellers in the principal (most advantageous) market for the asset or liability. Additionally, fair value measurements for an asset assume the highest and best use of that asset by market participants. As a result, the Company may be required to value the acquired assets at fair value measures that do not reflect its intended use of those assets. Use of different estimates and judgments could yield different results.

Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. If the fair value of net assets acquired exceeds the fair value of purchase price, a gain on bargain purchase is recognized within the accompanying consolidated statements of operations. Although the Company believes the assumptions and estimates it has made are reasonable and appropriate, they are based in part on historical experience and information that may be obtained from the management of the acquired company and are inherently uncertain. During the measurement period, which may be up to one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill for facts and considerations that were known at the acquisition date. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded within the accompanying consolidated statements of operations.

Accounting for Impairment of Long-Lived Assets

The Company evaluates long-lived assets, such as property and equipment and acquired intangibles, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by comparison of 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 exceeds these estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the assets exceeds the fair value of the asset or asset group, based on discounted cash flows. There were no material impairment charges recorded for the years ended January 31, 2021, 2020, and 2019.

Goodwill

Goodwill is not amortized, but rather is tested for impairment at least annually or more frequently if indicators of impairment are present. The Company operates as one reporting unit and performs its annual goodwill impairment analysis as of the first day of the fourth quarter of each year. In assessing impairment on goodwill, the Company may bypass a qualitative assessment and proceeds directly to performing a quantitative evaluation of the fair value of its single reporting unit, in order to compare it against the carrying value of the reporting unit. A goodwill impairment charge is recognized for the amount by which the reporting unit’s fair value is less than its carrying value. Any loss recognized will not exceed the total amount of goodwill allocated to that reporting unit. Based on the results of the goodwill impairment analysis, the Company determined that no impairment charge needed to be recorded for any periods presented.

Operating Leases

The Company leases real estate facilities under non-cancelable operating leases with various expiration dates through fiscal year 2031. The Company determines if an arrangement contains a lease at inception based on whether there is an identified property, plant or equipment and whether the Company controls the use of the identified asset throughout the period of use.

The Company adopted the Accounting Standard Update (“ASU”) No. 2016-02, *Leases* (*Topic 842*) on November 1, 2019.

Operating leases are included in operating lease right-of-use (“ROU”) assets and in operating lease liabilities in the accompanying consolidated balance sheets. Operating lease ROU assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. Operating lease ROU assets and lease liabilities are recognized at the lease inception date based on the present value of lease payments over the lease term discounted based on the more readily determinable of (i) the rate implicit in the lease or (ii) the Company’s incremental borrowing rate (which is the estimated rate the Company would be required to pay for a collateralized borrowing equal to the total lease payments over the term of the lease). Because the Company’s operating leases generally do not provide an implicit rate, the Company estimates its incremental borrowing rate based on the information available at lease commencement date for borrowings with a similar term.

The Company’s operating lease ROU assets are measured based on the corresponding operating lease liability adjusted for (i) payments made to the lessor at or before the commencement date, (ii) initial direct costs incurred and (iii) tenant incentives under the lease. The Company does not assume renewals or early terminations unless it is reasonably certain to exercise these options at commencement. The Company does not allocate consideration between lease and non-lease components. Variable lease payments are recognized in the period in which the obligation for those payments are incurred. In addition, the Company does not recognize ROU assets or lease liabilities for leases with a term of 12 months or less of all asset classes. Operating lease expense is recognized on a straight-line basis over the lease term.

Lease accounting prior to the adoption of Topic 842 (ASC 840)

For leases that contain rent escalation, rent concession provisions, or tenant improvement allowances, the Company recorded the total rent expense during the lease term on a straight-line basis over the term of the lease.

Convertible Senior Notes

In April 2020, the Company issued $862.5 million aggregate principal amount of 0.50% convertible senior notes due April 15, 2025 in a private offering, including the initial purchasers' exercise in full of their option to purchase additional notes (the "Notes"). See Note 10 for additional details.

The Notes are accounted for in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Subtopic 470-20, *Debt with Conversion and Other Options*. Pursuant to ASC Subtopic 470-20, issuers of certain convertible debt instruments, such as the Notes, that have a net settlement feature and may be settled wholly or partially in cash upon conversion are required to separately account for the liability (debt) and equity (conversion option) components of the instrument. The carrying amount of the liability component of the instrument is computed by estimating the fair value of a similar liability without the conversion option using a market-based approach. The amount of the equity component is then calculated by deducting the fair value of the liability component from the principal amount of the instrument. The difference between the principal amount and the liability component represents a debt discount that is amortized to interest expense over the respective term of the Notes using the effective interest rate method. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. In accounting for the issuance costs related to the Notes, the allocation of issuance costs incurred between the liability and equity components was based on their relative values.

Deferred Revenue

Deferred revenue consists of customer billings in advance of revenue being recognized from the Company's contracts, including credit balances due to the Company's fair billing policy. Deferred revenue is generally recognized during the succeeding twelve-month period.

Recently Adopted Accounting Standards

In June 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments - Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments*, which requires an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate its "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in more timely recognition of credit losses. This guidance also requires new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. The Company adopted Topic 326 as of February 1, 2020. The adoption of this new standard did not have a material impact on the accompanying consolidated financial statements as credit losses are not expected to be significant based on historical collection trends, the financial condition of payment partners, and external market factors. The Company will continue to actively monitor the impact of the COVID-19 on expected credit losses.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement,* which modifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The Company adopted ASU No. 2018-13 as of February 1, 2020. The adoption of this new standard did not have a material impact on the accompanying 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*, which aligns the accounting for implementation costs incurred in a hosting arrangement that is a service contract with the accounting for implementation costs incurred to develop or obtain internal-use software under ASC 350-40, in order to determine which costs to capitalize and recognize as an asset and which costs to expense. The Company adopted ASU No. 2018-15 as of February 1, 2020 using a prospective transition approach. The adoption of this new standard did not have a material impact on the accompanying consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* which simplifies the accounting for income taxes by removing certain exceptions to the general principles of income taxes and reducing the cost and complexity in accounting for income taxes. The Company early adopted ASU No. 2019-12 as of February 1, 2020 using the prospective transition approach. The adoption of this new standard did not have a material impact on the accompanying consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted

In August 2020, the FASB issued ASU No. 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity, which simplifies accounting for convertible instruments by removing major separation models required under current U.S. GAAP. ASU No. 2020-06 removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception and it also simplifies the diluted earnings per share calculation in certain areas. ASU No. 2020-06 is effective for public companies for annual periods beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted for annual periods beginning after December 15, 2020, and interim periods within those fiscal years. The Company is currently evaluating the impact of this standard on its consolidated financial statements and related disclosures.

Note 2. Revenue

Contract Liability Balances

Contract liabilities consist of deferred revenue. The changes in deferred revenue were as follows (in thousands):

	Year Ended January 31, 2021
Balance, beginning of year	$ 376,714
Billings	1,036,501
Revenue	(902,610)
Balance, end of year	$ 510,605

Less than half of revenue recognized in the year ended January 31, 2021 was from the deferred revenue balance as of January 31, 2020.

Remaining Performance Obligations

As of January 31, 2021, the aggregate balance of remaining performance obligations that were unsatisfied or partially unsatisfied at the end of the reporting period was $860.0 million, of which 69% is expected to be recognized in the twelve months following January 31, 2021, with the balance to be recognized as revenue thereafter.

Disaggregation of Revenue

The following table shows the Company's revenue by geographic areas, as determined based on the billing address of its customers (in thousands):

	Year ended January 31,		
	2021	2020	2019
United States	$ 554,494	$ 394,716	$ 255,155
International	348,116	235,706	145,397
Total	$ 902,610	$ 630,422	$ 400,552

No individual foreign country contributed in excess of 10% of revenue for the years ended January 31, 2021, 2020, and 2019.

Deferred Contract Acquisition Costs, Net

The Company deferred incremental costs of obtaining a contract of $33.8 million, $23.6 million, and $15.8 million during the years ended January 31, 2021, 2020, and 2019, respectively. Deferred contract acquisition costs, net included in prepaid expenses and other current assets were $19.3 million and $11.2 million as of January 31, 2021 and 2020, respectively. Deferred contract acquisition costs, net included in other assets were $31.3 million and $21.4 million as of January 31, 2021 and 2020, respectively.

Amortization of deferred contract acquisition costs were $15.8 million, $8.2 million, and $3.2 million for the years ended January 31, 2021, 2020, and 2019, respectively. There was no impairment loss in relation to the deferred contract acquisition costs for any period presented in the accompanying consolidated statements of operations.

Note 3. Cash, Cash Equivalents and Marketable Securities

The following tables summarize amortized costs, unrealized gains and losses, and estimated fair value related to cash, cash equivalents, and marketable securities on the Company's consolidated balance sheets (in thousands):

As of January 31, 2021	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Cash and cash equivalents:				
Cash	$ 98,280	$ —	$ —	$ 98,280
Money market funds	407,670	—	—	407,670
Certificates of deposit	75,432	—	—	75,432
U.S. government securities	499,975	1	(1)	499,975
Total cash and cash equivalents	1,081,357	1	(1)	1,081,357
Marketable securities:				
Certificates of deposit	5,500	35	—	5,535
U.S. agency securities	162,673	142	(6)	162,809
U.S. government securities	292,091	57	(5)	292,143
Corporate bonds	45,184	224	—	45,408
Total marketable securities	505,448	458	(11)	505,895
Total cash, cash equivalents and marketable securities	$ 1,586,805	$ 459	$ (12)	$ 1,587,252

As of January 31, 2020	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Cash and cash equivalents:				
Cash	$ 71,593	$ —	$ —	$ 71,593
Money market funds	357,524	—	—	357,524
Commercial paper	69,891	—	(9)	69,882
Total cash and cash equivalents	499,008	—	(9)	498,999
Marketable securities:				
Commercial paper	19,799	4	(8)	19,795
U.S. agency securities	29,460	55	—	29,515
U.S. government securities	97,071	102	(1)	97,172
International government securities	8,109	6	—	8,115
Corporate bonds	114,871	139	(14)	114,996
Total marketable securities	269,310	306	(23)	269,593
Total cash, cash equivalents and marketable securities	$ 768,318	$ 306	$ (32)	$ 768,592

The Company periodically evaluates its investments for other-than-temporary declines in fair value. The unrealized losses on the available-for-sale securities were primarily due to unfavorable changes in interest rates subsequent to the initial purchase of these securities. Gross unrealized losses of the Company's available-for-sale securities that have been in a continuous unrealized loss position for twelve months or longer was none and immaterial as of January 31, 2021 and 2020, respectively. The Company expects to recover the full carrying value of its available-for-sale securities in an unrealized loss position as it does not intend or anticipate a need to sell these securities prior to recovering the associated unrealized losses. As a result, the Company does not consider any portion of the unrealized losses as of January 31, 2021 or 2020 to represent an other-than temporary impairment or credit losses.

The following table classifies marketable securities by contractual maturities (in thousands):

	As of January 31,	
	2021	2020
Due in one year	$ 372,978	$ 190,344
Due in one to two years	132,917	79,249
Total	$ 505,895	$ 269,593

Note 4. Fair Value Measurements

The Company's money market funds and sweep account are classified within Level 1 of the fair value hierarchy because they are valued using quoted prices in active markets. The Company's commercial paper, U.S. agency and government securities, international government securities, and corporate bonds are classified within Level 2 of the fair value hierarchy because they have been valued using inputs other than quoted prices in active markets that are observable directly or indirectly. The Company's strategic investments in privately held companies are classified within Level 3 of the fair value hierarchy because they have been valued using unobservable inputs for which the Company has been required to develop its own assumptions. Realized and unrealized gains and losses relating to the strategic investments are recorded in interest income and other income, net in the accompanying consolidated statements of operations.

The following table provides the financial instruments measured at fair value on a recurring basis, within the fair value hierarchy (in thousands):

As of January 31, 2021	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 407,670	$ —	$ —	$ 407,670
Certificates of deposit	—	75,432	—	75,432
U.S. government securities	—	499,975	—	499,975
Total cash equivalents	$ 407,670	$ 575,407	$ —	$ 983,077
Marketable securities:				
Certificates of deposit	$ —	$ 5,535	$ —	$ 5,535
U.S. agency securities	—	162,809	—	162,809
U.S. government securities	—	292,143	—	292,143
Corporate bonds	—	45,408	—	45,408
Total marketable securities	$ —	$ 505,895	$ —	$ 505,895
Noncurrent assets:				
Strategic investments	$ —	$ —	$ 68,161	$ 68,161

As of January 31, 2020	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 357,524	$ —	$ —	$ 357,524
Commercial paper	—	69,882	—	69,882
Total cash equivalents	$ 357,524	$ 69,882	$ —	$ 427,406
Marketable securities:				
Commercial paper	$ —	$ 19,795	$ —	$ 19,795
U.S. agency securities	—	29,515	—	29,515
U.S. government securities	—	97,172	—	97,172
International government securities	—	8,115	—	8,115
Corporate bonds	—	114,996	—	114,996
Total marketable securities	$ —	$ 269,593	$ —	$ 269,593
Noncurrent assets:				
Strategic investments	$ —	$ —	$ 28,814	$ 28,814

The following table presents additional information about Level 3 assets measured at fair value on a recurring basis (in thousands):

	Year ended January 31,	
	2021	2020
Balance at beginning of year	$ 28,814	$ 12,334
Purchases	20,045	14,132
Proceeds from liquidation	(976)	(3,251)
Realized gains (losses)	(91)	2,285
Unrealized gains relating to investments still held at reporting date	20,369	3,314
Balance at end of year	$ 68,161	$ 28,814

In February 2021, the Company recorded additional $20.2 million unrealized gains relating to the strategic investments held at January 31, 2021, due to observable market transactions.

Convertible Senior Notes

As of January 31, 2021, the fair value of the Notes was approximately $1.26 billion. The fair value was determined based on the quoted price for the Notes in an inactive market on the last trading day of the reporting period and is considered as Level 2 in the fair value hierarchy. Based on the closing price of the Company's Class A common stock of $42.17 on the last trading day of the quarter, the if-converted values of the Notes exceeded the remaining principal amounts by $311 million as of January 31, 2021.

Note 5. Property and Equipment, Net

The following is a summary of the Company's property and equipment by category (in thousands):

	As of January 31,	
	2021	2020
Leasehold improvements	$ 106,222	$ 98,770
Furniture and fixtures	29,956	27,384
Capitalized internal-use software costs	4,241	4,241
Computer equipment	4,189	3,183
Construction in progress	2,963	10,345
Property and equipment, gross	147,571	143,923
Less: accumulated depreciation and amortization	(59,663)	(41,583)
Property and equipment, net	$ 87,908	$ 102,340

Depreciation and amortization expense was $22.9 million, $23.0 million, and $15.0 million for the years ended January 31, 2021, 2020, and 2019, respectively.

The Company capitalized internal-use software costs of $0, $0, and $0.8 million for the years ended January 31, 2021, 2020, and 2019, respectively. Amortization expense of capitalized internal-use software costs totaled $0.4 million, $0.5 million, and $0.3 million for the years ended January 31, 2021, 2020, and 2019, respectively. The net carrying value of capitalized internal-use software at January 31, 2021 and 2020 was $0 and $0.4 million, respectively.

Note 6. Operating Leases

The Company leases real estate facilities under non-cancelable operating leases with various expiration dates through fiscal year 2031. The Company adopted Topic 842 as of November 1, 2019, using the modified retrospective approach.

For the year ended January 31, 2021, the Company recorded operating lease costs of $46.9 million including variable operating lease costs of $6.7 million and short-term leases of $2.6 million. In the fourth quarter of fiscal year 2020, the Company recorded operating lease costs of $11.7 million including variable operating lease costs of $1.7 million and short-term leases of $0.7 million.

The following table sets forth a summary of and other information pertaining to the Company's operating leases since the adoption of Topic 842 (dollars in thousands):

	Year ended January 31,	
	2021	2020
Operating cash flows used for operating leases	$ 25,603	$ 9,495
Operating lease liabilities arising from obtaining ROU assets	$ 61,685	$ 4,832
Weighted average remaining terms	8.0 years	8.3 years
Weighted average discount rate	5.2 %	5.2 %

Rent expense, net of sublease income under ASC 840 was $26.3 million for the nine months ended October 31, 2019 and $27.7 million and for the year ended January 31, 2019.

Future minimum lease payments under non-cancelable operating leases with initial lease terms in excess of one year as of January 31, 2021 as follows (in thousands):

Year ending January 31,	
2022	$ 34,943
2023	52,150
2024	50,794
2025	53,232
2026	53,980
Thereafter	213,709
Gross lease payments	458,808
Less: Imputed interest	(70,857)
Less: Tenant improvement receivables	(24,294)
Less: Leases executed but not yet commenced	(103,461)
Present value of lease liabilities	$ 260,196

As of January 31, 2021, the Company had commitments of $103.5 million for non-cancelable operating lease of real estate facility that has not yet commenced, and therefore are not included in the ROU assets or operating lease liabilities. This operating lease is expected to commence in fiscal year 2022 with a lease term of 12.0 years.

Note 7. Business Combination

On June 29, 2020, the Company completed its acquisition of all issued and outstanding shares of Rimeto Inc. ("Rimeto"), a provider of an enterprise directory platform that enables users to stay connected with detailed employee profiles and information. The Company effected the business combination by issuing 1,659,715 shares of its Class A common stock, of which 740,837 shares are subject to a re-vesting restriction over four years from the closing of the acquisition. Post-combination stock-based compensation for the re-vesting restricted stock, net of fair value of the pre-combination service portion, which is recorded as purchase price, is $11.4 million and is being ratably recognized over the requisite service period of four years. The acquisition date fair value of the purchase price was $40.1 million, which consisted of the following (in thousands):

	Fair Value
Cash	$ 653
Fair value of Class A common stock transferred	28,060
Fair value of the pre-combination service portion of restricted stock	11,435
Total purchase price	$ 40,148

The following table presents the purchase price allocation recorded in the Company’s consolidated balance sheet as of the date of acquisition (in thousands):

	Fair Value
Cash and cash equivalents	$ 7,224
Accounts receivable and other assets	732
Operating lease right-of-use assets	616
Intangible assets	7,000
Goodwill	27,606
Accounts payable and other liabilities	(464)
Operating lease liability	(637)
Deferred revenue	(990)
Deferred tax liability	(939)
Total purchase price	$ 40,148

The acquisition was accounted for as a business combination and the total purchase price was allocated to the net tangible and intangible assets and liabilities based on their fair values on the acquisition date and the excess was recorded as goodwill.

The goodwill was primarily attributed to the value of synergies created with the Company’s current and future offerings and the value of the assembled workforce. Both goodwill and intangible assets to be fully deductible for income tax purposes.

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands):

	Fair Value	Useful Life
Developed technology	$ 4,900	3 years
Customer relationships	2,100	3 years
Total identifiable intangible assets	$ 7,000	

In connection with the acquisition, the Company agreed to grant RSUs to Rimeto employees who joined the Company upon the effective date of the acquisition, with a value totaling approximately $19.0 million. The amount is being ratably recognized as stock-based compensation over the requisite service period of four years.

The Company incurred costs related to this acquisition of $1.5 million that were recorded in general and administrative expenses in the accompanying consolidated statements of operations for the year ended January 31, 2021.

Note 8. Goodwill and Intangible Assets, Net

Goodwill

The following table reflects the changes in the carrying amount of goodwill (in thousands):

	Year ended January 31,	
	2021	2020
Balance at beginning of year	$ 48,598	$ 48,598
Addition due to business combination	27,606	—
Balance at end of year	$ 76,204	$ 48,598

Intangible Assets, Net

Intangible assets as of January 31, 2021 and 2020 consist of the following (in thousands, except years):

As of January 31, 2021	Weighted-average remaining amortization period	Gross carrying amount	Accumulated amortization	Net carrying amount
Customer relationships	4.0 years	$ 11,200	$ 3,712	$ 7,488
Developed technology	2.0 years	13,427	8,162	5,265
Patents and licenses	5.6 years	5,875	743	5,132
Assembled workforce	0.0 years	1,198	1,198	—
Total		$ 31,700	$ 13,815	$ 17,885

As of January 31, 2020	Weighted-average remaining amortization period	Gross carrying amount	Accumulated amortization	Net carrying amount
Customer relationships	5.5 years	$ 9,100	$ 2,004	$ 7,096
Developed technology	1.6 years	8,527	4,976	3,551
Patents	4.9 years	2,500	42	2,458
Assembled workforce	0.7 years	1,198	773	425
Total		$ 21,325	$ 7,795	$ 13,530

The Company records amortization expense associated with customer relationships, developed technology, assembled workforce and patents in sales and marketing expense, cost of revenue, research and development expense and general and administrative expense, respectively, in the accompanying consolidated statements of operations. Amortization expense of intangible assets was $6.0 million, $4.2 million, and $1.8 million for the years ended January 31, 2021, 2020, and 2019, respectively.

As of January 31, 2021, expected amortization expense relating to intangible assets for each of the next five years and thereafter is as follows (in thousands):

Year ending January 31,	
2022	$ 5,934
2023	4,615
2024	3,254
2025	2,240
2026	1,078
Thereafter	764
Total	$ 17,885

Note 9. Accrued Compensation and Benefits

Accrued compensation and benefits consists of the following (in thousands):

	As of January 31,	
	2021	2020
Accrued bonus	$ 47,929	$ 28,829
Other	60,939	36,367
Accrued compensation and benefits	$ 108,868	$ 65,196

Note 10. Debt and Financing Arrangements

Convertible Senior Notes

On April 9, 2020, the Company issued $862.5 million in aggregate principal amount of the Notes in a private offering pursuant to an Indenture dated April 9, 2020 (the "Indenture"), including the initial purchasers' exercise in full of their option to purchase an additional $112.5 million principal amount of the Notes. The total net proceeds from the debt offering, after deducting initial purchaser discounts and debt issuance costs, paid or payable were $841.3 million.

The Notes are senior, unsecured obligations of the Company and will accrue interest payable semiannually in arrears on April 15 and October 15 of each year, which began on October 15, 2020, at a rate of 0.50% per year. The Notes will mature on April 15, 2025, unless earlier converted, redeemed, or repurchased. The Notes are convertible into cash, shares of the Company's Class A common stock or a combination of cash and shares of the Company's Class A common stock, at the Company's election.

Holders of the Notes may convert all or any portion of their Notes at their option at any time prior to the close of business on January 14, 2025 only under the following circumstances:

- During any fiscal quarter commencing after the fiscal quarter ending on July 31, 2020 (and only during such fiscal quarter), if the last reported sale price of the Company's Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- During the five business day period after any ten consecutive trading day period (the "measurement period") in which the "trading price" (as defined in the Indenture) per $1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's Class A common stock and the conversion rate on each such trading day; or
- Upon the occurrence of specified corporate events.

On or after January 15, 2025 until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder may convert all or any portion of its Notes at any time, regardless of the foregoing.

During the year ended January 31, 2021, the conditional conversion feature of the Notes was triggered as the last reported sale price of the Company's Class A common stock was more than or equal to 130% of the conversion price for at least 20 trading days (whether or not consecutive) in the period of 30 consecutive trading days ending on January 31, 2021 (the last trading day of the fiscal quarter), and therefore the Notes are currently convertible, in whole or in part, at the option of the holders between February 1, 2021 through April 30, 2021. Whether the Notes will be convertible following such period will depend on the continued satisfaction of this condition or another conversion condition in the future. The Company continues to classify the Notes as a long-term liability in its consolidated balance sheet as of January 31, 2021, based on contractual settlement provisions.

The conversion rate was initially 32.2630 shares of the Company's Class A common stock per $1,000 principal amount of Notes (equivalent to an initial conversion price of approximately $31.00 per share of the Company's Class A common stock). The conversion rate is subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date (a "make-whole fundamental change"), the Company will, in certain circumstances, increase the conversion rate for a holder who elects to convert its Notes in connection with such a corporate event. If consummated, the Mergers are expected to constitute a make-whole fundamental change that will result in an increase to the conversion rate for a holder who elects to convert its Notes in connection therewith. Any such increase would be determined by reference to a "make-whole" table included in the indenture governing the Notes.

The Company may not redeem the Notes prior to April 20, 2023. The Company may redeem for cash all or any portion of the Notes, at its option, on a redemption date occurring on or after April 20, 2023 and on or before the 21st scheduled trading day immediately before the maturity date, if the last reported sale price of the Company's Class A common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including the trading day immediately preceding the date on which the Company provides notice of redemption, during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the Notes.

If the Company undergoes a fundamental change (as defined in the Indenture), holders may require the Company to repurchase for cash all or any portion of their Notes at a fundamental change repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date. If consummated, the Mergers are expected to constitute a fundamental change.

The Indenture contains customary terms and covenants, including that upon certain events of default occurring and continuing, either the Trustee or the holders of not less than 25% in aggregate principal amount of the Notes then outstanding may declare the entire principal amount of all the Notes plus accrued special interest, if any, to be immediately due and payable.

The Notes are the Company's general unsecured obligations and rank senior in right of payment to all of the Company's indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment with all of the Company's liabilities that are not so subordinated; effectively junior to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of the Company's subsidiaries.

In accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components. The carrying amount of the liability component was calculated using a discount rate of 6.85%, which was determined by measuring the fair value of a similar debt instrument that does not have an associated convertible feature. The carrying amount of the equity component representing the conversion option was $229.2 million and was determined by deducting the fair value of the liability component from the par value of the Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification. The excess of the principal amount of the liability component over its carrying amount, or the debt discount, is amortized to interest expense at an annual effective interest rate over the contractual terms of the Notes.

As of January 31, 2021, the net carrying amount of the liability component of the Notes was as follows (in thousands):

Principal	$	862,500
Less: unamortized discount		(197,339)
Less: unamortized issuance costs		(13,763)
Net carrying amount	$	651,398

As of January 31, 2021, the net carrying amount of the equity component of the Notes was as follows (in thousands):

Proceeds allocated to the conversion options (debt discount)	$	229,249
Less: issuance costs		(5,627)
Carrying amount of the equity component	$	223,622

The following table sets forth the interest expense recognized related to the Notes for the year ended January 31, 2021 (in thousands):

Contractual interest expense	$	3,486
Amortization of debt discount		31,910
Amortization of debt issuance costs		1,781
Total interest expense related to the Notes	$	37,177

Capped Call Transactions

In connection with the offering of the Notes, the Company entered into privately negotiated capped call transactions with certain financial institution counterparties (the “Capped Calls”). The Capped Calls each have an initial strike price of approximately $31.00 per share, subject to certain adjustments, which corresponds to the initial conversion price of the Notes. The Capped Calls have initial cap prices of $48.62 per share, subject to certain adjustments. The Capped Calls cover, subject to anti-dilution adjustments, approximately 27.8 million shares of Class A common stock. The Capped Calls are generally intended to reduce or offset the potential dilution to the Class A common stock upon any conversion of the Notes with such reduction or offset, as the case may be, subject to a cap based on the cap price. The Capped Calls expire on the earlier of (i) the last day on which any convertible securities remain outstanding and (ii) April 15, 2025, subject to earlier exercise. The Capped Calls are subject to either adjustment or termination upon the occurrence of specified extraordinary events affecting the Company, including a merger event, a tender offer, and a nationalization, insolvency or delisting involving the Company. In addition, the Capped Calls are subject to certain specified additional disruption events that may give rise to a termination of the Capped Calls, including changes in law, insolvency filings, and hedging disruptions. The Capped Calls are recorded in stockholders’ equity and are not accounted for as derivatives. The net cost of $105.60 million incurred to purchase the capped call transactions was recorded as a reduction to additional paid-in capital in the accompanying consolidated balance sheet.

Revolving Credit Facility

On May 30, 2019, the Company entered into a $215.0 million revolving credit and guaranty agreement with a syndicate of financial institutions. The revolving credit facility has an accordion option, which, if exercised, would allow the Company to increase the aggregate commitments by up to the greater of $200.0 million and 100% of the consolidated adjusted EBITDA of the Company and its subsidiaries, plus an unlimited amount subject to satisfaction of certain leverage ratio based compliance tests after giving effect to the exercise, in each case subject to obtaining additional lender commitments and satisfying certain conditions. Pursuant to the terms of the revolving credit facility, the Company may issue letters of credit under the revolving credit facility, which reduce the total amount available for borrowing under such facility. The revolving credit facility terminates on May 30, 2024.

Interest on borrowings under the revolving credit facility accrues at a variable rate tied to the prime rate or the LIBOR, plus the applicable margin, at the Company's election. The margin is 0.25% in the case of prime rate loans and 1.25% in the case of LIBOR loans. Interest is payable quarterly in arrears. Pursuant to the terms of the revolving credit facility, the Company is required to pay an annual commitment fee that accrues at a rate of 0.10% per annum on the unused portion of the borrowing commitments under the revolving credit facility. In addition, the Company is required to pay a fee in connection with letters of credit issued and outstanding under the revolving credit facility that accrues at a rate of 1.25% per annum on the amount to be drawn under such letters of credit outstanding. There is an additional fronting fee of 0.125% per annum multiplied by the aggregate face amount of issued and outstanding letters of credit.

The revolving credit facility contains customary conditions to borrowing, events of default, and covenants, including covenants that restrict the Company's and its subsidiaries' ability to, among other things, incur additional indebtedness, create or incur liens, merge or consolidate with other companies, sell substantially all of the Company's assets, liquidate or dissolve, make distributions to the Company's equity holders or its subsidiaries' equity interests, pay dividends, make redemptions and repurchases of stock, or engage in transactions with affiliates. In addition, the revolving credit facility contains financial covenants, including a minimum liquidity balance and a minimum revenue amount. The Company has been in compliance with all covenants under the revolving credit facility since it entered into the revolving credit and guaranty agreement on May 30, 2019.

As of January 31, 2021, the Company had no amounts or letters of credit issued and outstanding under the revolving credit facility. The Company's total available borrowing capacity under the revolving credit facility was $215.0 million as of January 31, 2021.

Note 11. Commitments and Contingencies

Letters of Credit

As of January 31, 2021, the Company had $38.5 million in standby letters of credit outstanding related to facility lease obligations in San Francisco, California and Denver, Colorado, which is included in restricted cash in the accompanying consolidated balance sheets.

Hosting Commitments

On April 30, 2020, the Company executed an amendment to its existing agreement with Amazon Web Services ("AWS"). The amended agreement was effective as of May 1, 2020 and continues through April 30, 2025. Pursuant to the amended agreement, the Company has minimum annual commitments of $75.0 million which will increase by $5.0 million annually, for a total minimum commitment of $425.0 million. As of January 31, 2021, the Company had a remaining minimum payment obligation of $353.7 million to AWS through April 30, 2025.

Legal Matters

The Company records a loss contingency when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Company also discloses material contingencies when it believes a loss is not probable but reasonably possible. Accounting for contingencies requires the Company to use judgment related to both the likelihood of a loss and the estimate of the amount or range of loss. The outcomes of the Company's legal proceedings are inherently unpredictable and subject to significant uncertainties. For some matters for which a material loss is reasonably possible, an estimate of the amount of loss or range of losses is not possible, nor is the Company able to estimate the loss or range of losses that could potentially result from the application of non-monetary remedies. Many legal and tax contingencies can take years to be resolved. Until the final resolution of legal matters, all amounts of loss or range of losses are estimates only. The final losses the Company incurs may differ materially from these estimates.

Beginning in September 2019, seven purported class action lawsuits were filed against the Company, its directors, certain of its officers, and certain investment funds associated with certain of its directors, each alleging violations of securities laws in connection with the Company's registration statement on Form S-1 (the "Registration Statement") filed with the Securities and Exchange Commission (the "SEC"). All but one of these actions were filed in the Superior Court of California for the County of San Mateo, though one plaintiff originally filed in the County of San Francisco (the "San Francisco Action") before refiling in the County of San Mateo. The remaining action was filed in the U.S. District Court for the Northern District of California (the "Federal Action"). In the Federal Action, captioned Dennee v. Slack Technologies, Inc., Case No. 3:19-CV-05857-SI, the Company and the other defendants filed a motion to dismiss the complaint in January 2020. In April 2020, the court granted in part and denied in part the motion to dismiss. In May 2020, the Company and the other defendants filed a motion to certify the court's order for interlocutory appeal, which the court granted. The Company and the other defendants filed a petition for permission to appeal the district court's order to the Ninth Circuit Court of Appeals, which was granted in July 2020. The Company and the other defendants filed their opening brief with the Ninth Circuit Court of Appeals in October 2020. The plaintiff filed its opposition brief in December 2020. The Company and the other defendants filed their reply brief in February 2021. Oral argument has been set for May 2021. The state court actions were consolidated in November 2019, and the consolidated action is captioned In re Slack Technologies, Inc. Shareholder Litigation, Lead Case No. 19CIV05370 (the "State Court Action"). An additional state court action was filed in San Mateo County in June 2020 but was consolidated with the State Court Action in July 2020. The Company and the other defendants filed demurrers to the complaint in the State Court Action in February 2020. In August 2020, the court sustained in part and overruled in part the demurrers, and granted plaintiffs leave to file an amended complaint, which they did in October 2020. The Company and the other defendants answered the complaint in November 2020. The plaintiff in the San Francisco Action has sought dismissal of that action after joining the State Court Action. That dismissal remains pending. The Federal Action and the State Court Action seek unspecified monetary damages and other relief on behalf of investors who purchased the Company's Class A common stock issued pursuant and/or traceable to the Registration Statement.

In April 2020, three purported stockholder derivative lawsuits were filed against certain of the Company's officers and certain of the Company's current and former directors in the U.S. District Courts for the District of Delaware and the Northern District of California. The case filed in the Northern District of California was dismissed and re-filed in the U.S. District Court for the District of Delaware. The derivative cases were consolidated in June 2020, and the operative complaint was designated in August 2020. The complaint alleges breaches of fiduciary duty in connection with the Company's Registration Statement, and seeks the award of unspecified damages to the Company, and certain reforms to the Company's governance policies. The Company moved to dismiss the case in September 2020. At approximately the same time, the plaintiff in the lawsuit brought pursuant to Delaware General Corporation Law Section 220 (discussed below) sought to intervene and stay the case. On that basis, the plaintiffs in the purported derivative lawsuit elected not to file an opposition to the motion to dismiss. In December 2020, the parties stipulated to stay the case in light of the proposed Mergers, which the court granted. The court also denied all pending motions in the case without prejudice, noting that the parties may renew the motions upon a lift of the stay.

In June 2020, a lawsuit was filed by a stockholder against the Company in the Delaware Court of Chancery pursuant to Delaware General Corporation Law Section 220 seeking an order permitting inspection and copying of certain of the Company's books and records. The Company answered the complaint in October 2020.

The Company believes the above described lawsuits are without merit and intends to vigorously defend them. Based on the preliminary nature of the proceedings in these cases, the outcomes of these matters remain uncertain.

Between December 28, 2020 and February 11, 2021, (i) seven lawsuits were filed by purported stockholders of the Company in the United States District Court for the Northern District of California and (ii) six lawsuits were filed by purported Company stockholders in the United States District Court for the Southern District of New York. The complaints named as defendants the Company, the members of the Company's board of directors, and, with respect to certain complaints, Salesforce, Merger Sub I and Merger Sub II. The complaints alleged, among other things, that the defendants caused a materially incomplete and misleading proxy statement relating to the proposed Mergers to be filed with the SEC in violation of Sections 14(a) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 14a-9 promulgated thereunder. Certain complaints also alleged that the Company's board of directors breached their fiduciary duties in connection with the proposed mergers and that the Company, Salesforce, Merger Sub I, and Merger Sub II aided and abetted the breaches of fiduciary duty by the Company's directors. All 13 lawsuits have been voluntarily dismissed. Certain plaintiffs have expressed an intention to seek a fee from the Company in relation to these suits on the grounds that they provided a service to the Company. The Company has not agreed to pay any such fee and does not believe there is any merit in the contention that a service was provided and intends to vigorously contest any such filing.

In addition, the Company is involved from time to time in various claims and legal actions arising in the ordinary course of business. While it is not feasible to predict or determine the ultimate outcomes of these matters, the Company believes that none of these ordinary course legal proceedings will have a material adverse effect on its consolidated financial statements.

Indemnification Agreements

In the ordinary course of business, the Company provides indemnifications of varying scope and terms to customers, business partners, vendors, lessors, investors, directors, officers, employees, and other parties with respect to certain matters. Indemnification may include losses from the Company's breach of such agreements, intellectual property infringement claims made by third parties, and other liabilities relating to or arising from Slack, or the Company's acts or omissions. These indemnifications may survive termination of the underlying agreement and the maximum potential amount of future indemnification payments may not be subject to a cap. It is not possible to determine the maximum potential loss under these indemnifications due to the Company's limited history of prior indemnification claims and the unique facts and circumstances involved in each particular indemnification. The Company has not incurred material costs to defend lawsuits or settle claims related to these indemnifications as of January 31, 2021. As of January 31, 2021 and 2020, no material amounts were accrued.

Note 12. Stockholders' Equity

Preferred Stock

The Company's board of directors has the authority, without further action by the Company's stockholders, to issue up to 100,000,000 shares of undesignated preferred stock with rights and preferences, including voting rights, designated from time to time by the board of directors.

Common Stock

On June 7, 2019, the Company amended and restated its certificate of incorporation to authorize 5.0 billion shares of Class A common stock and 700.0 million shares of Class B common stock. Holders of Class A common stock and Class B common stock are entitled to dividends on a pro rata basis, when, as, and if declared by the Company's board of directors, subject to preferences that may apply to any shares of preferred stock outstanding at the time. Holders of Class A common stock are entitled to one vote per share, and holders of Class B common stock are entitled to ten votes per share. Upon a liquidation, dissolution or winding-up of the Company, any distribution of proceeds to common stockholders will be made on a pro rata basis to the holders of Class A common stock, Class B common stock and any participating preferred stock outstanding at that time, subject to prior satisfaction of all outstanding debt and liabilities and the preferential rights of and the payment of liquidation preferences, if any, on any outstanding shares of preferred stock. Shares of Class B common stock will automatically convert into shares of Class A common stock upon a sale or transfer (other than with respect to certain estate planning and other transfers). All shares of Class B common stock outstanding in June 2029 will automatically convert into shares of Class A common stock. Class A common stock and Class B common stock is not redeemable at the option of the holder.

The Company had reserved shares of common stock for future issuance as follows (in thousands):

	As of January 31, 2021
Stock options outstanding	6,228
Restricted stock units outstanding	34,700
Shares available for future grants	74,349
Shares available for ESPP	12,771
Total	128,048

Equity Incentive Plans

The Company maintains two equity incentive plans: the 2009 Plan and the 2019 Plan. Upon the completion of the Direct Listing, the Company adopted the 2019 Plan and terminated the 2009 Plan with all shares that remained available for future issuance at the time canceled. The 2019 Plan is a successor to and continuation of the 2009 Plan that provides for the grant of stock options, stock appreciation rights, restricted stock awards, restricted stock units, and other forms of awards. The Company initially reserved 60.2 million shares of Class A common stock for the issuance of awards under the 2019 Plan. The 2019 Plan provides that the number of shares reserved and available for issuance under the 2019 Plan will automatically increase each February 1, beginning on February 1, 2020, by 5% of the number of shares of the Company's Class A and Class B common stock outstanding on the immediately preceding January 31, or such lesser number of shares as determined by the Company's board of directors or compensation committee. On February 1, 2020, the number of shares of the Company's Class A common stock reserved and available for issuance under the 2019 Plan was increased by 27.8 million shares. In January 2021, the Company's compensation committee determined not to increase the number of shares available for issuance under the 2019 Plan on February 1, 2021.

Stock Options

A summary of stock option activity under the 2009 Plan and 2019 Plan and related information is as follows (in thousands, except years and per share data):

	Number of stock options outstanding	Weighted-average exercise price per share	Weighted-average remaining contractual term (In years)	Aggregate intrinsic value
Outstanding at January 31, 2020	8,425	$ 4.68	6.27	$ 135,224
Granted	1,678	24.31		
Exercised	(3,602)	3.65		
Canceled	(273)	10.52		
Outstanding at January 31, 2021	6,228	$ 10.31	6.89	$ 198,434
Stock options vested and exercisable at January 31, 2021	2,765	$ 3.54	4.88	$ 106,787
Stock options vested and expected to vest at January 31, 2021	6,228	$ 10.31	6.89	$ 198,434

The total grant-date fair value of stock options granted in the years ended January 31, 2021, 2020, and 2019 was $17.9 million, $21.4 million, and $0, respectively.

The total intrinsic value of stock options exercised in the years ended January 31, 2021, 2020, and 2019, was $101.0 million, $393.3 million, and $30.0 million, respectively.

As of January 31, 2021, there was $26.0 million of total unrecognized stock-based compensation related to outstanding stock options, which will be recognized on a straight-line basis over a weighted average period of 3.7 years.

RSUs and RSAs

The fair value of RSUs and RSAs are determined using the fair value of the Company's common stock on the date of grant.

A summary of RSUs and RSAs activity under the 2009 Plan and 2019 Plan is as follows (in thousands, except per share data):

	Restricted stock units		Restricted stock awards	
	Number of shares	Weighted-average grant date fair value (per share)	Number of shares	Weighted-average grant date fair value (per share)
Unvested at January 31, 2020	42,002	$ 12.48	1,579	$ 8.91
Granted	15,352	27.56	—	—
Released	(18,517)	12.01	(480)	8.96
Canceled	(4,137)	14.81	—	—
Unvested at January 31, 2021	34,700	$ 19.13	1,099	$ 8.89

The weighted-average estimated fair value of RSUs granted in the year ended January 31, 2020 and 2019 was $18.93 and $7.02 per share, respectively. The weighted-average estimated fair value of RSAs granted in the year ended January 31, 2020 and 2019 was $13.60 and $7.86 per share, respectively.

As of January 31, 2021, the Company had $472.6 million of unrecognized stock-based compensation related to RSUs, which will be recognized over the weighted average remaining requisite service period of 1.9 years. As of January 31, 2021, the Company had $9.2 million of unrecognized stock-based compensation related to RSAs, which will be recognized over the weighted average remaining requisite service period of 2.9 years.

2019 Employee Stock Purchase Plan

The Company's ESPP became effective on June 6, 2019. A total of 9.0 million shares of the Company's Class A common stock were initially reserved for issuance under the ESPP. The ESPP provides that the number of shares reserved and available for issuance will automatically increase each February 1, beginning on February 1, 2020, by the lesser of 6.0 million shares of the Class A common stock, 1% of the number of shares of the Company's Class A and Class B common stock issued and outstanding on the immediately preceding January 31, or such lesser number of shares as determined by the Company's compensation committee. On February 1, 2020, the number of shares of the Company's Class A common stock reserved and available for issuance under the ESPP was increased by 5.6 million shares. In January 2021, the Company's compensation committee determined not to increase the number of shares available for issuance under the ESPP on February 1, 2021.

The ESPP allows eligible employees to purchase shares of the Company's Class A common stock at a discount of 15% through payroll deductions of their eligible compensation, subject to any plan limitations. Except for the first offering period from the date of the Direct Listing, the ESPP provides for separate six-month offering periods beginning each October 10 and April 10.

On each purchase date, eligible employees will purchase the Company's Class A common stock at a price per share equal to 85% of the lesser of (i) the fair market value of the Company's Class A common stock on the offering date or (ii) the fair market value of the Company's Class A common stock on the purchase date.

For the year ended January 31, 2021 and 2020, 1.4 million and 0.3 million shares of Class A common stock were issued under the ESPP, respectively. The Company selected the Black-Scholes option-pricing model as the method for determining the estimated fair value for the Company's ESPP. As of January 31, 2021, total unrecognized compensation cost related to the ESPP was $2.2 million which will be amortized over a weighted average period of 0.2 years.

Stock Transfers

During the year ended January 31, 2019, certain of the Company's existing investors, or investors to whom the Company waived its right of first refusal and transfer restrictions with respect to proposed transfers of outstanding common stock, acquired outstanding common stock from current or former employees of the Company for a purchase price greater than the fair value at the time of the transactions. In connection with these stock transfers, the

Company waived its right of first refusal and other transfer restrictions applicable to such shares. As a result, the Company recorded $14.8 million of stock-based compensation for the difference between the price paid and the fair value on the date of the transaction for the year ended January 31, 2019.

Stock-Based Compensation

A summary of the stock-based compensation excluding stock transfers recorded in the accompanying consolidated statements of operations is as follows (in thousands):

	Year ended January 31,		
	2021	2020	2019
Cost of revenue	$ 10,186	$ 16,013	$ 199
Research and development	115,047	226,507	3,720
Sales and marketing	59,267	98,797	970
General and administrative	42,863	85,207	3,422
Total	$ 227,363	$ 426,524	$ 8,311

The fair value of stock options granted to employees is estimated on the date of grant using the Black-Scholes option valuation model. This stock-based compensation expense valuation model requires the Company to make assumptions and judgments regarding the variables used in the calculation. These variables include the expected term (weighted average period of time that the stock options granted are expected to be outstanding), the expected volatility of the Company’s common stock, expected risk-free interest rate and expected dividends. To the extent actual results differ from the estimates, the difference is recorded as a cumulative adjustment in the period estimates are revised. The Company accounts for forfeitures as they occur.

The Company uses the simplified calculation of expected term, as the Company does not have sufficient historical data to use any other method to estimate expected term. Expected volatility is based on an average of the historical volatilities of the common stock of several entities with characteristics similar to those of the Company. The expected risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected life of the option. The expected dividend yield is 0% as the Company has not paid, and does not expect to pay, cash dividends.

The following assumptions used in the valuation of stock options and ESPP:

	Stock Option		ESPP	
	Year ended January 31,		Year ended January 31,	
	2021	2020	2021	2020
Expected Term	6.1 years	6.1 - 6.5 years	0.5 years	0.3 - 0.5 years
Expected volatility	46%	43% - 44%	49% - 57%	40% - 42%
Risk-free interest rate	0.51%	2.33% - 2.52%	0.12% - 0.24%	1.68% - 2.08%
Dividend yield	—%	—%	—%	—%
Fair value of common stock on grant date	$24.31	$11.67 - $19.36	$24.70 - $31.79	$23.82 - $38.62

There were no stock options granted to employees during the year ended January 31, 2019.

Note 13. Interest Income and Other Income, Net

Interest income and other income, net consist of the following (in thousands):

	Year ended January 31,		
	2021	2020	2019
Interest income	$ 6,698	$ 17,048	$ 13,834
Unrealized gains (losses) on foreign exchange	2,140	(786)	(869)
Transaction losses on foreign exchange	(730)	(1,526)	(99)
Change in fair value of strategic investments	20,278	5,599	3,701
Other non-operating income, net	—	1,033	13
Interest income and other income, net	$ 28,386	$ 21,368	$ 16,580

Note 14. Income Taxes

Loss before income taxes consisted of the following (in thousands):

	Year ended January 31,		
	2021	2020	2019
United States	$ (169,376)	$ (294,259)	$ (85,175)
Foreign	(123,427)	(273,509)	(52,887)
Total	$ (292,803)	$ (567,768)	$ (138,062)

The components of the Company's provision for (benefit from) income tax are as follows (in thousands):

	Year ended January 31,		
	2021	2020	2019
Current:			
Federal	$ —	$ —	$ —
State	494	303	355
Foreign	2,443	1,919	279
Total current	2,937	2,222	634
Deferred:			
Federal	(754)	(120)	(200)
State	(182)	(23)	(120)
Foreign	(2,316)	(1,490)	526
Total deferred	(3,252)	(1,633)	206
Provision for (benefit from) income taxes	$ (315)	$ 589	$ 840

A reconciliation of the U.S. federal statutory tax rate to the Company's provision for income tax is as follows:

	Year ended January 31,		
	2021	2020	2019
Tax at statutory federal rate	21.00 %	21.00 %	21.00 %
State tax, net of federal benefit	8.14	12.68	2.12
Stock-based compensation	23.51	45.16	(2.95)
Credits	9.48	17.37	6.01
Foreign rate differential	(4.18)	(7.06)	9.52
Other	(1.50)	(1.48)	(3.67)
Change in valuation allowance	(56.34)	(87.77)	(32.64)
Effective tax rate	0.11 %	(0.10)%	(0.61)%

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company's deferred income tax assets and liabilities consisted of the following (in thousands):

	Year ended January 31,	
	2021	2020
Deferred tax assets (liabilities):		
Accrued liabilities	$ 17,041	$ 10,646
Accounts receivable	92	93
Operating lease liabilities	71,290	51,085
Operating lease right-of-use assets	(52,993)	(42,919)
Net operating losses	553,188	415,236
Tax credits	148,576	120,743
Goodwill and intangible assets	13,205	13,176
Property and equipment	(10,036)	2,566
Stock-based compensation	39,895	43,182
Other	(388)	(1,309)
Total gross deferred tax assets	779,870	612,499
Valuation allowance	(775,987)	(611,027)
Total deferred tax assets (liabilities), net	$ 3,883	$ 1,472

The Company has assessed, based on available evidence, both positive and negative, it is more likely than not that the deferred tax assets will not be utilized, such that a valuation allowance has been recorded, except for certain foreign subsidiaries which generate income. The valuation allowance increased $165.0 million, $498.3 million, and $46.1 million in the years ended January 31, 2021, 2020, and 2019, respectively.

As of January 31, 2021, the Company had U.S. federal and state net operating loss carryforwards of $2.0 billion and $1.5 billion, respectively, available to offset future taxable income. If not utilized, these carryforward losses will expire, in various amounts, for federal and state tax purposes, beginning in 2029 and 2024, respectively.

The Company had no Federal and California capital loss carryforwards as of January 31, 2021. In addition, the Company had $110.4 million and $81.5 million of federal and state research and development tax credits, respectively, available to offset future taxes as of January 31, 2021. If not utilized, the federal credits will begin to expire in 2029. California state research and development tax credits may be carried forward indefinitely.

Utilization of the net operating loss and tax credit carryforwards may be subject to a substantial annual limitation due to the "ownership change" limitations provided by Section 382 and 383 of the Code, and other similar state provisions. Any annual limitation may result in the expiration of net operating loss and tax credit carryforwards before utilization.

The Company is required to inventory, evaluate and measure all uncertain tax positions taken or to be taken on tax returns, and to record liabilities for the amount of such positions that may not be sustained, or may only partially be sustained, upon examination by the relevant taxing authorities. A reconciliation of the beginning and ending amount of total unrecognized tax benefits, exclusive of interest and penalties described below, is as follows (in thousands):

	Year ended January 31,		
	2021	2020	2019
Balance at beginning of year	$ 37,495	$ 20,484	$ 18,545
Increase related to prior year tax provisions	1,067	1	—
Decrease related to prior year tax provisions	(1,445)	(2,495)	(2,076)
Increase related to current year tax provisions	6,134	19,526	4,022
Lapse of statute of limitations	—	(21)	(7)
Balance at end of year	$ 43,251	$ 37,495	$ 20,484

As of January 31, 2021 and 2020, the unrecognized tax benefits of $43.3 million and $37.5 million, respectively, if recognized, would not affect the effective tax rate as it would be offset by the reversal of related deferred tax assets, which are subject to a full valuation allowance. Unrecognized tax benefits that would affect the effective tax rate, if recognized, as of January 31, 2019 were not material.

The Company does not expect its gross unrecognized tax benefits to change significantly within the next 12 months. The Company recognizes interest and penalties related to uncertain tax positions in provision for income taxes. Accrued interest and penalties were not material as of January 31, 2021 and 2020.

Under the provisions of the Tax Act, (the “Tax Act”), all foreign earnings are subject to U.S. taxation currently. As a result of the Tax Act, the Company intends to repatriate foreign earnings that have been taxed in the United States to the extent that the foreign earnings are not restricted by local laws and accounting rules.

The Company files tax returns in the U.S. (federal and various states) and other foreign jurisdictions. Due to the Company’s U.S. net operating loss carryforwards, its income tax returns generally remain subject to examination by federal and most state tax authorities.

In March 2020, the President of the United States signed into law the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”). The CARES Act, among other things, includes certain income tax provisions for individuals and corporations; however, since the Company has recorded a full valuation allowance against its deferred tax assets, these changes to U.S. tax law do not have a material impact on the Company’s provision for income taxes in its consolidated financial statements. In addition, although many countries in which the Company operates have also issued some form of COVID-19 related income tax guidance, this guidance does not have material impact on provision for income taxes in the accompanying consolidated financial statements.

In July 2015, the U.S. Tax Court issued an opinion favorable to Altera Corporation (“Altera”) with respect to the exclusion of stock-based compensation from its intercompany cost-sharing arrangement. In June 2019, the U.S. Court of Appeals reversed the 2015 decision of the U.S. Tax Court. In July 2019, Altera petitioned the Ninth Circuit for a rehearing of a larger panel of eleven Ninth Circuit judges. Altera’s petition for rehearing was denied in November 2019. In February 2020, Altera filed a petition for writ of certiorari to the U.S. Supreme Court. In June 2020, the U.S. Supreme Court declined the writ of certiorari. The Company has considered the impact on the accompanying consolidated financial statements which is not material after considering the valuation allowance.

Note 15. Net Loss per Share Attributable to Slack Common Stockholders

Basic net loss per share attributable to Slack common stockholders is computed by dividing the net loss attributable to Slack common stockholders by the weighted average number of shares of common stock outstanding during the period. Diluted loss per share is the same as basic loss per share for all years presented because the effects of potentially dilutive items were antidilutive given the Company's net loss in each period presented.

The following table presents the calculation of basic and diluted net loss per share attributable to Slack common stockholders (in thousands, except per share data):

	Year ended January 31,		
	2021	2020	2019
Numerator:			
Net loss attributable to Slack	$ (300,422)	$ (571,058)	$ (140,683)
Denominator:			
Weighted average common shares outstanding	567,152	399,461	121,732
Net loss per share attributable to Slack common stockholders, basic and diluted	$ (0.53)	$ (1.43)	$ (1.16)

Since the Company was in a loss position for all periods presented, basic net loss per share attributable to Slack common stockholders is the same as diluted net loss per share attributable to Slack common stockholders as the inclusion of all potential common shares outstanding would have been antidilutive. Potentially dilutive securities that were not included in the diluted per share calculations because they would be anti-dilutive were as follows (in thousands)

	As of January 31,		
	2021	2020	2018
Shares related to convertible senior notes	27,827	—	—
Convertible preferred stock	—	—	373,372
Stock options	6,228	8,425	18,406
Unvested early exercised stock options	64	—	115
Restricted stock units	34,700	42,002	63,114
Restricted stock awards	1,099	1,579	2,289
Restricted stock	648	—	—
Employee stock purchase plan	628	814	—
Total antidilutive securities	71,194	52,820	457,296

The Company had 373.4 million shares of preferred stock outstanding that were converted to shares of Class B common stock in connection with the Direct Listing. These securities were potentially dilutive, as outstanding shares of preferred stock, through the date of conversion of June 7, 2019.

The Notes will not have an impact on the Company's diluted earnings per share until the average market price of the Company's Class A common stock exceeds the initial conversion price of approximately $31.00 per share, as the Company intends and has the ability to settle the principal amount of the Notes in cash upon conversion. The Company is required under the treasury stock method to compute the potentially dilutive shares of Class A common stock related to the Notes for periods the Company reports net income. However, upon conversion, there will be no economic dilution from the Notes until the average market price of the Company's Class A common stock exceeds the cap price of $48.62 per share, as exercise of the Capped Calls offsets any dilution from the Notes from the conversion price up to the cap price. Capped Calls are excluded from the calculation of diluted earnings per share, as they would be antidilutive under the treasury stock method.

Note 16. Geographic Information

See Note 2. Revenues for the Company's revenue by geographic areas, as determined based on the billing address of its customers.

The following table sets forth the Company's long-lived assets by geographic area, which consist of property and equipment, net and operating lease right-of-use assets (in thousands):

	As of January 31,	
	2021	2020
United States	$ 268,851	$ 256,695
International	38,252	43,475
Total	$ 307,103	$ 300,170

Note 17. Defined Contribution Plan

The Company provides a tax-qualified employee savings and retirement plan, commonly known as a 401(k) plan, that allows participating employees in the United States to contribute up to 100% of their pre-tax annual compensation subject to Internal Revenue Service limits. The Company matches employee contributions at a rate of 50%, up to a maximum annual matched contribution of $4,000 per employee. Employee contributions are always fully vested while the matching contributions fully vest following one year of employee's credited service with the Company. The Company's matching contributions to its 401(k) plan totaled $7.3 million, $5.8 million, and $3.7 million for the years ended January 31, 2021, 2020, and 2019, respectively.

Note 18. Subsequent Events

Convertible Senior Notes

In February 2021, the Company and U.S. Bank National Association, as trustee, entered into a first supplemental indenture (the "Supplemental Indenture") to the Indenture. The Supplemental Indenture amends the Indenture to remove the requirement that the successor in any merger of the Company with or into another person be a corporation and makes certain other conforming changes. The Supplemental Indenture became effective upon execution thereof, but the amendments to the Indenture will not become operative until (i) the closing of the First Merger and (ii) payment of the applicable consent fee, which is expected to occur on the earlier of May 1, 2021 and the closing of the First Merger.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this Annual Report on Form 10-K. Based on such evaluation, our principal executive officer and principal financial officer have concluded that, as of such date, our disclosure controls and procedures were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. In addition, our ability to maintain an effective internal control environment has not been impacted by the COVID-19 pandemic.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed under the supervision and with the participation of our management, including principal executive officer and principal financial officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Under the supervision and with the participation of our principal executive officer and principal financial officer and oversight of the board of directors, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of the end of the period covered by this Annual Report on Form 10-K, based on the criteria set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on this evaluation, management concluded that our internal control over financial reporting that provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles was effective as of the end of the period covered by this Annual Report on Form 10-K.

The effectiveness of our internal control over financial reporting as of the end of the period covered by this Annual Report on Form 10-K has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included in Part II, Item 8, "Financial Statements and Supplementary Data", of this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended January 31, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls and Procedures

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designated and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Executive Officers and Directors

The following table sets forth information regarding our executive officers and directors, including their ages, as of February 28, 2021.

Name	Age	Positions
Executive Officers		
Stewart Butterfield	47	Co-Founder, Chief Executive Officer, and Chairperson of the Board
Allen Shim	40	Chief Financial Officer
Robert Frati	51	Senior Vice President of Sales and Customer Success
Cal Henderson	40	Co-Founder, Chief Technology Officer
David Schellhase	57	General Counsel, Secretary
Tamar Yehoshua	56	Chief Product Officer
Non-Employee Directors		
Andrew Braccia(2)	45	Director
Edith Cooper(2)(3)	59	Director
Sarah Friar(1)	48	Director
Sheila B. Jordan(1)	56	Director
Michael M. McNamara(2)(3)	64	Director
John O’Farrell(4)	62	Director
Graham Smith(1)(3)	61	Director

(1) Member of the audit and risk committee.
(2) Member of the compensation committee.
(3) Member of the nominating and corporate governance committee.
(4) Lead independent director.

Our executive officers are appointed by, and serve at the discretion of, our board of directors and each holds office until his or her successor is duly elected and qualified or until his or her earlier resignation or removal. There are no family relationships among any of our directors or executive officers.

Executive Officers

Stewart Butterfield. Mr. Butterfield co-founded Slack and has served as our Chief Executive Officer and as Chairperson of our board of directors since February 2009. From April 2005 to July 2008, Mr. Butterfield served as General Manager of the photo-sharing website Flickr at Yahoo! Inc., following Yahoo!’s acquisition of Ludicorp Research and Development Ltd. (which developed Flickr), where he served as Chief Executive Officer from May 2002 to April 2005. Mr. Butterfield holds a Master of Philosophy from the University of Cambridge and a Bachelor of Arts in Philosophy from the University of Victoria.

We believe that Mr. Butterfield is qualified to serve as a member of our board of directors because of his experience and perspective as our Chief Executive Officer and a co-founder.

Allen Shim. Mr. Shim has served as our Chief Financial Officer since January 2018. Mr. Shim joined Slack in March 2014 and served as Senior Vice President of Finance and Operations from March 2014 to January 2018. From September 2008 to March 2014, Mr. Shim served as Vice President of Finance and Treasurer at YuMe, Inc., a data analysis company for video advertising that was acquired by RhythmOne in 2017. From March 2005 to

September 2008, Mr. Shim worked in business operations at Yahoo! Inc. Mr. Shim is a Chartered Financial Analyst (CFA) and holds a Bachelor of Science in Economics from the Wharton School of the University of Pennsylvania.

Robert Frati. Mr. Frati has served as our Senior Vice President of Sales and Customer Success since February 2018. Mr. Frati joined Slack in May 2016 and served as Vice President of Sales and Customer Success from May 2016 to February 2018. From January 2006 to May 2016, Mr. Frati served in various roles at salesforce.com inc., a customer relationship management software company, most recently as Senior Vice President, Commercial Sales, Asia Pacific from August 2014 to April 2016. Mr. Frati holds a Bachelor of Arts in Political Economy from the University of California, Berkeley.

Cal Henderson. Mr. Henderson co-founded Slack. He has served as our Chief Technology Officer since December 2012 and served as Vice President of Engineering from April 2009 to December 2012. From June 2005 to April 2009, Mr. Henderson served as Director of Engineering at Yahoo! Inc. From December 2003 to June 2005, Mr. Henderson served as Director of Web Development at Ludicorp Research and Development Ltd. Mr. Henderson holds a Bachelor of Science in Software Engineering from the University of Central England.

David Schellhase. Mr. Schellhase has served as our General Counsel and Secretary since December 2016. From February 2015 to April 2016, Mr. Schellhase served as Chief Operating Officer at Honest Work Corporation, a software company that was acquired by Twitter, Inc. From June 2011 to January 2015, Mr. Schellhase served as General Counsel and then Strategic Advisor at Groupon, Inc., an e-commerce marketplace company. From July 2002 to May 2011, Mr. Schellhase served as General Counsel at salesforce.com, inc. Mr. Schellhase holds a Juris Doctor from Cornell Law School and a Bachelor of Arts in European History from Columbia University.

Tamar Yehoshua. Ms. Yehoshua has served as our Chief Product Officer since January 2019. From August 2010 to January 2019, Ms. Yehoshua served in various roles at Alphabet, Inc., an Internet-related services and products company, first as Director, Product Management, until September 2013, and then as Vice President, Product Management, in leadership roles on search, identity, and privacy. Since October 2017, Ms. Yehoshua has served as a member of the board of directors of Yext Inc., a publicly traded online brand management company. From March 2019 to December 2020, Ms. Yehoshua served as a member of the board of directors of ServiceNow, Inc., a publicly traded cloud computing company. From December 2015 to May 2017, Ms. Yehoshua served as a member of the board of directors of RetailMeNot, Inc., a publicly-traded company operating an online marketplace that aggregates discounts and offer codes. Ms. Yehoshua holds a Master of Science in Computer Science from the Hebrew University of Jerusalem and a Bachelor of Arts in Mathematics from the University of Pennsylvania.

Non-Employee Directors

Andrew Braccia. Mr. Braccia has served as a member of our board of directors since March 2010. Since April 2007, Mr. Braccia has served as a Partner at Accel, a venture capital firm. From 1998 to 2007, Mr. Braccia served in various management roles Yahoo! Inc. Mr. Braccia serves as a member of the board of directors of several private technology companies. Mr. Braccia holds a Bachelor of Science in Business Administration from the University of Arizona.

We believe that Mr. Braccia is qualified to serve as a member of our board of directors because of his significant knowledge of and history with Slack, his experience as a seasoned investor and as a current and former director of many companies, and his knowledge of the industry in which we operate.

Edith Cooper. Ms. Cooper has served as a member of our board of directors since January 2018. From May 1996 to December 2017, Ms. Cooper served in various roles at Goldman Sachs Group, Inc., an investment bank, including Managing Director, Securities Division; Managing Director, Global Head of Human Capital Management; and, most recently, Senior Director. Ms. Cooper serves as a member of the board of directors of Etsy, Inc., a publicly-traded e-commerce company. Ms. Cooper holds a Masters of Business Administration from Northwestern University Kellogg School of Management and a Bachelor of Arts in American History from Harvard University.

We believe that Ms. Cooper is qualified to serve as a member of our board of directors because of her experience as a financial industry executive and her extensive knowledge of that industry and the industry in which we operate.

Sarah Friar. Ms. Friar has served as a member of our board of directors since March 2017. Since December 2018, Ms. Friar has served as Chief Executive Officer at Nextdoor, Inc., a social network for neighborhoods. From July 2012 to November 2018, Ms. Friar served as Chief Financial Officer at Square, Inc., a financial services and mobile payment company. From April 2011 to July 2012, Ms. Friar served as Senior Vice President, Finance and Strategy at salesforce.com, inc. Ms. Friar currently serves as a member of the board of directors of Walmart Inc., a publicly-traded retail and wholesale operations company. Ms. Friar also currently serves as a member of the board of directors of Dragoneer Growth Opportunities Corp. I and Dragoneer Growth Opportunities Corp. II, each of which are publicly-traded special purpose acquisition companies. From September 2012 to May 2015, Ms. Friar served as a member of the board of directors of Model N, Inc., a publicly-traded company providing revenue management cloud solutions for life sciences and technology companies. From June 2014 to April 2018, Ms. Friar served as a member of the board of directors of New Relic, Inc., a publicly-traded provider of real-time insights for software-driven businesses. Ms. Friar holds a Masters of Business Administration from Stanford University and a Masters of Engineering in Metallurgy, Economics, and Management from the University of Oxford.

We believe that Ms. Friar is qualified to serve as a member of our board of directors because of her experience as a public company executive, her extensive finance background, her service as a current and former director of public companies, and her knowledge of the industry in which we operate.

Sheila B. Jordan. Ms. Jordan has served as a member of our board of directors since September 2019. Since January 2020, Ms. Jordan has served as Chief Digital Technology Officer of Honeywell International, Inc., an international conglomerate that produces commercial and consumer products, aerospace systems, and offers engineering services. From November 2019 to January 2020, Ms. Jordan served as Senior Vice President and Chief Information Officer of NortonLifeLock, Inc, a cybersecurity software company. Prior to the reorganization in which NortonLifeLock was created, from February 2014 to November 2019, Ms. Jordan has served as Senior Vice President and Chief Information Officer of Symantec Corporation, a security software company, and a predecessor company to NortonLifeLock. Prior to joining Symantec, Ms. Jordan served in various senior information technology roles at Cisco Systems, Inc., a networking solutions provider. Ms. Jordan currently serves as a member of the board of directors of FactSet Research Systems Inc., a publicly-traded financial data and software company. Ms. Jordan holds a Master of Business Administration from Florida Institute of Technology and a Bachelor of Arts in accounting from the University of Central Florida.

We believe that Ms. Jordan is qualified to serve as a member of our board of directors because of her experience as a technology company chief information officer, her extensive experience in information technology, her experience as a public company board member, and her knowledge of the industry in which we operate.

Michael M. McNamara. Mr. McNamara has served as a member of our board of directors since December 2019. Since January 2020, Mr. McNamara has served as Head of Samara, a division of Airbnb, Inc., an online marketplace for travel accommodations and experiences. Mr. McNamara has served as a Venture Partner at Eclipse Ventures, a venture capital fund, since January 2019. Prior to joining Eclipse Ventures, Mr. McNamara served as Chief Executive Officer of Flex, Ltd., an international product development firm, from January 2006 to December 2018. Prior to his appointment as Chief Executive Officer of Flex, Mr. McNamara served in various senior leadership roles at Flex, including as its Chief Operating Officer. Mr. McNamara currently serves on the board of directors of Carrier Global Corporation, a publicly-traded provider of heating, ventilating, air conditioning, refrigeration, and fire & security solutions. Mr. McNamara previously served on the board of directors of Workday, Inc., a publicly-traded human capital software provider, from December 2011 to April 2020, and Flex from October 2005 to December 2018. Mr. McNamara holds a Master of Business Administration from Santa Clara University and a Bachelor of Arts in Industrial Management from the University of Cincinnati.

We believe that Mr. McNamara is qualified to serve as a member of our board of directors because of his experience as a technology company chief executive officer, his experience as a public company board member, his extensive technology company operating experience, and his knowledge of the industry in which we operate.

John O'Farrell. Mr. O'Farrell has served as a member of our board of directors since April 2011. Since June 2010, Mr. O'Farrell has served as a General Partner at Andreessen Horowitz, a venture capital firm. Prior to joining Andreessen Horowitz, Mr. O'Farrell served in various management positions with Silver Spring Networks, Inc., a smart grid networking company, Opsware, Inc., a publicly-traded software company, At Home Corporation, an Internet service provider, US WEST Inc., a U.S. telecommunications company, and Telecom Eireann, an Irish telecommunications company. From January 2013 to June 2020, Mr. O'Farrell served as a member of the board of directors of PagerDuty, Inc., a publicly-traded software-as-a-service company that provides a digital operations management platform for businesses. Mr. O'Farrell also serves as a member of the board of directors of a number of privately held companies and the U.S. Fund for UNICEF (d/b/a UNICEF USA). Mr. O'Farrell holds a Masters of Business Administration from Stanford University and a Bachelor of Engineering in Electrical Engineering from University College Dublin.

We believe that Mr. O'Farrell is qualified to serve as a member of our board of directors because of his significant knowledge of and history with our Company, his business and venture capital expertise, his extensive experience as an executive and board member of technology companies, and his knowledge of the industry in which we operate.

Graham Smith. Mr. Smith has served as a member of our board of directors since December 2018. Mr. Smith serves as a member of the board of directors of Splunk Inc., a provider of information technology software tools and solutions, and BlackLine, Inc., a financial and accounting software company, both of which are publicly-traded software companies. From February 2015 to March 2020, Mr. Smith served as a member of the board of directors of Xero Limited, a publicly-traded technology company offering cloud-based accounting software for small and medium-sized businesses. From March 2015 to February 2019, Mr. Smith served as a member of the board of directors of MINDBODY, Inc., a publicly-traded technology platform serving the fitness, beauty, and wellness services industries, which was acquired by Vista Equity Partners in February 2019. From December 2015 to June 2018, Mr. Smith served as a member of the board of directors of Citrix Systems, Inc., a publicly-traded software company providing server, application, and desktop virtualization, and networking. From December 2007 to June 2015, Mr. Smith worked at salesforce.com, inc. serving first as Chief Financial Officer and then as Executive Vice President, Finance. From January 2003 to December 2007, Mr. Smith served as Chief Financial Officer at Advent Software, Inc., a portfolio accounting software company. Mr. Smith qualified as a member of the Institute of Chartered Accountants in England and Wales and holds a Bachelor of Science in Economics and Politics from the University of Bristol.

We believe that Mr. Smith is qualified to serve as a member of our board of directors because of his experience as a current and former director of many public companies, his extensive finance background, including service as a chief financial officer of several large, publicly-traded technology companies, and his knowledge of the industry in which we operate.

Corporate Governance

Our business and affairs are managed under the direction of our board of directors, which is elected by our stockholders. In carrying out its responsibilities, our board of directors selects and monitors our top management, provides oversight of our financial reporting processes, and determines and implements our corporate governance policies.

Our board of directors and management team are committed to good corporate governance to ensure that we are managed for the long-term benefit of our stockholders, and we have a variety of policies and procedures to promote such goals. To that end, during the past year, our management periodically reviewed our corporate governance policies and practices to ensure that they remain consistent with the requirements of the Sarbanes-Oxley Act, SEC rules, and NYSE listing standards.

Besides verifying the independence of the members of our board of directors and committees (which is discussed in the section titled "Independence of Our Board " under Item 13 of this Annual Report on Form 10-K), at the direction of our board of directors, we also:

- Periodically review and make necessary changes to the charters for our audit and risk, compensation, and nominating and corporate governance committees;

- Have established disclosures control policies and procedures in accordance with the requirements of the Sarbanes-Oxley Act and the rules and regulations of the SEC;
- Have a procedure for receipt and treatment of anonymous and confidential complaints or concerns regarding audit or accounting matters in place; and
- Have a code of conduct that applies to our employees, officers, and directors, including our Chief Executive Officer, Chief Financial Officer, and other executive and senior financial officers.

In addition, we have adopted a set of corporate governance guidelines. Our nominating and corporate governance committee is responsible for reviewing our corporate governance guidelines from time to time and reporting and making recommendations to our board of directors concerning corporate governance matters. A copy of our corporate governance guidelines can be found on our investor relations website at investor.slackhq.com. Our corporate governance guidelines address such matters as:

- Director Independence - Independent directors must constitute at least a majority of our board of directors;
- Monitoring Board of Directors Effectiveness - Our board of directors must conduct an annual self-evaluation of our board and its committees;
- Board of Directors Access to Independent Advisors - Our board of directors as a whole, and each of its committees separately, have authority to retain independent experts, advisors, or professionals as each deems necessary or appropriate; and
- Board Committees - All members of the audit and risk, compensation, and nominating and corporate governance committees are independent in accordance with applicable NYSE criteria.

Code of Conduct

Our board of directors has adopted a code of conduct that applies to all of our employees, officers, and directors, including our Chief Executive Officer, Chief Financial Officer, and other executive and senior financial officers. The full text of our code of conduct is available on our investor relations website at investor.slackhq.com under “Governance.” We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding amendments to, or waiver from, a provision of our code of conduct by posting such information on the website address and location specified above. During fiscal year 2021, no such waivers were granted from any provision of the code of conduct.

Board of Directors Leadership Structure

Stewart Butterfield, our co-founder and Chief Executive Officer, serves as Chairperson of our board of directors, presides over meetings of our board of directors, and holds such other powers and carries out such other duties as are customarily carried out by the Chairperson of our board of directors. Mr. Butterfield brings valuable insight to our board of directors due to the perspective and experience he has as our co-founder and Chief Executive Officer.

Our board of directors has appointed John O’Farrell to serve as our lead independent director. As lead independent director, Mr. O’Farrell presides over periodic meetings of our independent directors, serves as a liaison between the Chairperson of our board of directors and the independent directors, and performs such additional duties as our board of directors may otherwise determine and delegate.

Committees of Our Board of Directors

Our board of directors has established an audit and risk committee, a compensation committee, and a nominating and corporate governance committee. The composition and responsibilities of each of the committees of our board of directors is described below. Members serve on these committees until their resignation or until as otherwise determined by our board of directors. Each of the audit and risk, compensation, and nominating and corporate governance committees operates pursuant to a separate written charter adopted by our board of directors that is available to stockholders at investor.slackhq.com under "Governance."

Audit and Risk Committee

Our audit and risk committee consists of Mr. Smith and Mses. Friar and Jordan, with Mr. Smith serving as Chairperson. Our audit and risk committee, among other things:

- selects and hires a qualified firm to serve as the independent registered public accounting firm to audit our financial statements;
- supervises and evaluates the independent registered public accounting firm;
- evaluates the independence of the independent registered public accounting firm;
- discusses the scope and results of the audit with the independent registered public accounting firm, and reviews, with management and the independent registered public accounting firm, our interim and year-end results of operations;
- approves audited financial information and the audit and risk committee report;
- oversees procedures for employees to submit concerns anonymously about questionable accounting or audit matters;
- reviews major financial risk exposures, information security risk, and cybersecurity risk;
- reviews related party transactions;
- obtains and reviews a report by the independent registered public accounting firm at least annually, that describes our internal control procedures, any material issues with such procedures and any steps taken to deal with such issues;
- reviews disclosure controls and procedures; and
- approves (or, as permitted, pre-approves) all audit and all permissible non-audit services and fees, to be performed by the independent registered public accounting firm.

Our audit and risk committee annually reviews the independent registered public accounting firm's independence, including reviewing all relationships between the independent registered public accounting firm and us and any disclosed relationships or services that may impact the objectivity and independence of the independent registered public accounting firm, and the independent registered public accounting firm's performance.

Compensation Committee

Our compensation committee consists of Messrs. Braccia and McNamara and Ms. Cooper, with Ms. Cooper serving as Chairperson. The purpose of our compensation committee is to discharge the responsibilities of our board of directors relating to compensation of our executive officers. Our compensation committee, among other things:

- reviews, approves, and determines, or makes recommendations to our board of directors regarding, the compensation of our executive officers;
- administers our stock and equity incentive plans;
- reviews and approves, or make recommendations to our board of directors regarding, incentive compensation and equity plans; and
- establishes and reviews general policies relating to the compensation and benefits offered to our employees.

Our compensation committee operates under a written charter that satisfies the applicable rules of the SEC and the NYSE listing standards.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee consists of Messrs. McNamara and Smith and Ms. Cooper, with Ms. Cooper serving as Chairperson. Our nominating and corporate governance committee, among other things:

- identifies, evaluates, and selects, or makes recommendations to our board of directors regarding, nominees for election to our board of directors and its committees;
- evaluates the performance of our board of directors, its committees, and individual directors;
- considers and makes recommendations to our board of directors regarding the composition of our board of directors and its committees;
- reviews developments in corporate governance practices;
- evaluates the adequacy of our corporate governance practices and reporting; and
- develops and makes recommendations to our board of directors regarding corporate governance guidelines and matters.

Our nominating and corporate governance committee operates under a written charter that satisfies the applicable listing requirements and rules of the NYSE.

Compensation Committee Interlocks and Insider Participation

During fiscal year 2021, Messrs. Braccia and McNamara and Ms. Cooper served as members of the compensation committee. None of the members of our compensation committee is or has been an officer or employee of our Company or has had any other relationship requiring disclosure herein. None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board of directors or compensation committee. See the section titled “Certain Relationships and Related Party Transactions” for information about related party transactions involving members of our compensation committee or their affiliates.

Stockholder Recommendations

No material changes have been made to the procedures by which our stockholders may recommend nominees to our board of directors since the procedures described in our proxy statement for our 2020 annual meeting of stockholders filed with the SEC on May 5, 2020.

Non-Employee Director Compensation

Non-Employee Director Compensation Policy

We believe that a combination of cash and equity compensation is appropriate to attract and retain the individuals we desire to serve on our board of directors and that this approach is comparable to the policies of our peers. We further believe that it is appropriate to provide cash compensation to our non-employee directors to compensate them for their time and effort and to provide equity compensation to our non-employee directors to align their long-term interests with those of the Company and our stockholders.

In June 2019, we adopted our Non-Employee Director Compensation Policy (as amended and restated from time to time, the Non-Employee Director Compensation Policy) for the compensation of our non-employee directors. Our compensation committee conducts an annual evaluation of the design and competitiveness of our Non-Employee Director Compensation Policy in light of best practices, market trends and a competitive market analysis of data for the Company’s compensation peer group prepared by the compensation committee’s compensation consultant and makes appropriate recommendations to our board of directors with respect to the compensation of our non-employee directors.

During fiscal year 2021, our compensation committee reviewed and considered a peer group compensation data analysis prepared by Compensia. Our compensation committee did not strictly target any specific levels of pay, and instead, used the comparative market analysis provided by Compensia as a reference point in its decision-making process. In August 2020, after reviewing the comparative market analysis in consultation with Compensia, our compensation committee recommended increasing the Annual Grant (as defined below) from $180,000 to 200,000.

Pursuant to our Non-Employee Director Compensation Policy, our non-employee directors receive the following annual cash retainers for their service:

Annual Retainer for Board Membership		
Annual service on the board of directors	$	35,000
Annual service on the board of directors as lead independent director	$	20,000
Additional Annual Retainer for Committee Membership		
Annual service as member of the audit and risk committee (other than chair)	$	10,000
Annual service as chair of the audit and risk committee	$	20,000
Annual service as member of the compensation committee (other than chair)	$	7,500
Annual service as chair of the compensation committee	$	15,000
Annual service as member of the nominating and corporate governance committee (other than chair)	$	4,000
Annual service as chair of the nominating and corporate governance committee	$	8,000

Our Non-Employee Director Compensation Policy provides that upon initial election to our board of directors, a new non-employee director will be granted RSUs for our Class A common stock having a fair market value of $300,000, or the Initial Grant. In addition, on the date of each of our annual meetings of stockholders, each non-employee director who will continue as a non-employee director following such meeting will be granted an annual award of RSUs for our Class A common stock having a fair market value of $200,000, or the Annual Grant. The Initial Grant will vest in three equal annual installments on each anniversary of the non-employee director’s appointment to our board of directors, subject to continued service as a director through each applicable vesting date. The Annual Grant will vest in full on the earlier of (i) the first anniversary of the grant date or (ii) our next annual meeting of stockholders, subject to continued service as a director through the applicable vesting date. In addition, all such awards are subject to full accelerated vesting upon the sale event of our Company (as defined in the policy).

Employee directors receive no additional compensation for their service as a director.

We reimburse all reasonable out-of-pocket expenses incurred by non-employee directors for their attendance at meetings of our board of directors or any committee thereof.

Fiscal Year 2021 Non-Employee Director Compensation Table

The following table presents the total compensation for each person who served as a non-employee director during fiscal year 2021. Other than as set forth in the table below, we did not pay any compensation or make any equity awards to our non-employee directors during fiscal year 2021. During fiscal year 2021, Mr. Butterfield, our Chief Executive Officer, was a member of our board of directors, as well as an employee, and received no additional compensation for his services as a director. The compensation received by Mr. Butterfield as Chief Executive Officer of the Company is presented in "Executive Compensation—Summary Compensation Table" below.

Name	Fees Earned or Paid In Cash ($)[1]	Stock Awards ($)[2]	Total ($)
Andrew Braccia[3]	42,500	193,943	236,443
Edith Cooper[4]	58,000	193,943	251,943
Sarah Friar[5]	45,000	193,943	238,943
Sheila B. Jordan[6]	45,000	193,943	238,943
Michael M. McNamara[7]	46,500	193,943	240,443
John O'Farrell[8]	65,000	193,943	258,943
Graham Smith[9]	59,000	193,943	252,943

(1) The amounts reported represent annual cash retainer amounts earned by each of our non-employee directors during fiscal year 2021 pursuant to our Non-Employee Director Compensation Policy. Our annual cash retainers are paid quarterly.
(2) The amounts reported represent the grant date fair value of the RSUs granted during fiscal year 2021 under our 2019 Plan, as computed in accordance with FASB ASC Topic 718. Such grant value does not take into account any estimated forfeitures. The assumptions used in calculating the grant date fair value are set forth in the notes to our consolidated financial statements included in this Annual Report on Form 10-K. The amounts reported in this column reflect the accounting cost for these awards and does not correspond to the actual economic value that may be received by the director upon vesting, settlement, or sale of any of the underlying shares of our Class A common stock.
(3) As of January 31, 2021, Mr. Braccia held 5,854 RSUs for our Class A common stock.
(4) As of January 31, 2021, Ms. Cooper held 5,854 RSUs for our Class A common stock and 68,357 RSUs for our Class B common stock.
(5) As of January 31, 2021, Ms. Friar held (i) 5,854 RSUs for our Class A common stock and (ii) 25,377 restricted shares of our Class B common stock that are subject to risk of forfeiture through the David Riley and Sarah Friar Revocable Trust dated August 11, 2006.
(6) As of January 31, 2021, Ms. Jordan held 12,398 RSUs for our Class A common stock.
(7) As of January 31, 2021, Mr. McNamara held 15,148 RSUs for our Class A common stock.
(8) As of January 31, 2021, Mr. O'Farrell held 5,854 RSUs for our Class A common stock.
(9) As of January 31, 2021, Mr. Smith held (i) 5,854 RSUs for our Class A common stock and (ii) 105,000 restricted shares of our Class B common stock that are subject to risk of forfeiture.

Delinquent Section 16(a) Reports

Section 16(a) of the Exchange Act requires our directors and executive officers and persons who own more than 10% of our common stock to file with the SEC initial reports of beneficial ownership and reports of changes in beneficial ownership. Officers, directors, and stockholders who own more than 10% of our Class A common stock are required by SEC regulations to furnish us with copies of all such reports.

To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, we believe that for fiscal year 2021 all required reports were filed on a timely basis under Section 16(a), other than one report of two contemporaneous transactions for the conversion of Class B common stock to Class A common stock by Allen Shim that was filed late due to an inadvertent administrative error.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The following Compensation Discussion and Analysis describes our executive compensation program and the decisions in fiscal year 2021 regarding the compensation for:

- Stewart Butterfield, our Co-Founder, Chief Executive Officer and Chairperson of the Board;
- Allen Shim, our Chief Financial Officer;
- Robert Frati, our Senior Vice President of Sales and Customer Success;
- David Schellhase, our General Counsel and Secretary; and
- Tamar Yehoshua, our Chief Product Officer.

We refer to these executive officers collectively in this Compensation Discussion and Analysis and the accompanying compensation tables as the "named executive officers."

This Compensation Discussion and Analysis provides an overview of our executive compensation philosophy, the overall objectives of our executive compensation program, and each element of compensation that we provide. In addition, we explain how and why our compensation committee arrived at the specific compensation policies and decisions involving our named executive officers during fiscal year 2021.

Executive Summary

Slack is the leading channels-based messaging platform, used by millions to align their teams, unify their systems, and drive their businesses forward. Slack offers a secure, enterprise-grade environment that can scale with the largest organizations in the world. It is a new layer of the business technology stack where people can work together more effectively, connect all their other software tools and services, and find the information they need to do their best work. Slack is where work happens.

On December 1, 2020, we entered into the Merger Agreement with Salesforce, Merger Sub I, and Merger Sub. The Merger Agreement provides for the merger of Merger Sub I with and into us, with us continuing as the surviving corporation, immediately followed by a second merger of the surviving corporation into either Merger Sub II or Salesforce, with either Merger Sub II or Salesforce continuing as the surviving company, as applicable.

Highlights of Fiscal Year 2021 Corporate Performance

Specific financial and business highlights of our performance in fiscal year 2021 include:

- Total revenue was $902.6 million, an increase of 43% year-over-year.
- Calculated Billings was $1,036.5 million, an increase of 35% year-over-year.
- 156,000 Paid Customers, up 42% year-over-year.
- 1,183 Paid Customers >$100,000, up 32% year-over-year.

To supplement our consolidated financial statements, which are prepared and presented in accordance with GAAP, we provide investors with certain non-GAAP financial measures, including Calculated Billings. For a full reconciliation for Calculated Billings to the most directly comparable financial measure stated in accordance with GAAP, please see the section titled "Non-GAAP Financial Measures" included elsewhere in this Annual Report on Form 10-K.

Highlights of Fiscal 2021 Executive Compensation Program

Consistent with our performance and compensation objectives for fiscal year 2021, our compensation committee took the following key actions relating to the compensation of our named executive officers for fiscal year 2021:

Base Salary – Approved annual base salary increases ranging from 0% to 17.2%, as we continue to transition the compensation of our named executive officers to levels that are more consistent with those of our compensation peer group.

Bonus Plan – Based upon 99.5% achievement of the performance objective established for fiscal year 2021 under our Senior Executive Incentive Bonus Plan, or the Bonus Plan, we awarded an 85% payout to named executive officers.

Long-Term Incentive Compensation – Granted long-term incentive compensation in the form of stock options to purchase shares of our Class A common stock and service-based vesting RSUs that may be settled for shares of our Class A common stock to further align the long-term incentive opportunities of our named executive officers with those of our stockholders. The grant date fair values of these equity awards are set forth in the "Fiscal Year 2021 Summary Compensation Table" and the "Fiscal Year 2021 Grants of Plan-Based Awards Table" below.

Fiscal Year 2021 Executive Compensation Policies and Practices

Our executive compensation policies and practices reinforce our pay for performance philosophy and align with sound governance principles. Listed below are highlights of our fiscal year 2021 compensation policies and practices:

What we do	**What we do not do**
☑ Use a pay-for-performance philosophy to align executive compensation with performance	☒ No "single-trigger" cash or equity change in control benefits
☑ Use equity-based compensation to deliver a significant majority of the total compensation of our executive officers to further align their interests with those of our stockholders	☒ No tax gross ups on severance or change in control benefits
☑ Establish maximum payout amount under the Bonus Plan and require a threshold level of achievement for payout with respect to the performance measure	☒ No guaranteed bonuses or base salary increases
☑ Conduct an annual risk assessment of our executive and broad-based compensation programs to promote prudent risk management	☒ No post-termination retirement, pension or deferred compensation benefits
☑ Maintain a compensation committee comprised solely of independent directors with extensive relevant experience	☒ No perquisites and no health or other benefits, other than those that are generally available to our employees
☑ Conduct an annual review of our executive compensation strategy, competitiveness and peer group	☒ No strict benchmarking of compensation to a specific percentile of our peer group
☑ Retain an independent compensation consultant who reports directly to our compensation committee	☒ No hedging and no pledging by any employees or directors

Say-on-Pay and Say-on-Frequency Advisory Stockholder Votes on Executive Compensation

Through the end of fiscal year 2021, we were an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012 and were not required to hold an advisory vote on the compensation of our named executive officers, commonly referred to as a “say-on-pay” vote, or an advisory vote on the frequency of a “say-on-pay” vote.

Executive Compensation Philosophy, Objectives and Design

Our compensation philosophy strives to deliver an executive compensation program that drives and rewards performance and further aligns the compensation of our executive officers with the long-term interests of our stockholders. Consistent with this philosophy, our executive compensation program is designed to achieve the following primary objectives:

- attract, motivate, incentivize and retain our executive officers, who contribute to our long-term success;
- provide compensation packages to our executive officers that are competitive and drive and reward the achievement of our business objectives; and
- effectively align our executive officers’ interests with the interests of our stockholders by focusing on long-term equity incentives that correlate with the growth of sustainable long-term value for our stockholders.

Our executive compensation program design includes a mix of compensation elements including base salary, short-term bonus opportunities, long-term equity incentives, and benefits, including change in control payments and benefits, to attract and maintain our named executive officers. In determining the amount of base salary, short-term bonus opportunity, long-term equity incentives and other benefits awarded to each named executive officer, our compensation committee does not apply any fixed percentage of any one element in relation to the overall compensation package. Rather, our compensation committee looks at the overall compensation package and the relative amount of each element on a stand-alone basis for each individual to determine whether such amounts and mix of elements further the basic principles and objectives of our overall executive compensation program.

A significant majority of the compensation opportunity for our named executive officers is weighted towards equity, as opposed to cash, compensation. We structure our executive compensation program to be heavily weighted towards long-term equity incentives as we continue to transition the compensation of our named executive officers to levels that are more consistent with those of our compensation peer group, which we believe also correlates with the growth of sustainable long-term value for our stockholders.

We evaluate our executive compensation philosophy and executive compensation program as circumstances require, and we review our executive compensation philosophy, program design and competitiveness at least annually. As part of this review process, our compensation committee applies our values and the objectives outlined above.

Oversight of Executive Compensation Process

Role of the Compensation Committee

Our compensation committee discharges many of the responsibilities of our board of directors relating to the compensation of our executive officers, including our named executive officers, and the non-employee members of our board of directors (as described further in “Directors, Executive Officers and Corporate Governance—Non-Employee Director Compensation” above). Our compensation committee has overall responsibility for overseeing our compensation structure, policies and programs generally, and overseeing and evaluating the compensation plans, policies and practices applicable to our executive officers. Our compensation committee has the authority to retain, and has retained, an independent compensation consultant to provide support to the committee in its review and oversight of our executive compensation program.

Compensation-Setting Process

Role of the Chief Executive Officer

Our compensation committee is responsible for the compensation program for our executive officers and regularly reports to our board of directors on its discussions, decisions and other actions. In discharging its responsibilities, our compensation committee works with members of our management, including our Chief Executive Officer. Our management assists our compensation committee by providing information on corporate and individual performance, competitive market compensation data and management's perspective on compensation matters. Our Chief Executive Officer makes compensation recommendations to our compensation committee for the compensation of each of our executive officers, other than with respect to his own compensation. These recommendations cover each executive officer's total target direct compensation, consisting of base salary and short-term incentive opportunity and long-term compensation in the form of equity incentives. In making these recommendations, our Chief Executive Officer considers a variety of factors, including our business results, the executive officer's individual contribution toward these results, the executive officer's role and performance of duties and achievement of individual goals, as well as the relative compensation parity among all of our executive officers. Our compensation committee reviews the recommendations of our Chief Executive Officer and other data, including input from the independent compensation consultant to the committee, compensation survey data and publicly-available compensation data of our peers. Our compensation committee then exercises its own independent judgment to determine the target total direct compensation, and each element thereof, for each of our executive officers, including its compensation recommendation to the board of directors for our Chief Executive Officer. While our Chief Executive Officer attends certain meetings of our compensation committee, our compensation committee and board of directors meets in executive session outside the presence of our Chief Executive Officer when determining his compensation and when discussing certain other matters as well.

Role of the Compensation Consultant

Our compensation committee engages an independent external compensation consultant to assist it by providing information, analysis and other advice relating to our executive compensation program and the decisions resulting from its annual executive compensation review.

For fiscal year 2021, our compensation committee retained Compensia, Inc., a national compensation consulting firm with compensation expertise relating to technology companies, to provide it with market information, analysis, and other advice relating to executive compensation on an ongoing basis. Compensia was engaged directly by our compensation committee to, among other things, assist in developing an appropriate group of peer companies to help us determine the appropriate level of overall compensation for our executive officers, as well as to assess each separate element of compensation, with a goal of ensuring that the compensation we offer to our executive officers, individually as well as in the aggregate, is competitive and fair.

Based on the consideration of the factors specified in the rules of the SEC and the NYSE listing standards, our compensation committee does not believe that its relationship with Compensia and the work of Compensia on behalf of our compensation committee has raised any conflict of interest. Our compensation committee reviews these factors on an annual basis. As part of our compensation committee's determination of Compensia's independence, it received written confirmation from Compensia addressing these factors and stating its belief that it is an independent compensation consultant to the committee.

Our compensation committee determines the target total direct compensation opportunities for our executive officers, including our named executive officers. Our compensation committee does not use a single method or measure in making its determinations, nor does it establish specific targets for the total direct compensation opportunities of our executive officers. Nonetheless, as it continues to position the compensation of our named executive officers to levels that are more consistent with those of our compensation peer group, our compensation committee begins its deliberations on cash and equity compensation levels with reference to the 25th, 50th, 60th, and 75th percentile levels for cash compensation and target total direct compensation as reflected in competitive market data.

When determining the amount of each compensation element and approving each compensation element and the target total direct compensation opportunity for our executive officers, our compensation committee considers the following factors, among others: our performance against the corporate performance objectives established by our compensation committee and our board of directors; our financial performance relative to our compensation peer group; the compensation levels and practices of our compensation peer group; each individual executive officer's skills, experience and qualifications relative to other similarly-situated executives at the companies in our compensation peer group; the scope of each individual executive officer's role compared to other similarly-situated executives at the companies in our compensation peer group; the performance of each individual executive officer, based on a subjective assessment of his or her contributions to our overall performance, ability to lead his or her function and ability to work as part of a team, all of which reflect our core values and compensation parity among our individual executive officers.

These factors provide the framework for compensation decision-making and final decisions regarding the compensation opportunity for each executive officer. No single factor is determinative in setting pay levels, nor was the impact of any factor on the determination of pay levels quantifiable. Our compensation committee reviews the base salary levels, short-term incentive compensation opportunities and long-term incentive compensation opportunities of our named executive officers, each fiscal year at the beginning of the year, or more frequently as warranted. Long-term incentive compensation is granted on a regularly-scheduled basis, as described in "Other Compensation Policies—Equity Award Grant Policy" below.

Competitive Positioning

For purposes of comparing our executive compensation against the competitive market, our compensation committee reviews and considers the compensation levels and practices of a group of peer companies.

In August 2019, with the assistance of Compensia, our compensation committee reviewed our compensation peer group for fiscal year 2021, which was generally developed from publicly traded companies with a focus on software, with an emphasis on software-as-a-service and cloud business models, with revenues of 0.5 to 2.0 times our annual revenue, and a range of 0.33 to 3.0 times our market capitalization. Our compensation committee reviews our compensation peer group at least annually and makes adjustments to its composition, if warranted, taking into account changes in both our business and the businesses of the companies in the peer group. Our compensation committee uses data drawn from our compensation peer group to evaluate the competitive market when determining the total direct compensation packages for our executive officers.

At the beginning of fiscal year 2021, based on the foregoing, our compensation committee used the following compensation peer group to assist with the determination of compensation for our executive officers:

Alteryx	Elastic	Paycom Software	Veeva Systems
Anaplan	Guidewire Software	Proofpoint	Zendesk
Coupa Software	HubSpot	RingCentral	Zoom Video Communications
DocuSign	New Relic	Splunk	Zscaler
Dropbox	Okta	Twilio	

Elements of Executive Compensation Program

Our executive compensation program consists of the following primary components:

- base salary;
- short-term annual incentive bonuses;
- long-term equity compensation; and
- severance and change in control-related payments and benefits.

We also provide our executive officers with comprehensive employee benefit programs, such as medical, dental and vision insurance, a 401(k) plan, life and disability insurance, and other plans and programs made available to our eligible employees.

We believe these elements provide a compensation package that attracts and retains qualified individuals, links individual performance to company performance, focuses the efforts of our named executive officers on the achievement of both our short-term and long-term objectives and further aligns the interests of our executive officers with those of our stockholders.

Base Salaries

We provide base salary as a fixed source of compensation for each of our named executive officers, allowing them a degree of certainty relative to the significant majority of their compensation that is based on equity awards, the value of which varies and, with respect to stock options, is contingent on our stock price appreciation. Our compensation committee recognizes the importance of base salaries as an element of compensation that helps to attract and retain highly qualified executive talent.

The initial base salaries of our executive officers are established through arm's-length negotiation at the time the individual executive officer is hired, taking into account a variety of factors, including his or her qualifications, experience, comparable market data and compensation expectations. At the beginning of each year, our compensation committee reviews, and adjusts as necessary, base salaries for each of our named executive officers. Our compensation committee does not apply specific formulas in setting base salary levels or determining adjustments from year to year; however, in completing its annual review and adjustment, our compensation committee targets paying each of our named executive officers base salaries that are competitive with current market practice (as reflected by our compensation peer group) and after taking into consideration our Chief Executive Officer's recommendations (other than with respect to himself) and each individual's role and scope of responsibilities, experience, past performance and expected future performance, the base salary levels of our executive officers as well as the total direct compensation package of which the base salary forms but one part.

The base salaries of our named executive officers prior to and following the fiscal year 2021 increase approved by our compensation committee were as follows:

Base Salaries

Named Executive Officer	Fiscal Year 2020 Base Salary ($)	Fiscal Year 2021 Base Salary ($)(1)	Increase from Fiscal Year 2020 (%)
Stewart Butterfield	430,000	430,000	— %
Allen Shim	365,000	385,000	5.5 %
Robert Frati	450,000	450,000	— %
David Schellhase	345,000	375,000	8.7 %
Tamar Yehoshua	320,000	375,000	17.2 %

(1) Base salary adjustments were approved in March 2020 and effective as of February 1, 2020, the first day of fiscal year 2021.

Annual Performance-Based Incentives

We use performance-based incentives to motivate our named executive officers to achieve our annual financial and operational objectives, while making progress towards our longer-term strategic and growth goals. All of our named executive officers, except for Mr. Frati, participate in the Bonus Plan. Mr. Frati participates in a sales incentive plan, or the Sales Incentive Plan, as described in "Sales Incentive Plan" below.

Typically, near the beginning of each fiscal year, our compensation committee adopts the performance criteria and targets for our Bonus Plan for that fiscal year, and establishes the target annual incentive opportunity for each plan participant based on a percentage of each participant's base salary, the performance measures and the associated target levels for each measure, and the potential payouts based on actual performance for the fiscal year.

In addition, our compensation committee considered the factors described in “Oversight of Executive Compensation Program—Compensation-Setting Process” above.

Overview & Structure

In March 2020, our compensation committee adopted and approved the performance criteria and targets for fiscal year 2021 under our Bonus Plan, as set forth in “Bonus Plan Corporate Performance Measures” below. The Bonus Plan provides opportunities for incentive compensation payouts based on our actual achievement of pre-established corporate financial objectives. The target levels for the financial objectives were set at levels determined to be challenging and requiring substantial skill and effort by our named executive officers. The Bonus Plan provided for an annual performance period with annual cash payouts, in order to align the committee’s assessment of our named executive officers’ performance to our achievement of our annual operating plan.

Target Annual Incentive Compensation Opportunities

In March 2020, in connection with its review of our executive compensation program, our compensation committee approved the target annual incentive opportunities of our named executive officers, as set forth in the table below. Our compensation committee has set the target annual incentive opportunities for our named executive officers as percentages of their base salaries. In setting the target annual incentive opportunities, our compensation committee considered the recommendation of our Chief Executive Officer (other than with respect to himself) and each named executive officer’s performance, individual contributions, responsibilities, experience, prior annual incentive compensation opportunity, peer group market data and internal parity among this group.

Target Performance-Based Incentives for Fiscal Year 2021

Named Executive Officer	Base Salary ($)	Target Performance-Based Incentive Under the Bonus Plan ($)	Target Performance-Based Incentive as Percent of Base Salary
Stewart Butterfield	430,000	430,000	100 %
Allen Shim	385,000	231,000	60 %
Robert Frati[(1)]	450,000	450,000	100 %
David Schellhase	375,000	225,000	60 %
Tamar Yehoshua	375,000	225,000	60 %

(1) Reflects target under Mr. Frati’s Sales Incentive Plan.

Bonus Plan Corporate Performance Measures

To measure performance for purposes of the Bonus Plan, our compensation committee selected annual revenue as the corporate performance measure because we believed annual revenue was the best indicator of our successful execution of our annual operating plan. We define “annual revenue” as GAAP revenue as reflected in our audited financial statements for fiscal year 2021.

Our compensation committee set the target performance level for annual revenue at $906.8 million, which would result in 100% payment funding. Annual revenue achievement of 110% of target would result in a maximum funding of 200%. Total funding and payouts under the Bonus Plan were capped at 200% of the target annual cash incentive opportunities.

Bonus Plan Funding Methodology

Our compensation committee assessed performance and determined payouts under our Bonus Plan in a two-part process: (1) first, our compensation committee measured actual performance against the pre-established target level for the performance period; and (2) second, our compensation committee exercised its discretion to determine the actual payout.

As a threshold matter, our named executive officers, except for Mr. Frati, were eligible for annual incentive compensation payouts with respect to the annual revenue performance measure for fiscal year 2021 only if we met or exceeded 96% of the annual revenue target. A high threshold was required to ensure that significant achievement was a prerequisite to receive any incentive payment. At the threshold performance level of 96% of target, the bonus payment funding percentage was 40%. Each additional 1% achievement between 96% to 100% would result in an additional 15% payment funding. For achievement between 100% and 102%, the payment funding would remain the same. Each additional 1% achievement over 102% would result in an additional 12.5% payment funding, with a maximum funding of 200% at 110% achievement of target or greater.

Caps on Payment. The cap on total payouts was set to manage potential incentive compensation costs and avoid incentivizing undue risk in our executive compensation program, while still maintaining appropriate incentives for our named executive officers.

Performance in Fiscal Year 2021 and Payout. For fiscal year 2021, our target performance level and actual achievement of the target under the Bonus Plan were as follows:

Performance Measure	**Target ($ in millions)**	**Result ($ in millions)**	**Actual Achievement of Target (%)**
Revenue	906.8	902.6	99.5 %

The resulting total funding percentage was 85%. Consequently, our compensation committee determined that each named executive officer receive a bonus payout of 85% of their target bonus percentage. As a result, the total payouts to our named executive officers under the Bonus Plan in fiscal year 2021 were as follows:

Named Executive Officer	**Fiscal Year 2021 Target Annual Performance-Based Incentive Compensation Opportunity ($)**	**Fiscal Year 2021 Actual Performance-Based Incentive Compensation ($)**
Stewart Butterfield	430,000	365,500
Allen Shim	231,000	196,350
David Schellhase	225,000	191,250
Tamar Yehoshua	225,000	191,250

Sales Incentive Plan

In fiscal year 2021, Mr. Frati participated in the Sales Incentive Plan. The compensation committee determined that to properly incentivize Mr. Frati's performance, it was appropriate to compensate him, as our top sales executive, on a similar basis as the other key sales employees.

For fiscal year 2021, Mr. Frati's commission was based on quarterly quotas for annualized contract value, new customer annualized contract value and gross renewal rate and paid quarterly. We have not disclosed the specific formulae or performance targets in Mr. Frati's Sales Incentive Plan because the metrics used for Mr. Frati's Sales Incentive Plan, annualized contract value, new customer annualized contract value and gross renewal rate, are not otherwise publicly disclosed by us, and we believe that disclosure would cause competitive harm. The quarterly quotas were set at levels determined to be challenging and requiring substantial effort by Mr. Frati to be achieved and would not be achieved with average or below average performance. Mr. Frati earned 98.9% of his fiscal year 2021 target incentive compensation opportunity and earned a total payment of $444,979 under the Sales Incentive Plan in fiscal year 2021. Mr. Frati did not participate in any other bonus plan during fiscal year 2021.

Long-Term Equity Incentives

We view long-term incentive compensation in the form of equity awards as a critical element of our executive compensation program. The realized value of these equity awards bears a direct relationship to our stock price, and, therefore, these awards are an incentive for our named executive officers to create value for our stockholders. Equity awards also help us retain qualified executive officers in a competitive market.

Long-term incentive compensation opportunities in the form of equity awards are granted by our compensation committee on a regularly-scheduled basis, as described in “Other Compensation Policies—Equity Award Grant Policy” below. The amount and forms of such equity awards are determined by our compensation committee after considering the factors described in “Oversight of Executive Compensation Program—Compensation-Setting Process” above. The amounts of the equity awards are also intended to provide competitively-sized awards as compared to our compensation peer group, resulting in target total direct compensation opportunities that are competitive with the compensation opportunities offered by the companies in our compensation peer group for similar roles and positions for each of our executive officers, and after taking into consideration our focus on delivering significantly more value through long-term incentive compensation than through target total cash compensation.

For fiscal year 2021, our compensation committee determined that the equity awards to be granted (i) to our Chief Executive Officer should be solely in the form of options to purchase shares of our Class A common stock and (ii) to our other executive officers should be in the form of options to purchase shares of our Class A common stock and RSUs, divided equally to deliver half of the intended aggregate fair value in stock options and the remaining half in RSUs. In making its determinations as to the intended target value to award to each of our named executive officers, our compensation committee considered the factors described in “Oversight of Executive Compensation Program—Compensation-Setting Process” above. Our compensation committee granted our Chief Executive Officer’s equity incentive solely in the form of a stock option because it determined a stock option would best incentivize our Chief Executive Officer and reward growth in the market price of our common stock while not providing any value below the fixed exercise price and split our other named executive officer grants equally between stock options and RSUs because it determined this was in line with practices in our compensation peer group and reflected an appropriate balance of equity awards that have value only if the market price of our common stock increases and equity awards that have value regardless of the market price of our common stock.

Stock Options

We believe that stock options provide a strong reward for growth in the market price of our common stock, as their entire value depends on stock price appreciation over the value on the grant date, as well as a strong incentive for our named executive officers to remain employed with us as they require continued employment through the multi-year vesting period. In fiscal year 2021, we granted our Chief Executive Officer an early exercisable stock option to purchase 937,471 shares of our Class A common stock, which has a 10-year term and vests in 16 equal quarterly installments, subject to his continued employment with us through each applicable vesting date. Any shares acquired by our Chief Executive Officer prior to vesting, are subject to repurchase by us at the original exercise price in the event of our Chief Executive Officer’s termination of service to us. The size of the option grant was determined based on a comparison to the compensation of chief executive officers in our compensation peer group and based on our Chief Executive Officer’s unvested equity holdings.

In fiscal year 2021, we granted our other named executive officers stock options to purchase shares of our Class A common stock, which have a 10-year term and generally vest in 16 equal quarterly installments, subject to the named executive officer’s continued employment with us through each applicable vesting date. Our compensation committee determined the size of each option grant based on a comparison to the compensation of other named executive officers in our compensation peer group and based on our named executive officers’ unvested equity holdings.

Consistent with our compensation objectives, we believe this approach further aligns our executive officers’ efforts and contributions with our long-term interests and allows them to participate in any future appreciation in the value of our common stock.

RSUs

We believe RSUs also provide a strong retention incentive for our named executive officers, provide a reward for growth in the value of our common stock and are less dilutive than stock options to our stockholders. All RSUs are granted under our 2019 Plan and are settled for shares of our Class A common stock. In fiscal year 2021, we granted all our named executive officers, except our Chief Executive Officer who received stock options only, RSUs that generally vest in 16 equal quarterly installments, subject to the named executive officer's continued employment with us through each applicable vesting date. The size of each named executive officer's RSU grant was determined based on a comparison to the compensation of other named executive officers in our compensation peer group and our named executive officers' unvested equity holdings.

The equity awards granted to our named executive officers in fiscal year 2021 are set forth in the "Fiscal Year 2021 Summary Compensation Table" and the "Fiscal Year 2021 Grants of Plan-Based Awards Table" below.

Employee Benefit Programs

Our named executive officers are eligible to participate in all of our employee benefit plans offered to U.S. employees, including our medical, dental, life and disability insurance plans, in each case on the same basis as other employees of the same status. Our named executive officers are not eligible to participate in our ESPP.

Perquisites and Other Personal Benefits

We generally do not provide perquisites or personal benefits to our named executive officers. In the future, we may provide perquisites or other personal benefits in limited circumstances, such as where we believe it is appropriate to assist an individual in the performance of his or her duties, to make our executive team more efficient and effective or for recruitment or retention purposes. All future practices with respect to perquisites or other benefits for our named executive officers will be subject to review and approval by our compensation committee.

401(k) Plan

We maintain a tax-qualified retirement plan that provides eligible U.S. employees with an opportunity to save for retirement on a tax-advantaged basis. Plan participants are able to defer eligible compensation subject to applicable annual limits set by the Code. We provide a matching contribution of 50% of employee contributions up to $4,000, which is 100% vested after one year of service. The 401(k) plan is intended to be qualified under Section 401(a) of the Code with the 401(k) plan's related trust intended to be tax exempt under Section 501(a) of the Code. As a tax-qualified retirement plan, contributions to the 401(k) plan and earnings on those contributions are not taxable to the employees until distributed from the 401(k) plan.

Post-Employment Compensation Arrangements

Each of our named executive officers participates in our Amended and Restated Executive Severance Plan which, as amended or modified from time to time, we refer to as the Executive Severance Plan, that provides for severance and accelerated vesting benefits in connection with certain terminations of employment. Under the Executive Severance Plan, if a named executive officer's employment is terminated by us without cause or the named executive officer resigns for good reason, as each is defined in the Executive Severance Plan, then, in exchange for a release of claims, the named executive officer would be entitled to receive (i) a lump sum cash payment equal to six, or, in the case of our Chief Executive Officer, 12 months' of the named executive officer's base salary and (ii) a monthly cash payment over six or, in the case of our Chief Executive Officer, 12 months in an amount equal to our monthly contribution towards healthcare coverage. In the event the termination or resignation occurs within the period beginning three months prior to a change in control and ending 12 months after the change in control, then, in lieu of the foregoing benefits, the named executive officer would be entitled to receive (i) a lump sum cash payment equal to 12 months' of the named executive officer's base salary, (ii) a monthly cash payment over 12 months in an amount equal to our monthly contribution towards healthcare coverage, (iii) accelerated vesting of all equity awards held by the named executive officer; provided, that any equity awards subject to performance conditions will be deemed satisfied at the higher of target levels specified in the applicable award agreements or actual achievement, and (iv) a lump sum cash amount equal to the named executive officer's annual target bonus, pro-rated through the date of termination or resignation. Payments under the Executive Severance Plan are subject to a clawback in the event that we determine that after a named executive officer's date of termination that circumstances constituting cause existed at or prior to the named executive officer's date of termination.

The payments and benefits provided under the Executive Severance Plan in connection with a change in control may not be eligible for a federal income tax deduction by us pursuant to Section 280G of the Code. These payments and benefits may also subject an eligible participant, including the named executive officers, to an excise tax under Section 4999 of the Code. If the payments or benefits payable in connection with a change in control would be subject to the excise tax imposed under Section 4999 of the Code, then those payments or benefits will be reduced if such reduction would result in a higher net after-tax benefit to the recipient.

For the purposes of our Executive Severance Plan, the closing of the Mergers will constitute a change in control.

Each of Messrs. Butterfield and Frati and Ms. Yehoshua entered into a waiver and acknowledgment agreement with Salesforce and us, or the Waiver Letters, that amends the rights that each executive has under the Executive Severance Plan. Under the Waiver Letters, the vesting schedule of each of our equity awards held by Messrs. Butterfield and Frati that is outstanding as of the closing of the mergers is amended to provide that 50% of the shares underlying such equity awards (determined on a tranche by tranche basis) will vest on each of the first and second anniversaries of the closing of the Mergers, subject to continued employment with Salesforce. Under Ms. Yehoshua's waiver letter, the vesting of any of our equity awards held by Ms. Yehoshua that remain outstanding and unvested as of the second anniversary of the closing of the Mergers will fully accelerate on such second anniversary of the closing, subject to continued employment with Salesforce. The Waiver Letters also provide for the following: (i) the definition of "good reason" as it applies to the executive will no longer include a material diminution in the executive's position, responsibilities, authority or duties as grounds for a resignation for good reason, (ii) Messrs. Butterfield and Frati and Ms. Yehoshua will not have the right to assert good reason under the terms of the Executive Severance Plan or any of executive's equity award agreements with us as a result of any changes to executive's position, responsibilities, authority or duties and (iii) the accelerated vesting of equity awards in connection with certain terminations of the executive's employment will only apply to unvested awards held by the executive prior to the closing of the Mergers. The Waiver Letters also provide that each executive will be eligible to participate in any Salesforce severance plan applicable to similarly situated employees of Salesforce once the Executive Severance Plan ceases to apply on the first anniversary of the closing of the Mergers.

New Offer Letters

In connection with the Merger Agreement and contingent upon the closing of the Mergers, each of Messrs. Butterfield and Frati, and Ms. Yehoshua entered into offer letters with Salesforce pursuant to which Mr. Butterfield will serve as President and Chief Executive Officer of Slack, Mr. Frati will serve as Executive Vice President of Sales and Customer Success of Slack and Ms. Yehoshua will serve as Chief Product Officer of Slack. Under the offer letters, Mr. Butterfield is entitled to an annual base salary of $650,000, Mr. Frati is entitled to an annual base salary of $450,000 and Ms. Yehoshua is entitled to an annual base salary of $500,000. Mr. Butterfield will have a target annual bonus opportunity under the Salesforce Gratitude Bonus Plan of 100% of his annual base salary, and Ms. Yehoshua's target annual bonus opportunity under the Salesforce Gratitude Bonus Plan will be 50% of her annual base salary. Mr. Frati will have a target annual bonus opportunity under a sales incentive plan of 100% of his annual base salary. The offer letters also provide for Salesforce to grant Mr. Frati and Ms. Yehoshua the following Salesforce equity awards: (i) a number of restricted stock units, or Retention RSUs, calculated by dividing $2,500,000 by the average closing sale price of one share of Salesforce common stock during the two calendar months preceding the month in which the Retention RSUs will be granted and (ii) an option to acquire a number of shares of Salesforce common stock, or a Retention Option, calculated by dividing $2,500,000 by the quotient obtained by dividing the average closing sale price of one share of Salesforce common stock during the two calendar months preceding the month in which the stock options will be granted by the Salesforce option conversion factor. For Mr. Frati, (i) the Retention RSUs will vest as to 25% of the shares of Salesforce common stock underlying the awards on the first anniversary of the grant date and 1/16th of the shares of Salesforce common stock underlying the awards on each quarter thereafter, subject to continued employment with Salesforce and (ii) the Retention Option will vest as to 25% of the shares of Salesforce common stock underlying the awards on the first anniversary of the grant date and 1/48th of the shares of Salesforce common stock underlying the awards on each quarter thereafter, subject to continued employment with Salesforce. For Ms. Yehoshua, the Retention RSUs and Retention Option will vest as to 50% of the shares of Salesforce common stock underlying the awards on each of the third and fourth anniversaries of the grant date, subject to continued employment with Salesforce.

Other Compensation Policies

Equity Award Grant Policy

Our compensation committee has adopted a policy governing the grant of equity awards. Under this policy, we generally grant equity awards on a regularly scheduled basis to enhance the effectiveness of our internal control over our equity award grant process. Grants of equity awards are generally made monthly and will be effective on the date such grant is approved by our compensation committee.

The exercise price of all stock options will be equal to the closing trading price on The New York Stock Exchange of one share of our Class A common stock on the effective date of grant, or, if no closing trading price is reported for such date, the closing trading price on the next immediately following date for which a closing price is reported. If the grant of restricted stock or of RSUs is denominated in dollars, the number of shares of restricted stock or RSUs that are granted will generally be calculated by dividing the dollar value of the approved award by the average closing trading price on The New York Stock Exchange of one share of our Class A common stock over the trailing 30-day period ending on the last day of the month immediately prior to the month of the grant date.

Policy Prohibiting Hedging and Pledging of Company Securities

Our insider trading policy prohibits our employees, including our executive officers, and the non-employee members of our board of directors from engaging in any short sale and from buying or selling puts, calls, other derivative securities or any derivative securities that provide the economic equivalent of ownership of any of our Company's securities or an opportunity, direct or indirect, to profit from any change in the value of our securities or engage in any other hedging transaction with respect to our securities, at any time. In addition, our insider trading policy prohibits our employees, including our executive officers, and the non-employee members of our board of directors from using our securities as collateral in a margin account or from pledging our securities as collateral for a loan.

Tax and Accounting Considerations

Deductibility of Executive Compensation

Section 162(m) of the Code denies a publicly-traded corporation a federal income tax deduction for remuneration in excess of $1 million per year per executive designated in Section 162(m) of the Code, including, but not limited to, the chief executive officer, chief financial officer, and the next three highly compensated executive officers. However, we believe that maintaining the discretion to provide compensation that is non-deductible allows us to provide compensation tailored to the needs of our company and our named executive officers and is an important part of our responsibilities and benefits our stockholders.

Taxation of "Parachute" Payments

Sections 280G and 4999 of the Code provide that executive officers and directors who hold significant equity interests and certain other service providers may be subject to significant additional taxes if they receive payments or benefits in connection with a change in control of the company that exceeds certain prescribed limits, and that the company (or a successor) may forfeit a deduction on the amounts subject to this additional tax. We have not agreed to provide any executive officer, including any named executive officer, with a "gross-up" or other reimbursement payment for any tax liability that the executive officer might owe as a result of the application of Sections 280G or 4999 of the Code.

Section 409A of the Code

Section 409A of the Code imposes additional significant taxes in the event that an executive officer, director or service provider receives "deferred compensation" that does not satisfy the requirements of Section 409A of the Code. Although we do not maintain a traditional nonqualified deferred compensation plan for our executive officers, Section 409A of the Code does apply to certain severance arrangements, bonus arrangements and equity awards, and we have structured all such arrangements and awards in a manner to either avoid or comply with the applicable requirements of Section 409A of the Code.

Accounting for Stock-Based Compensation

We follow the FASB ASC Topic 718 for our stock-based compensation awards. FASB ASC Topic 718 requires us to measure the compensation expense for all share-based payment awards made to our employees and non-employee members of our board of directors, including options to purchase shares of our common stock and other stock awards, based on the grant date "fair value" of these awards. This calculation is performed for accounting purposes and reported in the executive compensation tables required by the federal securities laws, even though the recipient of the awards may never realize any value from such awards.

Summary Compensation Table

The following table presents information regarding the compensation awarded to, earned by and paid to each individual who served as one of our named executive officers during fiscal years ended January 31, 2019, 2020 and 2021.

Name and Principal Position	Fiscal Year	Salary ($)	Stock Awards ($)[(1)]	Option Awards ($)[(2)]	Non-Equity Incentive Plan Compensation ($)[(3)]	All Other Compensation ($)[(4)]	Total ($)
Stewart Butterfield	2021	430,000	—	9,992,503	365,500	4,179	10,792,183
Chief Executive Officer[(5)]							
	2020	430,000	3,453,713	—	—	285,421	4,169,134
	2019	356,952	9,798,113	—	136,715	55,466	10,347,246
Allen Shim	2021	385,000	1,490,811	1,498,879	196,350	4,042	3,575,082
Chief Financial Officer	2020	365,000	2,567,400	455,192	50,188	4,439	3,442,219
	2019	320,000	3,357,900	—	122,880	4,094	3,804,874
Robert Frati	2021	450,000	1,987,756	1,998,509	444,979	4,000	4,885,244
Senior Vice President of Sales and Customer Success	2020	450,000	2,917,500	665,281	283,111	4,346	4,320,238
	2019	450,000	758,840	—	331,087	4,000	1,543,927
David Schellhase	2021	375,000	1,093,269	1,099,177	191,250	4,000	2,762,697
General Counsel[(6)]							
Tamar Yehoshua	2021	375,000	1,093,269	1,099,177	191,250	6,000	2,764,697
Chief Product Officer[(6)]							

(1) The amounts reported represent the aggregate grant date fair value of the RSUs awarded to the named executive officers during fiscal years 2021, 2020 and 2019, calculated in accordance with FASB ASC Topic 718. Such grant date fair value does not take into account any estimated forfeitures. The assumptions used in calculating the grant date fair value are set forth in the notes to our consolidated financial statements included in this Annual Report on Form 10-K. The amounts reported in this column reflect the accounting cost for these awards and do not correspond to the actual economic value that may be received by the named executive officer upon vesting, settlement, or sale of any of the underlying shares common stock.

(2) The amounts reported represent the aggregate grant date fair value of the stock options awarded to the named executive officers during fiscal years 2021 and 2020, calculated in accordance with FASB ASC Topic 718. Such grant date fair value does not take into account any estimated forfeitures. The assumptions used in calculating the grant date fair value are set forth in the notes to our consolidated financial statements included in this Annual Report on Form 10-K. The amounts reported in this column reflect the accounting cost for these awards and do not correspond to the actual economic value that may be received by the named executive officer upon vesting, settlement, or sale of any of the underlying shares of common stock.

(3) The amounts reported for Messrs. Butterfield, Shim and Schellhase and Ms. Yehoshua represent the aggregate annual performance-based cash incentives earned based upon the achievement of performance goals described above in "Compensation Discussion and Analysis – Annual Performance Based Incentives –Performance in Fiscal Year 2021 and Payout." For Mr. Frati, the amounts reported reflect quarterly commissions earned pursuant to the terms and conditions of the Sales Incentive Plan.

(4) The amounts reported represent 401(k) company matching contributions.

(5) From February 1, 2018 through June 30, 2018 as well as the month of September 2018, Mr. Butterfield was compensated in Canadian dollars for an aggregate amount of CAD$154,006, which has been converted into U.S. dollars, based on the exchange rate at the applicable points in time that such compensation was paid, to $119,637.

(6) Mr. Schellhase and Ms. Yehoshua were not named executive officers in fiscal years 2020 or 2019.

Fiscal Year 2021 Grants of Plan-Based Awards Table

The following table sets forth certain information with respect to all plan-based awards granted to our named executive officers during fiscal year 2021.

			Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)						
Name	Award Type	Grant Date	Threshold ($)	Target ($)	Maximum ($)	All Other Stock Awards: Number of Shares of Stock or Units (#)(2)	All Other Option Awards: Number of Securities Underlying Options (#)(2)	Exercise or Base Price of Option Awards ($/Sh)(3)	Grant Date Fair Value of Stock and Option Awards ($)(4)
Stewart Butterfield	Annual Cash	—	172,000	430,000	860,000	—	—	—	—
	Annual Option	4/6/2020	—	—	—	—	937,471	24.31	9,992,503
Allen Shim	Annual Cash	—	92,400	231,000	462,000	—	—	—	—
	Annual Option	4/6/2020	—	—	—	—	140,621	24.31	1,498,879
	Annual RSU	4/6/2020	—	—	—	61,325	—	—	1,490,811
Robert Frati	Annual Cash	—	—	450,000	—	—	—	—	—
	Annual Option	4/6/2020	—	—	—	—	187,495	24.31	1,998,509
	Annual RSU	4/6/2020	—	—	—	81,767	—	—	1,987,756
David Schellhase	Annual Cash	—	90,000	225,000	450,000	—	—	—	—
	Annual Option	4/6/2020	—	—	—	—	103,122	24.31	1,099,177
	Annual RSU	4/6/2020	—	—	—	44,972	—	—	1,093,269
Tamar Yehoshua	Annual Cash	—	90,000	225,000	450,000	—	—	—	—
	Annual Option	4/6/2020	—	—	—	—	103,122	24.31	1,099,177
	Annual RSU	4/6/2020	—	—	—	44,972	—	—	1,093,269

(1) This column sets forth the fiscal year 2021 target bonus amount for each of our named executive officers under our Bonus Plan or, solely for Mr. Frati, Mr. Frati's Sales Incentive Plan. Target bonuses and Mr. Frati's sales incentive were set as a percentage of each named executive officer's base salary earned for fiscal year 2021. The dollar value of the actual bonus award and, for Mr. Frati, sales commissions earned, for fiscal year 2021 for each named executive officer is set forth in the Fiscal Year 2021 Summary Compensation Table above. The threshold and maximum columns represent the amount that would be paid upon achieving performance goals at their threshold and maximum levels. Mr. Frati's Sales Incentive Plan did not have a threshold or maximum achievement level. The amounts set forth in this column do not represent either additional or actual compensation earned by the named executive officers for fiscal year 2021. For a description of the Bonus Plan and Mr. Frati's Sales Incentive Plan, see "Compensation Discussion and Analysis –Annual Performance-Based Incentives" above.

(2) Annual stock options and RSUs were granted under the 2019 Plan. Each of the stock options and RSU awards listed in the table above vest in 16 equal quarterly installments. The stock option award granted to Mr. Butterfield is early exercisable, with any shares purchased prior to vesting subject to repurchase by us at the original exercise price upon any termination of employment. Stock options and RSUs are subject to potential

vesting acceleration as described under the heading "Post-Employment Compensation Arrangements" above and "Potential Payments upon Termination or Change in Control" below.

(3) Stock options were granted with an exercise price equal to the closing trading price of our common stock on the date of grant, which was $24.31 per share for the April 6, 2020 annual grants.

(4) The amounts reported represent the aggregate grant date fair value of the stock options granted to our named executive officers in fiscal year 2021, calculated in accordance with ASC Topic 718. The assumptions used in calculating the grant date fair value are set forth in the notes to our consolidated financial statements included in this Annual Report on Form 10-K. These amounts do not necessarily correspond to the actual value recognized by our named executive officers.

Fiscal Year 2021 Outstanding Equity Awards at Fiscal Year-End Table

The following table provides information regarding outstanding equity awards held by our named executive officers as of January 31, 2021.

			Option Awards				**Stock Awards**[(1)]	
			Number of Securities Underlying Unexercised Options					
Name	**Grant Date**	**Vesting Commencement Date**	**Exercisable(#)**	**Unexercisable(#)**	**Option Exercise Price($)**	**Option Expiration Date**	**Number of shares or units of stock that have not vested (#)**	**Market value of shares of units of stock that have not vested($)**[(2)]
Stewart Butterfield	6/8/2016[(3)]	10/1/2017	—	—	—	—	533,869	22,513,256
	10/28/2018[(4)]	7/1/2019	—	—	—	—	767,191	32,352,444
	2/26/2019[(5)]	5/1/2019	—	—	—	—	165,938	6,997,605
	4/6/2020[(6)]	7/1/2020	697,471	—	24.31	4/6/2030	64,225	1,147,059
Allen Shim	5/21/2014[(7)]	—	172,605	—	0.14	5/21/2024	—	—
	5/10/2017[(8)]	6/1/2017	—	—	—	—	9,375	395,344
	2/21/2018[(8)]	5/1/2018	—	—	—	—	213,282	8,994,102
	2/26/2019[(8)]	5/1/2019	—	—	—	—	123,750	5,218,538
	2/26/2019[(9)]	5/1/2019	22,750	55,250	10.56	2/26/2029	—	—
	4/6/2020[(8)]	7/1/2020					49,827	2,101,205
	4/6/2020[(8)]	7/1/2020	26,366	114,255	24.31	4/6/2030	—	—
Robert Frati	6/20/2018[(8)]	5/1/2018	—	—	—	—	12,500	527,125
	6/20/2018[(8)]	8/1/2018	—	—	—	—	30,750	1,296,728
	2/26/2019[(8)]	5/1/2019	—	—	—	—	140,625	5,930,156
	2/26/2019[(9)]	5/1/2019	33,250	80,750	10.56	2/26/2029	—	—
	4/6/2020[(8)]	7/1/2020	—	—	—	—	66,436	2,801,606
	4/6/2020[(8)]	7/1/2020	35,155	152,340	24.31	4/6/2030	—	—
David Schellhase	11/28/2018[(8)]	3/1/2019	—	—	—	—	50,000	2,108,500
	2/26/2019[(8)]	5/1/2019	—	—	—	—	56,250	2,372,063
	2/26/2019[(9)]	5/1/2019	24,500	59,500	10.56	2/26/2029	—	—
	4/6/2020[(8)]	7/1/2020	—	—	—	—	36,540	1,540,892
	4/6/2020[(8)]	7/1/2020	19,335	83,787	24.31	4/6/2030	—	—
Tamar Yehoshua	1/28/2019[(10)]	4/1/2020	—	—	—	—	713,968	30,108,031
	4/6/2020[(8)]	7/1/2020	—	—	—	—	36,540	1,540,892
	4/6/2020[(8)]	7/1/2020	19,335	83,787	24.31	4/6/2030	—	—

(1) Each RSU and restricted stock award with a grant date prior to June 2019 is for Class B common stock and was granted pursuant to our 2009 Plan and vests upon the satisfaction of both a time-based condition and a

performance-based condition before the award's expiration date. The performance-based condition was satisfied upon our direct listing. Each RSU and restricted stock award with a grant date after June 2019 is for Class A common stock and was granted pursuant to our 2019 Plan and vests upon the satisfaction of a time-based condition.

(2) This column represents the market value of the shares of Class A or Class B common stock underlying the RSUs or restricted stock as of January 31, 2021, based on the closing price of our Class A common stock, as reported on the NYSE, of $42.173 per share on January 29, 2021. The amount reported for Mr. Butterfield's April 6, 2020 grant has been reduced by $24.31 per share, which was the amount Mr. Butterfield paid to exercise his stock option prior to vesting and is the price we must pay to repurchase the shares if Mr. Butterfield's employment terminates prior to vesting.

(3) The time-based condition of the award vested as follows: 4.286% of the RSUs subject to the award satisfied the time-based condition each quarter commencing on the vesting commencement date, subject to Mr. Butterfield continuing to provide service to us on such date. On June 7, 2019, the time-based condition was automatically adjusted as follows: 7.5% of the RSUs subject to the award shall satisfy the time-based condition on the applicable quarterly vesting date, subject to Mr. Butterfield continuing to provide service to us on such dates. If Mr. Butterfield is subject to a termination without "cause" or resignation for "good reason" (as each term is defined in his stock purchase agreement dated March 17, 2009) within 12 months after a change in control (as defined in the award agreement), 100% of the RSUs shall immediately satisfy the time-based condition as of such termination date.

(4) This award represents an award for restricted shares of our Class B common stock under our 2009 Plan. With respect to such award, 1/6th of the shares shall vest and no longer be subject to our right of repurchase on the vesting commencement date, subject to Mr. Butterfield continuing to provide service to us through such date. Following such date, 1/24th of the shares shall vest and no longer be subject to our right of repurchase on each quarter thereafter, subject to Mr. Butterfield continuing to provide service to us through each such date. In addition, if Mr. Butterfield is subject to a termination without "cause" or resignation for "good reason" (as each term is defined in his stock purchase agreement dated March 17, 2009) within 12 months after a change in control (as defined in the award agreement), 100% of the shares shall vest and no longer be subject to our right of repurchase immediately upon such termination date.

(5) This award represents an award for restricted shares of our Class B common stock under our 2009 Plan. With respect to such award, 1/16th of the shares shall vest and no longer be subject to our right of repurchase on the vesting commencement date, subject to Mr. Butterfield continuing to provide service to us through such date. Following such date, 1/16th of the shares shall vest and no longer be subject to our right of repurchase on each quarter thereafter, subject to Mr. Butterfield continuing to provide service to us through each such date.

(6) This award represents an option to purchase shares of our Class A common stock under our 2019 Plan, a portion of which was exercised prior to vesting and remains subject to repurchase at the original exercise price. The option vests in 16 equal quarterly installments commencing on the vesting commencement date, with such vesting applied first to the shares exercised prior to vesting. The option is exercisable in full, provided that any shares acquired prior to vesting will be subject to repurchase at the original exercise price upon a termination of Mr. Butterfield's service to us.

(7) Mr. Shim's stock option for Class B common stock was granted pursuant to our 2009 Plan and all of the shares are fully vested.

(8) The award vests in 16 equal quarterly installments commencing on the vesting commencement date, subject to the named executive officer continuing to provide service to us through each such vesting date.

(9) The award vests in 24 equal quarterly installments commencing on the vesting commencement date, subject to the named executive officer's continued service to us through each such vesting date.

(10) The award vests in 12 equal quarterly installments commencing on the vesting commencement date, subject to the named executive officer's continued service to us through each such vesting date.

Fiscal Year 2021 Option Exercises and Stock Vested Table

The following table presents, for each of our named executive officers, the shares of our common stock that were acquired upon the exercise of stock options and the vesting of RSUs and the related value realized upon such exercise or vesting during fiscal year 2021.

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)[(1)]**	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting ($)[(2)]**
Stewart Butterfield	240,000	260,000	915,204	29,064,591
Allen Shim	70,000	1,803,023	282,250	7,664,943
Robert Frati	—	—	193,591	4,917,815
David Schellhase	—	—	253,000	8,486,109
Tamar Yehoshua	—	—	365,415	11,618,496

(1) The value realized on exercise is based on the difference between the closing trading price of our Class A common stock on the date of exercise and the applicable exercise price of those options.

(2) The value realized on vesting is determined by multiplying the number of vested restricted stock units or shares of restricted stock by the closing price of our Class A common stock on the vesting date.

Pension Benefits

We do not maintain any defined benefit pension plans under which our named executive officers are entitled to participate.

Nonqualified Deferred Compensation

We do not maintain any nonqualified deferred compensation plans or arrangements under which our named executive officers are entitled to participate.

Potential Payments upon Termination or Change in Control

Each of Slack's named executive officers participates in the Slack Amended and Restated Executive Severance Plan, which, as amended or modified from time to time, we refer to as the Executive Severance Plan, that provides for severance and accelerated vesting benefits in connection with certain terminations of employment. Under the Executive Severance Plan, if a named executive officer's employment with Slack is terminated by Slack without cause or the named executive officer resigns for good reason, as each is defined in the Executive Severance Plan, then, in exchange for a release of claims, the named executive officer would be entitled to receive (i) a lump sum cash payment equal to 6, or, in the case of Mr. Butterfield, 12 months' of the named executive officer's base salary and (ii) a monthly cash payment over 6 or, in the case of Mr. Butterfield, 12 months in an amount equal to Slack's monthly contribution towards healthcare coverage. In the event the termination or resignation occurs within the period beginning three months prior to a change in control, including the Mergers, and ending 12 months after the change in control, then, in lieu of the foregoing benefits, the named executive officer would be entitled to receive (i) a lump sum cash payment equal to 12 months' of the named executive officer's base salary, (ii) a monthly cash payment over 12 months in an amount equal to Slack's monthly contribution towards healthcare coverage, (iii) accelerated vesting of all equity awards held by the named executive officer; provided, that any equity awards subject to performance conditions will be deemed satisfied at the higher of target levels specified in the applicable award agreements or actual achievement, and (iv) a lump sum cash amount equal to the named executive officer's annual target bonus, pro-rated through the date of termination or resignation. Payments under the Executive Severance Plan are subject to a clawback in the event that Slack determines that after an eligible participant's date of termination that circumstances constituting cause existed at or prior to the eligible participant's date of termination.

Neither the Executive Severance Plan, nor any other Slack plan, policy, agreement or arrangement provides any employee, officer or director with the right to a tax "gross-up" payment in connection with any "golden parachute" or other tax liability triggered in connection with the Mergers.

The following table presents information concerning estimated payments and benefits that would be provided pursuant to the arrangements described above for each of our named executive officers serving as of the end of fiscal year 2021. The payments and benefits set forth below are estimated assuming that the termination of employment or change in control event occurred on the last business day of fiscal year 2021, which was January 29, 2021, and a per share value of our common stock of $42.17, which is the closing market price per share of our Class A common stock on such date. We have assumed payment of a full target bonus for a termination as of January 31, 2021 and used continued health care coverage premiums as in effect on January 31, 2021. Actual payments and benefits could be different if such events were to occur on any other date or at any other price or if any other assumptions are used to estimated potential payments and benefits.

Name	Benefit	Termination without Cause or with Good Reason Not in Connection with a Change in Control ($)	Termination without Cause or with Good Reason in Connection with a Change in Control ($)
Stewart Butterfield	Cash Severance	430,000	860,000
	Health Benefits	19,076	19,076
	Equity Acceleration	—	75,467,196
	Total	449,076	76,346,272
Allen Shim	Cash Severance	192,500	616,000
	Health Benefits	13,713	27,426
	Equity Acceleration	—	20,496,235
	Total	206,213	21,139,661
Robert Frati	Cash Severance	225,000	900,000
	Health Benefits	13,713	27,426
	Equity Acceleration	—	15,828,915
	Total	238,713	16,756,341
David Schellhase	Cash Severance	187,500	600,000
	Health Benefits	13,156	26,311
	Equity Acceleration	—	9,398,685
	Total	200,656	10,024,996
Tamar Yehoshua	Cash Severance	187,500	600,000
	Health Benefits	10,728	21,455
	Equity Acceleration	—	33,145,358
	Total	198,228	33,766,813

Report of the Compensation Committee of the Board of Directors

The information contained in this compensation committee report shall not be deemed to be "soliciting material," "filed" with the SEC, subject to Regulations 14A or 14C of the Exchange Act, or subject to the liabilities of Section 18 of the Exchange Act. No portion of this compensation committee report shall be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, through any general statement incorporating by reference in its entirety the proxy statement in which this report appears, except to the extent that Slack specifically incorporates this report or a portion of it by reference. In addition, this report shall not be deemed filed under either the Securities Act or the Exchange Act.

The compensation committee has reviewed and discussed the section captioned "Executive Compensation" with the company's management team. Based on such review and discussions, the compensation committee recommended to the board of directors that this Compensation Discussion and Analysis be included in this Annual Report on Form 10-K for the fiscal year ended January 31, 2021.

Compensation Committee
Edith Cooper (Chairperson)
Andrew Braccia
Michael M. McNamara

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain information with respect to the beneficial ownership of our common stock as of February 28, 2021, for:

- each of our named executive officers for fiscal year 2021;
- each of our directors;
- all of our directors and executive officers as a group; and
- each person known by us to be the beneficial owner of more than five percent of the outstanding shares of our Class A or Class B common stock.

We have determined beneficial ownership in accordance with the rules of the SEC, and thus it represents sole or shared voting or investment power with respect to our securities. Unless otherwise indicated below, to our knowledge, the persons and entities named in the table have sole voting and sole investment power with respect to all shares that they beneficially owned, subject to community property laws where applicable.

We have based percentage ownership of our common stock on 502,550,914 shares of our Class A common stock and 79,095,890 shares of our Class B common stock outstanding as of February 28, 2021. We have deemed shares of our common stock subject to options that are currently exercisable or exercisable within 60 days of February 28, 2021 to be outstanding and to be beneficially owned by the person holding the option for the purpose of computing the percentage ownership of that person. We have deemed shares of our common stock subject to RSUs for which the service condition has been satisfied or would be satisfied within 60 days of February 28, 2021 to be outstanding and to be beneficially owned by the person holding the RSUs for the purpose of computing the percentage ownership of that person. However, we did not deem these shares subject to stock options or RSUs outstanding for the purpose of computing the percentage ownership of any other person. This table also presents shares subject to the voting proxy held by our Chief Executive Officer, Stewart Butterfield, pursuant to certain voting agreements between Mr. Butterfield and certain other stockholders.

Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o Slack Technologies, Inc., 500 Howard Street, San Francisco, California 94105.

	Shares Beneficially Owned					
	Class A		Class B		Total Voting%†	Total Ownership%
	Shares	%	Shares	%		
5% Stockholders:						
Entities affiliated with T. Rowe Price(1)	28,108,301	5.6 %	—	—	2.2 %	4.8 %
Entities affiliated with Vanguard(2)	41,802,676	8.3 %	—	—	3.2 %	7.2 %
Named Executive Officers and Directors:						
Stewart Butterfield(3)	2,600,370	*	38,584,666	48.6 %	30.0 %	7.1 %
Shares subject to voting proxy(4)	244,147	*	35,637,974	45.0 %	27.6 %	6.2 %
Total(3)(4)	2,844,517	*	74,222,640	93.5 %	57.5 %	13.2 %
Allen Shim(5)	2,115,307	*	207,980	*	*	*
Robert Frati(6)	291,629	*	38,000	*	*	*
David Schellhase(7)	314,591	*	34,250	*	*	*
Tamar Yehoshua(8)	115,732	*	89,246	*	*	*
Andrew Braccia(9)	1,918,686	*	3,854,045	4.9 %	3.1 %	1.0 %
Edith Cooper(10)	205,071	*	17,089	*	*	*
Sarah Friar(11)	—	—	406,017	*	*	*
Sheila B. Jordan(12)	3,273	*	—	—	*	*
Michael M. McNamara(13)	4,647	*	—	—	*	*
John O'Farrell(14)	1,018,138	*	—	—	*	*
Graham Smith(15)	26,000	*	150,000	*	*	*
All directors and executive officers as a group (13 persons)(16)	8,857,591	1.8 %	79,019,267	99.1 %	61.4 %	15.1 %

* Represents less than one percent (1%).

† Percentage of total voting power represents voting power with respect to all shares of our Class A common stock and Class B common stock, as a single class. The holders of our Class A common stock are entitled to one vote per share, and holders of our Class B common stock are entitled to ten votes per share.

(1) Based on information reported by T. Rowe Price Associates, Inc. on Schedule 13G/A filed with the SEC on January 11, 2021. T. Rowe Price Associates, Inc. listed its address as 100 E. Pratt Street, Baltimore, MD 21202.

(2) Based on information reported by Vanguard Group, Inc. on Schedule 13G/A filed with the SEC on February 10, 2021. Vanguard Group, Inc. listed its address as PO Box 2600 V26, Valley Forge, PA 19482-2600.

(3) Consists of (i) 1,097,017 shares of Class A common stock held of record by Mr. Butterfield, 5,633 shares of which are subject to repurchase by the Company, (ii) 38,355,865 shares of Class B common stock held of record by Mr. Butterfield, 914,691 shares of which are subject to repurchase by the Company, (iii) 697,471 shares of Class A common stock subject to outstanding options held by Mr. Butterfield that are exercisable within 60 days of February 28, 2021, all of which are subject to repurchase by the Company, (iv) 228,801 shares of Class B common stock subject to RSUs held by Mr. Butterfield that vest within 60 days of February 28, 2021, and (v) 805,882 shares of Class A common stock held by a charitable foundation and over which Mr. Butterfield retains voting and dispositive power.

(4) Consists of shares of Class A common stock and Class B common stock currently held, or that may be acquired within 60 days of February 28, 2021, by other stockholders over which, except under limited circumstances, Mr. Butterfield holds an irrevocable proxy, pursuant to voting agreements between Mr. Butterfield and each of such stockholders. We do not believe that the parties to these voting agreements constitute a "group" under Section 13 of the Exchange Act.

(5) Consists of (i) 199,438 shares of Class A common stock held of record by Mr. Shim, (ii) 35,155 shares of Class A common stock subject to outstanding options held by Mr. Shim that are exercisable within 60 days of February 28, 2021, (iii) 198,605 shares of Class B common stock subject to outstanding options held by Mr. Shim that are exercisable within 60 days of February 28, 2021, (iv) 3,833 shares of Class A common stock

subject to RSUs held by Mr. Shim that vest within 60 days of February 28, 2021, (v) 9,375 shares of Class B common stock subject to RSUs held by Mr. Shim that vest within 60 days of February 28, 2021, (vi) 1,529,105 shares of Class A common stock held of record by the Shim-Park Family Revocable Trust, (vii) 76,308 shares of Class A common stock held of record by the Allen Shim 2019 Grantor Retained Annuity Trust dated May 1, 2019, and (viii) 271, 468 shares of Class A common stock held of record by an LLC of which Mr. Shim is the manager.

(6) Consists of (i) 239,646 shares of Class A common stock held of record by Mr. Frati, (ii) 46,873 shares of Class A common stock subject to outstanding options held by Mr. Frati that are exercisable within 60 days of February 28, 2021, (iii) 38,000 shares of Class B common stock subject to outstanding options held by Mr. Frati that are exercisable within 60 days of February 28, 2021, and (iv) 5,110 shares of Class A common stock subject to RSUs held by Mr. Frati that vest within 60 days of February 28, 2021.

(7) Consists of (i) 286,000 shares of Class A common stock held of record by Mr. Schellhase, (ii) 25,750 shares of Class A common stock subject to outstanding options held by Mr. Schellhase that are exercisable within 60 days of February 28, 2021, (iii) 28,000 shares of Class B common stock subject to outstanding options held by Mr. Schellhase that are exercisable within 60 days of February 28, 2021, (iv) 2,811 shares of Class A common stock subject to RSUs held by Mr. Schellhase that vest within 60 days of February 28, 2021, and (v) 6,250 shares of Class B common stock subject to RSUs held by Mr. Schellhase that vest within 60 days of February 28, 2021.

(8) Consists of (i) 87,141 shares of Class A common stock held of record by Ms. Yehoshua, (ii) 25,780 shares of Class A common stock subject to outstanding options held by Ms. Yehoshua that are exercisable within 60 days of February 28, 2021, (iii) 2,811 shares of Class A common stock subject to RSUs held by Ms. Yehoshua that vest within 60 days of February 28, 2021, and (iv) 89,246 shares of Class B common stock subject to RSUs held by Ms. Yehoshua that vest within 60 days of February 28, 2021.

(9) Consists of (i) 1,284,682 shares of Class A common stock held by entities affiliated with Accel, with which Mr. Braccia is affiliated, (ii) 3,854,045 shares Class B common stock held by the entities affiliated with Accel, with which Mr. Braccia is affiliated, (iii) 571,016 shares of Class A common stock held of record by the UA 10/26/2005 AKB Living Trust, (iv) 29,748 shares of Class A common stock held of record by the Braccia Family GST Exempt Trust, and (v) 33,240 shares of Class A common stock held of record by various trusts for which Mr. Braccia is a trustee.

(10) Consists of (i) 205,071 shares of Class A common stock held of record by Ms. Cooper and (ii) 17,089 shares of Class B common stock subject to RSUs held by Ms. Cooper that vest within 60 days of February 28, 2021.

(11) Consists of (i) 246,340 shares of Class B common stock held of record by the David Riley and Sarah Friar Revocable Trust Dated August 11, 2006, 25,377 shares of which are subject to repurchase by the Company, and (ii) 159,677 shares of Class B common stock held of record by the Sarah Friar 2019 Grantor Retained Annuity Trust Dated February 1, 2019.

(12) Consists of 3,273 shares of Class A common stock held of record by Ms. Jordan.

(13) Consists of 4,647 shares of Class A common stock held of record by Mr. McNamara.

(14) Consists of 1,018,138 shares of Class A common stock held of record by a family trust for which Mr. O'Farrell is a trustee.

(15) Consists of (i) 26,000 shares of Class A common stock held of record by Mr. Smith and (ii) 150,000 shares of Class B common stock held of record by Mr. Smith, 105,000 shares of which are subject to repurchase by the Company.

(16) Consists of (i) 8,857,591 shares of Class A common stock held of record by our current directors, executive officers, and trusts affiliated with our directors and executive officers, 5,633 shares of which are subject to repurchase by the Company, (ii) 79,019,267 shares of Class B common stock held of record by our current directors, executive officers, and trusts affiliated with our directors and executive officers, 1,045,068 shares of which are subject to repurchase by the Company, (iii) 856,839 shares of Class A common stock subject to outstanding options held by our directors and executive officers that are exercisable within 60 days of February 28, 2021, 697,471 shares of which are subject to repurchase by the Company, (iv) 290,605 shares of Class B common stock subject to outstanding options held by our directors and executive officers that are exercisable within 60 days of February 28, 2021, (v) 17,376 shares of Class A common stock subject to RSUs held by our directors and executive officers that vest within 60 days of February 28, 2021, and (vi) 352,449 shares of Class B common stock subject to RSUs held by our directors and executive officers that vest within 60 days of February 28, 2021; in each case including shares of Class A common stock and Class B common stock

currently held, or that may be acquired within 60 days of February 28, 2021, by other stockholders over which, except under limited circumstances, Mr. Butterfield holds an irrevocable proxy, pursuant to voting agreements between Mr. Butterfield and each of such stockholders.

Equity Compensation Plan Information

The following table provides information as of January 31, 2021 regarding shares of common stock that may be issued under the Company's equity compensation plans consisting of the 2009 Plan, the 2019 Plan, and the ESPP.

	Equity Compensation Plan Information		
Plan category	**(a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants, and Rights**	**(b) Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights**	**(c) Number of Securities Remaining Available for Future Issuance under Equity Compensation Plan (Excluding Securities Referenced in Column (a))**
Equity compensation plans approved by security holders[1]:	40,928,111[2]	$10.31[3]	74,348,541[4]
Equity compensation plans not approved by security holders:	N/A	N/A	N/A
Total	40,928,111	10.31	74,348,541

(1) The 2019 Plan provides that the number of shares reserved and available for issuance under the 2019 Plan will automatically increase each February 1, beginning on February 1, 2020, by 5% of the total number of shares of our Class A and Class B common stock issued and outstanding as of the immediately preceding January 31 or such lesser number of shares as determined by our compensation committee. The ESPP provides that the number of shares reserved and available for issuance under the ESPP will automatically increase each February 1, beginning on February 1, 2020, by 1% of the total number of shares of our Class A common stock and Class B common stock issued and outstanding on the immediately preceding January 31 or such lesser number of shares as determined by our compensation committee. In January 2021, our compensation committee determined not to increase the number of shares available for issuance under our 2019 Plan or ESPP on February 1, 2021. As of January 31, 2021, a total of 115,276,652 shares of our Class A common stock had been reserved for issuance pursuant to the 2019 Plan. This number will be subject to adjustment in the event of a stock split, stock dividend or other change in our capitalization. The shares of Class A common stock and Class B common stock underlying any awards that are forfeited, canceled, held back upon exercise or settlement of an award to satisfy the exercise price or tax withholding, reacquired by us prior to vesting, satisfied without the issuance of stock, expire, or are otherwise terminated, other than by exercise, under the 2019 Plan and the 2009 Plan will be added back to the shares of Class A common stock available for issuance under the 2019 Plan (provided, that any such shares of Class B common stock will first be converted into shares of Class A common stock). The Company no longer makes grants under the 2009 Plan. As of January 31, 2021, a total of 12,770,714 shares of our Class A common stock had been reserved for issuance pursuant to the ESPP. This number will be subject to adjustment in the event of a stock split, stock dividend or other change in our capitalization.

(2) Includes 6,228,405 shares of Class A common stock and Class B common stock issuable upon the exercise of outstanding options and 34,699,706 shares of Class A common stock and Class B common stock issuable upon the vesting of RSUs. Does not include 22,542,347 shares of restricted common stock issued under the 2009 Plan as such shares have been reflected in our total shares outstanding.

(3) As RSUs do not have any exercise price, such units are not included in the weighted average exercise price calculation.

(4) As of January 31, 2021, there were 74,348,541 shares of Class A common stock available for grant under the 2019 Plan and 12,770,714 shares of Class A common stock available for grant under the ESPP.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Certain Relationships and Transactions

In addition to the compensation arrangements, including employment and termination of employment and change in control arrangements, discussed in the section titled "Executive Compensation," the following is a description of each transaction since February 1, 2020 and each currently proposed transaction in which:

- we have been or are to be a participant;
- the amount involved exceeded or exceeds $120,000; and
- any of our directors, executive officers, or holders of more than 5% of our capital stock, or any immediate family member of, or person sharing the household with, any of these individuals, had or will have a direct or indirect material interest.

Investors' Rights Agreement

We are party to an amended and restated investors' rights agreement which provides, among other things, that certain holders of our capital stock, including entities affiliated with Accel Partners, or Accel, Andreessen Horowitz, Social Capital, and Softbank Vision Fund (AIV M1) L.P., or SoftBank, each a current or former holder of more than 5% of our capital stock, have the right to demand that we file a registration statement or request that their shares of our capital stock be included on a registration statement that we are otherwise filing.

Slack Fund L.L.C.

We are the manager of the Slack Fund. We created Slack Fund to support companies building applications on the Slack platform and other applications that are focused on the next generation of enterprise software. Entities affiliated with Accel and Andreessen Horowitz, each a holder of more than 5% of our capital stock during part of fiscal year 2021, are members of Slack Fund. The following table summarizes the contractual contributions of Accel and Andreessen Horowitz and their affiliated entities in Slack Fund. In addition, Mr. Butterfield, our Chief Executive Officer, co-founder, and director, serves on the investment committee of Slack Fund.

Stockholder	Subscription Amount	
Entities affiliated with Accel(1)	$	2,000,000
Entities affiliated with Andreessen Horowitz(2)	$	2,000,000

(1) Consists of Accel X L.P., Accel X Strategic Partners L.P., Accel XI L.P., Accel XI Strategic Partners L.P., Accel Growth Fund III L.P., Accel Growth Fund III Strategic Partners L.P., Accel Growth Fund Investors 2014 L.L.C., Accel Investors 2009 L.L.C., and Accel Investors 2013 L.L.C. Andrew Braccia, a member of our board of directors, is a partner at Accel.

(2) Consists of AH Parallel Fund IV, L.P. for itself and as nominee for AH Parallel Fund IV-A, L.P., AH Parallel Fund IV-B, L.P., and AH Parallel Fund IV-Q, L.P. John O'Farrell, a member of our board of directors, is a general partner at Andreessen Horowitz.

In March 2021, we entered into a transfer agreement by and among Slack (as manager and a member of Slack Fund), Slack Fund, and each of the members of Slack Fund, or the Transfer Agreement. Pursuant to the Transfer Agreement, we purchased all the outstanding LLC interests from the other members, including Accel and Andreessen Horowitz. Pursuant to the transfer agreement, we paid each of Accel and Andreessen Horowitz $3.8 million. Andrew Braccia is a member of our board of directors and is a partner at Accel. John O'Farrell is a member of our board of directors and is a general partner at Andreessen Horowitz.

Transactions with Airbnb, Inc.

We are party to a subscription agreement with Airbnb, Inc., or Airbnb, for the use of Slack. We recognized revenue of $1,434,051 from Airbnb in fiscal year 2021. We also entered into a renewal agreement with Airbnb in fiscal year 2021 with a total contract value of $2.2 million. Michael M. McNamara has been a member of our board of directors since December 2019 and has been an employee of Airbnb since January 2020. Our transactions with Airbnb were arms-length agreements entered into in the ordinary course of business.

Other Transactions

We have granted stock options, RSUs, and restricted stock to our executive officers and certain of our directors. See the section titled “Executive Compensation” for a description of these option, RSUs and restricted stock awards.

Other Relationships

Jonathan O’Farrell, the son of John O’Farrell, a member of our board of directors, is a non-executive employee and has been employed by us since August 2017, currently as a Software Engineer.

We believe the terms of the transactions and relationships described above are comparable to terms we could have obtained in arm’s-length dealings with unrelated third parties.

Limitation of Liability and Indemnification of Officers and Directors

Our amended and restated certificate of incorporation contains provisions that limit the liability of our directors for monetary damages to the fullest extent permitted by Delaware law. Consequently, our directors will not be personally liable to us or our stockholders for monetary damages for any breach of fiduciary duties as directors, except liability for the following:

- any breach of their duty of loyalty to our Company or our stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions as provided in Section 174 of the Delaware General Corporation Law; or
- any transaction from which they derived an improper personal benefit.

Any amendment to, or repeal of, these provisions will not eliminate or reduce the effect of these provisions in respect of any act, omission, or claim that occurred or arose prior to that amendment or repeal. If the Delaware General Corporation Law is amended to provide for further limitations on the personal liability of directors of corporations, then the personal liability of our directors will be further limited to the greatest extent permitted by the Delaware General Corporation Law.

In addition, our amended and restated bylaws provide that we will indemnify, to the fullest extent permitted by law, any person who is or was a party or is threatened to be made a party to any action, suit, or proceeding by reason of the fact that he or she is or was one of our directors or officers or is or was serving at our request as a director or officer of another corporation, partnership, joint venture, trust, or other enterprise. Our amended and restated bylaws also provide that we may indemnify to the fullest extent permitted by law any person who is or was a party or is threatened to be made a party to any action, suit, or proceeding by reason of the fact that he or she is or was one of our employees or agents or is or was serving at our request as an employee or agent of another corporation, partnership, joint venture, trust, or other enterprise. Our amended and restated bylaws provide that we must advance expenses incurred by or on behalf of a director or officer in advance of the final disposition of any action or proceeding, subject to very limited exceptions.

Further, we have entered into indemnification agreements with each of our directors and executive officers that may be broader than the specific indemnification provisions contained in the Delaware General Corporation Law. These indemnification agreements require us, among other things, to indemnify our directors and executive officers against liabilities that may arise by reason of their status or service. These indemnification agreements also require us to advance all expenses incurred by the directors and executive officers in investigating or defending any such action, suit, or proceeding. We believe that these agreements are necessary to attract and retain qualified individuals to serve as directors and executive officers.

The limitation of liability and indemnification provisions that are included in our amended and restated certificate of incorporation, amended and restated bylaws, and in indemnification agreements that we enter into with our directors and executive officers may discourage stockholders from bringing a lawsuit against our directors and executive officers for breach of their fiduciary duties. They may also reduce the likelihood of derivative litigation against our directors and executive officers, even though an action, if successful, might benefit us and other stockholders. Further, a stockholder's investment may be harmed to the extent that we pay the costs of settlement and damage awards against directors and executive officers as required by these indemnification provisions.

We have obtained insurance policies under which, subject to the limitations of the policies, coverage is provided to our directors and executive officers against loss arising from claims made by reason of breach of fiduciary duty or other wrongful acts as a director or executive officer, including, without limitation, claims relating to public securities matters.

Certain of our non-employee directors may, through their relationships with their employers or affiliated entities, be insured and/or indemnified against certain liabilities incurred in their capacity as members of our board of directors.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers, or persons controlling our Company pursuant to the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Procedures for Approval of Related Party Transactions

Our audit and risk committee charter provides that our audit and risk committee has the primary responsibility for reviewing and approving or disapproving "related party transactions," which are transactions between us and related persons in which the aggregate amount involved exceeds or may be expected to exceed $120,000 and in which a related person has or will have a direct or indirect material interest. For purposes of this policy, a related person is defined as a director, executive officer, nominee for director, or greater than 5% beneficial owner of our common stock, in each case since the beginning of the most recently completed fiscal year, and their immediate family members.

Certain of the transactions described above were entered into prior to the adoption of this policy. Accordingly, such transactions were approved by either the audit and risk committee or the disinterested members of our board of directors after making a determination that the transaction was executed on terms no less favorable than those that could have been obtained from an unrelated third party. Any related party transactions entered into after we adopted this policy were approved by our audit and risk committee after making a determination that the transaction was executed on terms no less favorable than those that could have been obtained from an unrelated third party.

Independence of Our Board

Our Class A common stock is listed on the NYSE. Under the NYSE listing standards, independent directors must constitute a majority of a listed company's board of directors. In addition, the NYSE listing standards require that, subject to specified exceptions, each member of a listed company's audit, compensation, and nominating committees be independent. Under the NYSE listing standards, a director will only qualify as an "independent director" if, in the opinion of that listed company's board of directors, that director does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

Audit and risk committee members must also satisfy the additional independence criteria set forth in Rule 10A-3 under the Exchange Act and the NYSE listing standards. Compensation committee members must also satisfy the additional independence criteria set forth in Rule 10C-1 under the Exchange Act and the NYSE listing standards.

Our board of directors has undertaken a review of the independence of each director. Based on information provided by each director concerning his or her background, employment, and affiliations, our board of directors has determined that Messrs. Braccia, McNamara, O'Farrell, and Smith and Mses. Cooper, Friar, and Jordan do not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is "independent" as that term is defined under the applicable rules and regulations of the SEC and the NYSE listing standards. In making these determinations, our board of directors considered the current and prior relationships that each non-employee director has with our Company and all other facts and circumstances our board of directors deemed relevant in determining their independence, including the beneficial ownership of our capital stock by each non-employee director and any of their affiliated funds, and the transactions involving them described in the section titled "Certain Relationships and Related Party Transactions."

The composition of our audit and risk committee, compensation committee, and nominating and corporate governance committee, each meets the requirements for independence under current NYSE listing standards and SEC rules and regulations. In addition, our board of directors has determined that each of Mr. Smith and Ms. Friar is an audit committee financial expert within the meaning of Item 407(d) of Regulation S-K under the Securities Act. Each member of our compensation committee is also a non-employee director, as defined pursuant to Rule 16b-3 promulgated under the Exchange Act.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the fees billed or to be billed by KPMG LLP and its affiliates for professional services rendered with respect to the fiscal years ended January 31, 2021 and 2020. All of these services were approved by our audit and risk committee.

Fee Category	**Fiscal Year 2021**	**Fiscal Year 2020**
Audit Fees(1)	$ 3,258,220	$ 1,452,266
Audit-related Fees(2)	100,000	—
Tax Fees	—	—
All Other Fees(3)	1,780	1,780
Total Fees	$ 3,360,000	$ 1,454,046

(1) Audit Fees consist of fees for professional services provided in connection with the audit of our consolidated financial statements, including reviews of our quarterly condensed consolidated financial statements and accounting consultations billed as audit services. This category also includes fees for services incurred in connection with our Direct Listing.

(2) Audit-related Fees consist principally of fees for services related to third party workpaper access review.

(3) All Other Fees consist of aggregate fees billed for products and services provided by the independent registered public accounting firm other than those disclosed above, which include subscription fees paid for access to online accounting research software applications and data.

Policy on Audit and Risk Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

We have adopted a policy under which our audit and risk committee must pre-approve all audit and permissible non-audit services to be provided by the independent registered public accounting firm. As part of its review, our audit and risk committee also considers whether the categories of pre-approved services are consistent with the rules on accountant independence of the SEC and the Public Company Accounting Oversight Board. Our audit and risk committee has pre-approved all services performed by the independent registered public accounting firm since the pre-approval policy was adopted prior to our Direct Listing.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as a part of this Annual Report on Form 10-K:

1. Financial statements.

   Our Consolidated Financial Statements are listed in the "Index to Consolidated Financial Statements" under Part II, Item 8 of this Annual Report on Form 10-K.

2. Financial statement schedules.

   All financial statement schedules not listed above have been omitted because the information called for is not required, is not applicable or is otherwise included.

3. Exhibits.

   The documents listed in the Exhibit Index of this Annual Report on Form 10-K are incorporated by reference or are filed with this Annual Report on Form 10-K, in each case as indicated therein.

EXHIBIT INDEX

		Incorporated by Reference			
Exhibit Number	**Exhibit Description**	**Form**	**File Number**	**Exhibit**	**Filing Date**
2.1†	Agreement and Plan of Merger, dated as of December 1, 2020, by and among Slack Technologies, Inc., salesforce.com, inc., Skyline Strategies I Inc. and Skyline Strategies II LLC.	8-K	001-38926	2.1	December 1, 2020
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	S-1/A	333-231041	3.2	May 13, 2019
3.2	Amended and Restated Bylaws of the Registrant.	10-Q	001-38926	3.2	September 8, 2020
4.1	Form of Class A common stock certificate of the Registrant.	S-1	333-231041	4.1	April 26, 2019
4.2	Amended and Restated Investors' Rights Agreement, dated as of May 9, 2019, by and among the Registrant and certain of its stockholders.	S-1/A	333-231041	4.2	May 13, 2019
4.3	Description of Capital Stock.	10-K	001-38926	4.3	March 12, 2020
4.4	Indenture, dated as of April 9, 2020, by and between Slack Technologies, Inc. and U.S. Bank National Association, as Trustee.	8-K	001-38926	4.1	April 9, 2020
4.5	Form of Global Note, representing Slack Technologies, Inc.'s 0.50% Convertible Senior Notes due 2025 (included as Exhibit A to the Indenture filed as Exhibit 4.1).	8-K	001-38926	4.2	April 9, 2020
4.6	First Supplemental Indenture, dated as of February 10, 2021, between Slack Technologies, Inc. and U.S. Bank National Association, as trustee.	8-K	001-38926	4.1	February 11, 2021
10.1	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers.	S-1	333-231041	10.1	April 26, 2019
10.2#	Amended and Restated 2009 Stock Plan, as amended, and forms of agreements thereunder.	S-1/A	333-231041	10.2	May 13, 2019
10.3#	Non-Plan Stock Grant Agreement, dated as of August 11, 2006, between the Registrant and the David Riley and Sarah Friar Revocable Trust.	S-1	333-231041	10.3	April 26, 2019
10.4#	2019 Stock Option and Incentive Plan, and forms of agreements thereunder.	S-1/A	333-231041	10.4	May 13, 2019
10.5#	2019 Employee Stock Purchase Plan.	S-1/A	333-231041	10.5	May 13, 2019
10.6#	Senior Executive Incentive Bonus Plan.	S-1	333-231041	10.6	April 26, 2019

10.7#	Amended and Restated Executive Severance Plan.	8-K	001-38926	10.1	December 18, 2020
10.8#	Amended and Restated Non-Employee Director Compensation Policy.	10-Q	001-38926	10.1	December 3, 2020
10.9#	Offer Letter, dated as of March 9, 2014, by and between the Registrant and Allen Shim.	S-1	333-231041	10.10	April 26, 2019
10.10#	Offer Letter, dated as of March 23, 2016, by and between the Registrant and Robert Frati.	S-1	333-231041	10.11	April 26, 2019
10.11#	Offer Letter, dated as of November 18, 2016, by and between the Registrant and David Schellhase.	Filed herewith			
10.12#	Offer Letter, dated as of January 29, 2019, by and between the Registrant and Tamar Yehoshua.	Filed herewith			
10.13#	Offer Letter, dated as of March 7, 2019, by and between the Registrant and Stewart Butterfield.	S-1	333-231041	10.9	April 26, 2019
10.14#	Waiver Agreement, dated as of November 30, 2020, by and among Daniel Stewart Butterfield, the Registrant, and salesforce.com, inc.	Filed herewith			
10.15#	Waiver Agreement, dated as of November 30, 2020, by and among Tamar Yehoshua, the Registrant, and salesforce.com, inc.	Filed herewith			
10.16#	Waiver Agreement, dated as of March 4, 2021, by and among Robert Frati, the Registrant, and salesforce.com, inc.	Filed herewith			
10.17	Lease Agreement between the Registrant and HART Foundry Square IV, LLC for Suite 100, dated December 22, 2016.	Filed herewith			
10.18	Lease Agreement between the Registrant and HART Foundry Square IV, LLC for Suite 100, dated January 24, 2018.	S-1	333-231041	10.12	April 26, 2019
10.19	Revolving Credit and Guaranty Agreement, dated as of May 30, 2019, among the Registrant, as the borrower, the Guarantors party thereto, the Lenders and Issuing Banks party thereto, and Morgan Stanley Senior Funding, Inc., as the administrative agent and the collateral agent.	S-1/A	333-231041	10.13	May 31, 2019
10.20	Form of Confirmation for Capped Call Transactions.	8-K	001-38926	10.1	April 9, 2020
21.1	Subsidiaries of the Registrant.	Filed herewith			
23.1	Consent of KPMG LLP, independent registered public accounting firm.	Filed herewith			
24.1	Power of Attorney (included in the signature pages attached to this Annual Report on Form 10-K).				
31.1	Certification of the Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith			
31.2	Certification of the Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith			
32.1*	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith			
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.	Filed herewith			
101.SCH	Inline XBRL Taxonomy Extension Schema Document.	Filed herewith			
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.	Filed herewith			
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.	Filed herewith			
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.	Filed herewith			

101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.	Filed herewith
104	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101).	Filed herewith

† Certain schedules and exhibits omitted pursuant to Item 601(b)(2) of Regulation S-K promulgated by the SEC. The registrant agrees to furnish supplementally a copy of any omitted schedule or exhibit to the SEC upon request.

# Indicates management contract or compensatory plan, contract, or agreement.

* The certifications furnished in Exhibit 32.1 hereto are deemed to accompany this Annual Report on Form 10-K and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. Such certifications will not be deemed to be incorporated by reference into any filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Slack Technologies, Inc.

March 19, 2021	By:	/s/ Stewart Butterfield
		Stewart Butterfield *Chief Executive Officer* *(Principal Executive Officer)*
March 19, 2021	By:	/s/ Allen Shim
		Allen Shim *Chief Financial Officer* *(Principal Financial Officer)*

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Stewart Butterfield, Allen Shim, and David Schellhase, and each of them, as his or her true and lawful attorney-in-fact and agent with full power of substitution and resubstitution, for such individual in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully for all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or the individual's substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons on behalf of the Company and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Stewart Butterfield Stewart Butterfield	Chief Executive Officer and Director (Principal Executive Officer)	March 19, 2021
/s/ Allen Shim Allen Shim	Chief Financial Officer (Principal Financial Officer)	March 19, 2021
/s/ Brandon Zell Brandon Zell	Chief Accounting Officer (Principal Accounting Officer)	March 19, 2021
/s/ Andrew Braccia Andrew Braccia	Director	March 19, 2021
/s/ Edith Cooper Edith Cooper	Director	March 19, 2021
/s/ Sarah Friar Sarah Friar	Director	March 19, 2021
/s/ Sheila B. Jordan Sheila B. Jordan	Director	March 19, 2021
/s/ Michael M. McNamara Michael M. McNamara	Director	March 19, 2021
/s/ John O'Farrell John O'Farrell	Director	March 19, 2021
/s/ Graham Smith Graham Smith	Director	March 19, 2021