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092024-05-090001423774zuo:TogaiInc.Memberus-gaap:TradeNamesMember2024-05-092024-05-09UNITED STATESSECURITIES AND EXCHANGE COMMISSIONWashington, DC 20549______________________________Â FORM 10-Q______________________________Â (Mark One)â˜’QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934For the quarterly period ended October 31, 2024 ORâ˜TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934For the transition period fromÂ __________Â toÂ __________Commission File Number: 001-38451______________________________Â Zuora, Inc.(Exact name of registrant as specified in its charter)______________________________Â Â DelawareÂ 20-5530976(State or other jurisdiction ofincorporation or organization)Â (I.R.S. EmployerIdentification Number)101 Redwood Shores Parkway,Redwood City, CaliforniaÂ 94065(Address of principal executive offices)Â (Zip Code)(888) 976-9056(Registrantâ€™s telephone number, including area code)Not Applicable(Former name, former address and former fiscal year, if changed since last report)______________________________Â Securities registered pursuant to Section 12(b) of the Act:Title of each classTrading Symbol(s)Name of each exchange on which registeredClass A common stock, par value $0.0001 per shareZUONew York Stock ExchangeIndicate by check mark whether the registrant (1)Â has filed all reports required to be filed by SectionÂ 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)Â has been subject to such filing requirements for the past 90 days.Â Â Â Â YesÂ â˜’ NoÂ â˜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 (Â§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).Â Â Â Â YesÂ â˜’Â Â Â Â NoÂ â˜Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of â€œlarge accelerated filer,â€ â€œaccelerated filer,â€ â€œsmaller reporting companyâ€ and â€œemerging growth companyâ€ in Rule 12b-2 of the Exchange Act.Large accelerated filerâ˜’AcceleratedÂ filerâ˜Non-accelerated filerâ˜SmallerÂ reportingÂ companyâ˜EmergingÂ growthÂ companyâ˜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 SectionÂ 13(a) of the Exchange Act.Â â˜Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).Â Â Â Â YesÂ â˜Â Â Â Â NoÂ â˜’As of NovemberÂ 30, 2024, the number of shares of the Registrantâ€™s Class A common stock outstanding was 145.1 million and the number of shares of the Registrantâ€™s Class B common stock outstanding was 8.6 million.PagePARTÂ I.FINANCIAL INFORMATION3Item 1.Financial Statements (unaudited)3Condensed Consolidated Balance Sheets as of October 31, 2024 and January 31, 20243Condensed Consolidated Statements of Comprehensive Loss for the Three and Nine Months Ended October 31, 2024 and 20234Condensed Consolidated Statements of Stockholders' Equity for the Three and Nine Months Ended October 31, 2024 and 20235Condensed Consolidated Statements of Cash Flows for the Nine Months Ended October 31, 2024 and 20237Notes to Unaudited Condensed Consolidated Financial Statements8Item 2.Managementâ€™s Discussion and Analysis of Financial Condition and Results of Operations30Item 3.Quantitative and Qualitative Disclosures About Market Risk49Item 4.Controls and Procedures50PARTÂ II.OTHER INFORMATION51Item 1.Legal Proceedings51Item 1A.Risk Factors51Item 2.Unregistered Sales of Equity Securities and Use of Proceeds86Item 5.Other Information86Item 6.Exhibits87Signatures88SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTSUnless the context otherwise requires, references in this Quarterly Report on Form 10-Q (Form 10-Q) to â€œZuora,â€ â€œCompany,â€ â€œour,â€ â€œus,â€ and â€œweâ€ refer to Zuora, Inc. and, where appropriate, its consolidated subsidiaries. Our fiscal year end is January 31. References to â€œfiscalâ€ followed by the year refer to the fiscal year ended January 31 for the referenced year. This Form 10-Q contains forward-looking statements within the meaning of the federal securities laws.Â All statements contained in this Form 10-Q, other than statements of historical fact, including statements regarding our future operating results and financial position, our business strategy and plans, market growth, and our objectives for future operations, are forward-looking statements. Words such as â€œbelieves,â€ â€œmay,â€ â€œwill,â€ "determine," â€œestimates,â€ â€œpotential,â€ "possible," â€œcontinues,â€ â€œanticipates,â€ â€œintends,â€ â€œexpects,â€ â€œcould,â€ â€œwould,â€ â€œprojects,â€ â€œplans,â€ â€œtargets,â€ "may affect," "seek," "future," strategy," "likely," "should," "shall," and variations of such words and similar expressions are intended to identify forward-looking statements.Forward-looking statements contained in this Form 10-Q include, but are not limited to, statements about our expectations regarding:â€¢our Proposed Merger (as defined herein), including the ability of the parties to consummate the Proposed Merger, if at all, on the anticipated terms and timing, including obtaining the stockholder and regulatory approvals, and the satisfaction of other conditions to the completion of the Proposed Merger;â€¢uncertainties about the pendency or completion of the Proposed Merger and the effect of the Proposed Merger on employees, customers, and other third parties who deal with Zuora and on our business, operating results, and financial condition generally;â€¢potential payment of the Zuora Termination Fee (as defined herein) under specified circumstances if the Merger Agreement (as defined herein) is terminated; â€¢the outcome of any current or potential litigation relating to the Proposed Merger against us, Parent (as defined herein) or Merger Sub (as defined herein) or our/their respective officers and members of our/their Board of Directors relating to the Proposed Merger;â€¢the possibility of negative publicity or negative impression of Zuora in the financial markets resulting from the announcement and pendency of the Proposed Merger; â€¢the significant transaction-related costs we will continue to incur in connection with the Proposed Merger, whether or not the Proposed Merger will be consummated;â€¢trends in revenue, cost of revenue, and gross margin;â€¢economic uncertainty and associated trends in macroeconomic conditions, as well as geopolitical conditions, including the effects of economic downturns, inflation, rising interest rates, bank failures, debt ceiling negotiations, potential government shutdowns, and conflicts;â€¢trends and expectations in our operating and financial metrics, including customers with annual contract value (ACV) equal to or greater than $250,000, dollar-based retention rate, annual recurring revenue (ARR) and ARR growth, and growth of and within our customer base; â€¢currency exchange rate fluctuations;â€¢future acquisitions, the anticipated benefits of such acquisitions and our ability to integrate the operations and technology of any acquired company;â€¢industry trends, projected growth, or trend analysis, including the shift to recurring revenue business models;â€¢our investments in our platform and the cost of third-party hosting fees;â€¢the expansion and functionality of our technology offering, including expected benefits of such products and technology, and our ability to further penetrate our customer base;â€¢trends in operating expenses, including research and development expense, sales and marketing expense, and general and administrative expense, and expectations regarding these expenses as a percentage of revenue;1â€¢our liquidity being sufficient to meet our working capital and capital expenditure needs for at least the next 12 months;

â€¢the impact of actions that we are taking to improve operational efficiencies and operating costs, including prior workforce reductions; â€¢our ability to use our net operating loss (NOL) carryforwards to offset future taxable income or our research and development tax credits to offset our future taxes;â€¢disruptions to the U.S. and international banking systems; â€¢our ability to comply with all governmental laws, regulations and other legal obligations, including those related to evolving regulation of artificial intelligence (AI) and machine learning; andâ€¢other statements regarding our future operations, financial condition, prospects and business strategies.Such forward-looking statements are based on our expectations as of the date of this filing and are subject to a number of risks, uncertainties and assumptions, including but not limited to, risks detailed in the â€œRisk Factorsâ€ section of this Form 10-Q. Readers are urged to carefully review and consider the various disclosures made in this Form 10-Q and in other documents we file from time to time with the Securities and Exchange Commission (SEC) that disclose risks and uncertainties that may affect our business. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for us to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and circumstances discussed in this Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.You should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur. Although we believe that the expectationsÂ reflected in the forward-looking statements are reasonable, we cannot guarantee future results, performance or achievements. In addition, the forward-looking statements in this Form 10-Q are made as of the date of this filing, and we do not undertake, and expressly disclaim any duty, to update such statements for any reason after the date of this Form 10-Q or to conform statements to actual results or revised expectations, except as required by law.2PART Iâ€”FINANCIAL INFORMATIONItemÂ 1.Â Â Â Â Financial StatementsZUORA, INC.CONDENSED CONSOLIDATED BALANCE SHEETS(in thousands)(unaudited)Â October 31, 2024January 31, 2024AssetsCurrent assets:Cash and cash equivalents$277,615Â $256,065Â Short-term investments280,909Â 258,120Â Accounts receivable, net of allowance for credit losses of $1,634 and $2,142 as of October 31, 2024 and January 31, 2024, respectively82,414Â 124,602Â Deferred commissions, current portion15,995Â 15,870Â Prepaid expenses and other current assets25,183Â 23,261Â Total current assets682,116Â 677,918Â Property and equipment, net27,403Â 25,961Â Operating lease right-of-use assets20,591Â 22,462Â Purchased intangibles, net23,146Â 10,082Â Deferred commissions, net of current portion24,941Â 27,250Â Goodwill73,903Â 56,657Â Other assets4,972Â 3,506Â Total assets$857,072Â $823,836Â Liabilities and stockholdersâ€™ equityCurrent liabilities:Accounts payable$761Â $3,161Â Accrued expenses and other current liabilities45,167Â 32,157Â Accrued employee liabilities29,860Â 37,722Â Deferred revenue, current portion177,436Â 199,615Â Operating lease liabilities, current portion7,030Â 6,760Â Total current liabilities260,254Â 279,415Â Long-term debt368,348Â 359,525Â Deferred revenue, net of current portion860Â 2,802Â Operating lease liabilities, net of current portion32,573Â 37,100Â Deferred tax liabilities4,066Â 3,725Â Other long-term liabilities6,781Â 7,582Â Total liabilities672,882Â 690,149Â Commitments and contingencies (Note 14)Stockholdersâ€™ equity:ClassÂ A common stock15Â 14Â ClassÂ B common stock1Â 1Â Additional paid-in capital1,067,329Â 964,141Â Accumulated other comprehensive loss(410)(859)Accumulated deficit(882,745)(829,610)Total stockholdersâ€™ equity184,190Â 133,687Â Total liabilities and stockholdersâ€™ equity$857,072Â $823,836Â See notes to unaudited condensed consolidated financial statements.3ZUORA, INC.CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS(in thousands, except per share data)(unaudited)Â Â Three Months Ended October 31,Nine Months Ended October 31,Â 2024202320242023Revenue:Subscription$105,253Â $98,048Â $308,263Â $283,232Â Professional services11,676Â 11,801Â 33,831Â 37,760Â Total revenue116,929Â 109,849Â 342,094Â 320,992Â Cost of revenue:Subscription23,954Â 20,378Â 67,207Â 62,304Â Professional services14,383Â 14,650Â 43,483Â 47,851Â Total cost of revenue38,337Â 35,028Â 110,690Â 110,155Â Gross profit78,592Â 74,821Â 231,404Â 210,837Â Operating expenses:Research and development26,833Â 27,504Â 76,853Â 79,428Â Sales and marketing36,597Â 40,245Â 108,579Â 124,488Â General and administrative26,880Â 15,893Â 71,351Â 54,160Â Total operating expenses90,310Â 83,642Â 256,783Â 258,076Â Loss from operations(11,718)(8,821)(25,379)(47,239)Change in fair value of debt derivative and warrant liabilities(20,174)6,997Â (29,115)2,241Â Interest expense(7,045)(5,610)(20,781)(14,604)Interest and other income (expense), net6,505Â 2,272Â 19,988Â 13,639Â Loss before income taxes(32,432)(5,162)(55,287)(45,963)Income tax (benefit) provision(226)340Â (2,152)1,396Â Net loss(32,206)(5,502)(53,135)(47,359)Comprehensive loss:Foreign currency translation adjustment462Â (696)386Â (1,383)Unrealized gain (loss) on available-for-sale securities248Â (18)63Â 494Â Comprehensive loss$(31,496)$(6,216)$(52,686)$(48,248)Net loss per share, basic and diluted(0.21)(0.04)(0.36)(0.34)Weighted-average shares outstanding used in calculating net loss per share, basic and diluted152,263Â 141,488Â 149,457Â 138,789Â See notes to unaudited condensed consolidated financial statements.4ZUORA, INC.CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY(in thousands)(unaudited)Nine Months Ended October 31, 2024AccumulatedClass AClass BAdditionalOtherTotalCommon StockCommon StockPaid-inComprehensiveAccumulatedStockholders'SharesAmountSharesAmountCapitalLossDeficitEquityBalance, January 31, 2024137,792Â $14Â 8,240Â $1Â $964,141Â (859)(829,610)$133,687Â Conversion of Class B common stock to Class A common stock 819Â â€”Â (819)â€”Â â€”Â â€”Â â€”Â â€”Â Issuance of common stock upon exercise of stock optionsâ€”Â â€”Â 1,611Â â€”Â 3,372Â â€”Â â€”Â 3,372Â RSU releases 5,626Â 1Â â€”Â â€”Â â€”Â â€”Â â€”Â 1Â Issuance of common stock under the ESPP840Â â€”Â â€”Â â€”Â 4,481Â â€”Â â€”Â 4,481Â Stock-based compensation â€”Â â€”Â â€”Â â€”Â 69,102Â â€”Â â€”Â 69,102Â Reclassification of debt conversion and warrant liabilities to equityâ€”Â â€”Â â€”Â â€”Â 27,780Â â€”Â â€”Â 27,780Â Shares withheld related to net share settlement of stock optionsâ€”Â â€”Â (392)â€”Â (1,547)â€”Â â€”Â (1,547)Other comprehensive incomeâ€”Â â€”Â â€”Â â€”Â â€”Â 449Â â€”Â 449Â Net loss â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â (53,135)(53,135)Balance, October 31, 2024145,077Â $15Â 8,640Â $1Â $1,067,329Â (410)(882,745)$184,190Â Three Months Ended October 31, 2024AccumulatedClass AClass BAdditionalOtherTotalCommon StockCommon StockPaid-inComprehensiveAccumulatedStockholders'SharesAmountSharesAmountCapitalLossDeficitEquityBalance, July 31, 2024143,006Â $14Â 8,471Â $1Â $1,043,691Â $(1,120)$(850,539)$192,047Â Conversion of Class B common stock to Class A common stock59Â â€”Â (59)â€”Â â€”Â â€”Â â€”Â â€”Â Issuance of common stock upon exercise of stock optionsâ€”Â â€”Â 620Â â€”Â 252Â â€”Â â€”Â 252Â RSU releases2,012Â 1Â â€”Â â€”Â â€”Â â€”Â â€”Â 1Â Stock-based compensationâ€”Â â€”Â â€”Â â€”Â 24,933Â â€”Â â€”Â 24,933Â Shares withheld related to net share settlement of stock optionsâ€”Â â€”Â (392)â€”Â (1,547)â€”Â â€”Â (1,547)Other comprehensive incomeâ€”Â â€”Â â€”Â â€”Â â€”Â 710Â â€”Â 710Â Net lossâ€”Â â€”Â â€”Â â€”Â â€”Â â€”Â (32,206)(32,206)Balance, October 31, 2024145,077Â $15Â 8,640Â $1Â $1,067,329Â (410)(882,745)$184,190Â See notes to unaudited condensed consolidated financial statements.5ZUORA, INC.CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY(in thousands)(unaudited)Nine Months Ended October 31, 2023AccumulatedClass AClass BAdditionalOtherTotalCommon StockCommon StockPaid-inComprehensiveAccumulatedStockholders'SharesAmountSharesAmountCapitalLossDeficitEquityBalance, January 31, 2023127,384Â $13Â 8,121Â $1Â $859,482Â (919)(761,417)$97,160Â Conversion of Class B common stock to Class A common stock 220Â â€”Â (220)â€”Â â€”Â â€”Â â€”Â â€”Â Issuance of common stock upon exercise of stock optionsâ€”Â â€”Â 214Â â€”Â 1,000Â â€”Â â€”Â 1,000Â RSU and PSU releases 6,464Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Issuance of common stock under the ESPP911Â â€”Â â€”Â â€”Â 4,765Â â€”Â â€”Â 4,765Â Stock-based compensation â€”Â â€”Â â€”Â â€”Â 77,973Â â€”Â â€”Â 77,973Â Reclassification of warrants, net of allocated debt issuance costs, to Accrued expenses and other current liabilitiesâ€”Â â€”Â â€”Â â€”Â (7,073)â€”Â â€”Â (7,073)Other comprehensive lossâ€”Â â€”Â â€”Â â€”Â â€”Â (889)â€”Â (889)Net loss â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â (47,359)(47,359)Balance, October 31, 2023134,979Â $13Â 8,115Â $1Â $936,147Â $(1,808)$(808,776)$125,577Â Three Months Ended October 31, 2023AccumulatedClass AClass BAdditionalOtherTotalCommon StockCommon StockPaid-inComprehensiveAccumulatedStockholders'SharesAmountSharesAmountCapitalLossDeficitEquityBalance, July 31, 2023132,448Â $13Â 8,119Â $1Â $917,081Â $(1,094)$(803,274)$112,727Â Conversion of Class B common stock to Class A common stock 17Â â€”Â (17)â€”Â â€”Â â€”Â â€”Â â€”Â Issuance of common stock upon exercise of stock optionsâ€”Â â€”Â 13Â â€”Â 38Â â€”Â â€”Â 38Â RSU and PSU releases 2,514Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â Stock-based compensation â€”Â â€”Â â€”Â â€”Â 26,101Â â€”Â â€”Â 26,101Â Reclassification of warrants, net of allocated debt issuance costs, to Accrued expenses and other current liabilitiesâ€”Â â€”Â â€”Â â€”Â (7,073)â€”Â â€”Â (7,073)Other comprehensive lossâ€”Â â€”Â â€”Â â€”Â â€”Â (714)â€”Â (714)Net loss â€”Â â€”Â â€”Â â€”Â â€”Â â€”Â (5,502)(5,502)Balance, October 31, 2023134,979Â $13Â 8,115Â $1Â $936,147Â $(1,808)$(808,776)$125,577Â See notes to unaudited condensed consolidated financial statements.6ZUORA, INC.CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS(in thousands)(unaudited)Â Nine Months Ended October 31,Â 20242023Cash flows from operating activities:Net loss$(53,135)$(47,359)Adjustments to reconcile net loss to net cash provided by (used in) operating activities:Depreciation, amortization and accretion14,715Â 13,684Â Stock-based compensation69,102Â 77,973Â Provision for credit losses2,117Â 457Â Amortization of deferred commissions13,946Â 14,415Â Reduction in carrying amount of right-of-use assets3,470Â 4,876Â Change in fair value of debt derivative and warrant liabilities29,115Â (2,241)Other(2,418)2,630Â Changes in operating assets and liabilities:Accounts receivable40,149Â 12,476Â Prepaid expenses and other assets(2,657)878Â Deferred commissions(12,107)(12,013)Accounts payable(2,529)(634)Accrued expenses and other liabilities6,843Â (82,904)Accrued employee liabilities(7,986)509Â Deferred revenue(24,439)(7,461)Operating lease liabilities(7,476)(10,962)Net cash provided by (used in) operating activities66,710Â (35,676)Cash flows from investing activities:Purchases of property and equipment(9,252)(6,913)Purchases of short-term investments(240,093)(66,665)Maturities of short-term investments222,279Â 175,128Â Cash paid for acquisition, net of cash acquired(24,786)(4,524)Net cash (used in) provided by investing activities(51,852)97,026Â Cash flows from financing activities:Proceeds from issuance of convertible senior notes, net of issuance costsâ€”Â 145,861Â Proceeds from issuance of common stock upon exercise of stock options3,372Â 1,000Â Proceeds from issuance of common stock under employee stock purchase plan4,481Â 4,765Â Payment for taxes related to net share settlement of stock options(1,547)â€”Â Net cash provided by financing activities6,306Â 151,626Â Effect of exchange rates on cash and cash equivalents386Â (1,383)Net increase in cash and cash equivalents21,550Â 211,593Â Cash and cash equivalents, beginning of period256,065Â 203,239Â Cash and cash equivalents, end of period$277,615Â $414,832Â Supplemental disclosure of non-cash investing and financing activities:Property and equipment purchases accrued or in accounts payable$1Â $68Â See notes to unaudited condensed consolidated financial statements.7ZUORA, INC.NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS(unaudited)Note 1. Overview and Basis of PresentationDescription of BusinessZuora, Inc. was incorporated in the state of Delaware in 2006 and began operations in 2007. Zuoraâ€™s fiscal year ends on JanuaryÂ 31. Zuora is headquartered in Redwood City, California.Zuora provides a leading monetization suite for a modern business, built to help companies launch and scale new services and operate dynamic, customer-centric business models, including subscription and usage-based models. Our technology solutions enable companies across multiple industries and geographies to build, run, and grow a modern business, automating the quote-to-revenue process, including offers, billing, collections, and revenue recognition. With Zuoraâ€™s solutions, businesses can change and evolve how they go to market through a mix of monetization models, efficiently comply with revenue recognition standards, analyze customer data to optimize their offerings, and build recurring relationships with their customers.On September 2, 2022, Zuora acquired Zephr Inc Limited (Zephr), a leading subscription experience platform used by global digital publishing and media companies. Additional information regarding the Zephr acquisition is contained in our Annual Report on Form 10-K for the fiscal year ended January 31, 2024, filed with the SEC on March 26, 2024 (Annual Report on Form 10-K). On May 9, 2024, Zuora acquired Togai Inc. and its subsidiary (Togai), a privately held metering and rating solution company. On August 16, 2024, Zuora acquired Zeddit Limited (Sub(x)), an AI solution for digital publishing and media companies. We have included the financial results of Togai and Sub(x) in our condensed consolidated financial statements from the date of acquisition. Refer to Note 19. Acquisitions for further information.References to â€œZuoraâ€, â€œusâ€, â€œourâ€, or â€œweâ€ in these notes refer to Zuora, Inc. and its subsidiaries on a consolidated basis.Proposed MergerOn October 17, 2024, Zuora entered into an Agreement and Plan of Merger (the Merger Agreement) with Zodiac Purchaser, L.L.C., a Delaware limited liability company (Parent), and Zodiac Acquisition Sub, Inc., a Delaware corporation and a direct wholly owned subsidiary of Parent (Merger Sub), that, among other things and subject to the terms and conditions set forth therein, provides for the merger of Merger Sub with and into Zuora (the Proposed Merger), with Zuora continuing as the surviving corporation in the Proposed Merger and becoming a wholly owned subsidiary of Parent. Parent and Merger Sub are indirectly controlled by private investment funds affiliated with Silver Lake Group, L.L.C. (Silver Lake Group). The transaction includes a significant minority investment from an affiliate of GIC Pte. Ltd.Under the terms of the Merger Agreement, at the effective time of the Proposed Merger (the Effective Time), each issued and outstanding share of Class A common stock of Zuora, par value $0.0001 per share (the Class A Common Stock) and Class B common stock of Zuora, par value $0.0001 per share (the Class B Common Stock and together with the Class A Common Stock, the Common Stock), other than each share of Common Stock held in the treasury of Zuora, each Rollover Share (as defined below) and any shares of Common Stock owned by Parent or Merger Sub, as of immediately prior to the Effective Time, will be canceled and extinguished and automatically be converted into the right to receive cash in an amount equal to $10.00 per share, without interest thereon and subject to any applicable withholding taxes (the Per Share Price). If the Proposed Merger is consummated, the Class A Common Stock will no longer be publicly traded and will be de-listed from the New York Stock Exchange and de-registered under the Securities Exchange Act of 1934, as amended (Exchange Act). The Merger Agreement contains customary representations, warranties, and covenants. The completion of the Proposed Merger is subject to the satisfaction or waiver of certain customary mutual closing conditions, including (a) the approval of the proposal to adopt the Merger Agreement by the affirmative vote of (i) the holders of a majority of the voting power of the outstanding shares (A) of capital stock of Zuora entitled to vote thereon, voting as a single class, and (B) of capital stock held by the unaffiliated Company stockholders entitled to vote thereon, voting as a single class, and (ii) the holders of a majority of the outstanding shares of Class A Common Stock and Class B 8Common Stock entitled to vote thereon, each voting separately as a class (collectively, the Company Stockholder Approval), (b) the absence of any order or other action that is in effect by a governmental authority having jurisdiction over any party to the Merger Agreement or in respect of the transactions contemplated thereby restraining, enjoining or otherwise prohibiting the consummation of the Proposed Merger or applicable law that is in effect that makes consummation of the Proposed Merger illegal or otherwise prohibited and (c) the expiration or termination of the applicable waiting period (and any extension thereof) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the receipt of consents required under certain antitrust or foreign investment laws or the expiration or termination of any applicable waiting period thereunder. The obligation of each party to consummate the Proposed Merger is also conditioned on the other partyâ€™s representations and warranties being true and correct (subject to certain customary materiality exceptions) and the other party having performed in all material respects its obligations under the Merger Agreement, and the obligation of Parent to consummate the Proposed Merger is additionally conditioned on (x) no material adverse effect on Zuora having occurred since the execution of the Merger Agreement, (y) Zuora and its subsidiaries collectively having at least $400.0Â million in cash and cash equivalents and (z) the rollover of the Rollover Shares having occurred in accordance with the Support and Rollover Agreement (as defined below). The consummation of the Proposed Merger is not subject to any financing condition. The Merger Agreement contains termination rights for each of Zuora and Parent, including, among others, (a) if the consummation of the Proposed Merger does not occur on or before July 17, 2025 (subject to an automatic extension until October 17, 2025 under specified circumstances), (b) if any order prohibiting the Proposed Merger has become final and non-appealable, (c) if the Company Stockholder Approval is not obtained following the meeting of Zuoraâ€™s stockholders for purposes of obtaining such Company Stockholder Approval, and (d) subject to certain conditions, (i) by Parent, if our Board of Directors, acting upon the recommendation of that certain special committee established by our Board of Directors on March 15, 2024 comprised solely of independent and disinterested members of our Board of Directors (the Special Committee), changes its recommendation in favor of the Proposed Merger or (ii) by Zuora, prior to the receipt of the Company Stockholder Approval, if Zuora wishes to terminate the Merger Agreement to enter into a definitive agreement providing for a Superior Proposal (as defined by the Merger Agreement). Zuora and Parent may also terminate the Merger Agreement by mutual written consent.Zuora agreed to pay Parent a termination fee of $50.5 million in cash on termination of the Merger Agreement under specified circumstances (the Zuora Termination Fee). If the Merger Agreement is terminated as a result of Company Stockholder Approval not being obtained at the stockholder meeting, Zuora would be required to reimburse Parent for certain fees and expenses, subject to a cap of $5.0 million. Parent agreed to pay Zuora a termination fee of $101.1 million in cash on termination of the Merger Agreement under specified circumstances. If the Merger Agreement is terminated under certain circumstances, including in connection with a failure to obtain certain specified regulatory approvals, Parent would be required to pay Zuora a regulatory termination fee of $25.3 million.In connection with the execution of the Merger Agreement, on October 17, 2024, Tien Tzuo and certain of his affiliates (collectively, the CEO Rollover Stockholders) have entered into a voting, support and rollover agreement (the Support and Rollover Agreement) with Parent, Zuora and the other parties thereto. Under the Support and Rollover Agreement, the CEO Rollover Stockholders have agreed to vote all of their respective shares of Zuora Common Stock in favor of the adoption of the Merger Agreement and certain other matters, subject to certain terms and conditions contained therein. In addition, under the Support and Rollover Agreement, immediately prior to the Effective Time, the CEO Rollover Stockholders will contribute to a direct or indirect parent company of Parent shares of Common Stock with an aggregate value (based on the Per Share Price) equal to $70.0 million in exchange for equity interests in such a direct or indirect parent company of Parent (such shares, the Rollover Shares). As a result of the Proposed Merger, the Rollover Shares contributed to such parent company of Parent by the CEO Rollover Stockholders will be canceled and extinguished without any conversion thereof or consideration paid therefor.In connection with the Proposed Merger, Mr. Tzuo also entered into a term sheet with Parent pursuant to which, among other things, following completion of the Proposed Merger, Mr. Tzuo's existing offer letter and severance agreement will remain in effect on their current terms, provided that Mr. Tzuo's base salary and target bonus will each be increased to $750,000 and Mr. Tzuo's severance payments will be equal to two years' base salary. Following completion of the Proposed Merger, Mr. Tzuo will receive a grant of new appreciation-only equity awards in a parent entity of the surviving corporation.9Pursuant to the Merger Agreement, immediately prior to the closing of the Proposed Merger, we will purchase from Silver Lake (as defined below) a portion of our convertible senior unsecured notes due in 2029 (the 2029 Notes) in an amount to be specified by Parent, for cash at the Fundamental Change Repurchase Price (as such term is defined in the indenture governing the 2029 Notes (the Convertible Notes Indenture), and which is equal to the principal amount of the 2029 Notes to be repurchased plus all remaining scheduled interest on such 2029 Notes (accruing at the 5.50% per annum paid-in-kind interest rate) through maturity as if such 2029 Notes remained outstanding through maturity for the purposes of this calculation); provided that the aggregate amount of cash to be paid by us to repurchase such portion of the 2029 Notes shall not exceed $130.0Â million. All other outstanding 2029 Notes held by Silver Lake that are not so purchased shall be contributed directly or indirectly to Parent or another affiliate thereof and following such contribution, the holders of the 2029 Notes shall no longer be entitled or permitted to exercise the Fundamental Change Repurchase Right (as such term is defined in the Convertible Notes Indenture) under the Convertible Notes Indenture, nor to trigger or exercise the Conversion Obligation (as such term is defined in the Convertible Notes Indenture) under the Convertible Notes Indenture, in each case, in respect of the Convertible Notes so contributed. With respect to the Warrants (as defined below) that were issued in connection with the issuance of the 2029 Notes, because the Per Share Price is less than the exercise price of the Warrants, no payments will be made in respect of the Warrants to holders thereof in the Proposed Merger, and the Warrants will be canceled.The foregoing description of the Merger Agreement, the Support and Rollover Agreement, and Mr. Tzuo's offer letter and the transactions contemplated thereby does not purport to be complete, and is subject to, and qualified in its entirety by reference to, the full text of the Merger Agreement and the Support and Rollover Agreement, which are attached as Exhibit 2.1 and Exhibit 10.1, respectively, of Zuoraâ€™s Current Report on Form 8-K filed on October 18, 2024 and incorporated by reference herein.Pursuant to the rules adopted by the SEC, Zuora prepared and filed with the SEC on November 25, 2024 a Preliminary Proxy Statement on Schedule 14A (the Proxy Statement), containing more information about the Merger Agreement and the Proposed Merger. Once Zuora's definitive proxy statement on Schedule 14A is filed with the SEC, Zuora will set the date for the special meeting of stockholders as well as the record date, stockholders will vote on, among other things, a proposal to approve and adopt the Merger Agreement.Basis of Presentation and Principles of ConsolidationThe accompanying unaudited condensed consolidated financial statements, which include the accounts of Zuora and its wholly owned subsidiaries, have been prepared in conformity with accounting principles generally accepted in the United States (GAAP) and applicable rules and regulations of the SEC regarding interim financial reporting. All intercompany balances and transactions have been eliminated in consolidation.The unaudited condensed consolidated balance sheet as ofÂ January 31, 2024Â included herein was derived from the audited financial statements as of that date, but does not include all disclosures including certain notes required by GAAP on an annual reporting basis. The unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the balance sheets, statements of comprehensive loss, statements of cash flows and statements of stockholders' equity for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year endingÂ January 31, 2025Â or any future period.The accompanying unaudited condensed consolidatedÂ financial statements should be read in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 10-K for the fiscal year endedÂ January 31, 2024. Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.Use of EstimatesThe preparation of unaudited condensed consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the unaudited condensed consolidated financial statements, as well as reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from those estimates.10Our most significant estimates and assumptions are related to revenue recognition with respect to the determination of the standalone selling prices for our services; the expected period of benefit over which deferred commissions are amortized; valuation of certain stock-based awards, our convertible senior notes and warrants and short-term investments; estimates of allowance for credit losses; estimates of the fair value of goodwill and long-lived assets when evaluating for impairments and for assets acquired from acquisitions; useful lives of intangibles and other long-lived assets; and the valuation of deferred income tax assets and contingencies. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Accordingly, actual results may differ materially from these estimates under different assumptions or conditions.Note 2. Summary of Significant Accounting Policies and Recent Accounting PronouncementsOur significant accounting policies are discussed in Note 2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements in our Annual Report on Form 10-K. There have been no significant changes to these policies during the nine months ended October 31, 2024.Note 3. InvestmentsThe amortized costs, unrealized gains and losses and estimated fair values of our short-term investments were as follows (in thousands):October 31, 2024Amortized CostGross Unrealized GainsGross Unrealized LossesFair ValueU.S. government securities$64,619Â $62Â (5)64,676Â Agency bonds12,731Â 10Â (17)12,724Â Corporate bonds203,340Â 238Â (69)203,509Â Total short-term investments$280,690Â $310Â (91)280,909Â January 31, 2024Amortized CostGross Unrealized GainsGross Unrealized LossesFair ValueU.S. government securities$98,206Â $50Â (7)98,249Â Agency bonds26,168Â 38Â â€”Â 26,206Â Corporate bonds103,599Â 83Â (3)103,679Â Commercial paper29,991Â â€”Â (5)29,986Â Total short-term investments$257,964Â $171Â (15)258,120Â There wereÂ no material realized gains or losses from sales of marketable securities that were reclassified out of accumulated other comprehensive loss into investment income during theÂ three and nine months ended October 31, 2024 and 2023. We had no significant unrealized losses on our available-for-sale securities as of October 31, 2024 and January 31, 2024, and we do not expect material credit losses on our current investments in future periods. All securities had stated effective maturities of less than two years as of October 31, 2024.11Note 4. Fair Value MeasurementsThe accounting guidance for fair value measurements establishes a three-tier hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value as follows:LevelÂ inputInput definitionLevelÂ 1Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active marketsLevelÂ 2Inputs other than quoted prices included within LevelÂ 1 that are observable for the asset or liability through corroboration with market data at the measurement dateLevelÂ 3Unobservable inputs that reflect managementâ€™s best estimate of what market participants would use in pricing the asset or liability at the measurement dateIn general, and where applicable, we use quoted prices in active markets for identical assets or liabilities to determine fair value.Â If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, then we use quoted prices for similar assets and liabilities or inputs other than the quoted prices that are observable either directly or indirectly.12The following tables summarize our fair value hierarchy for our financial assets and liabilities measured at fair value on a recurring basis (in thousands):October 31, 2024Level 1Level 2Level 3TotalCash equivalents:Money market funds$219,827Â $â€”Â $â€”Â $219,827Â Corporate notes and bonds9,939Â â€”Â â€”Â 9,939Â Total cash equivalents$229,766Â $â€”Â $â€”Â $229,766Â Short-term investments:U.S. government securities$â€”Â $64,676Â $â€”Â $64,676Â Agency bondsâ€”Â 12,724Â â€”Â 12,724Â Corporate bondsâ€”Â 203,509Â â€”Â 203,509Â Total short-term investments$â€”Â $280,909Â $â€”Â $280,909Â Liabilities:Debt redemption liability1$â€”Â $â€”Â $20,174Â $20,174Â Total liabilities$â€”Â $â€”Â $20,174Â $20,174Â January 31, 2024Level 1Level 2Level 3TotalCash equivalents:Money market funds$207,632Â $â€”Â $â€”Â $207,632Â Corporate bonds3,497Â â€”Â â€”Â 3,497Â Total cash equivalents$211,129Â $â€”Â $â€”Â $211,129Â Short-term investments:U.S. government securities$â€”Â $98,249Â $â€”Â $98,249Â Agency bondsâ€”Â 26,206Â â€”Â 26,206Â Corporate bondsâ€”Â 103,679Â â€”Â 103,679Â Commercial paperâ€”Â 29,986Â â€”Â 29,986Â Total short-term investments$â€”Â $258,120Â $â€”Â $258,120Â Liabilities:Warrant liability2$â€”Â $â€”Â $11,992Â $11,992Â Debt conversion liability1,2â€”Â â€”Â 6,848Â 6,848Â Total liabilities$â€”Â $â€”Â $18,840Â $18,840Â 13_______________________________(1) The debt redemption liability and debt conversion liability are debt derivative liabilities. For more information, see Note 9. Debt.(2) As of June 27, 2024, we no longer account for the Silver Lake (as defined below) debt conversion or warrants as liabilities since we received stockholder approval on that date to issue the maximum number of shares of Class A Common Stock upon conversion of the notes and exercise of the warrants. As a result, we are no longer required to pay cash in lieu of issuing shares of Class A Common Stock in excess of the limitations under the New York Stock Exchange rules that applied prior to obtaining this stockholder approval. For more information, see Note 9. Debt.Changes in our Level 3 fair value measurements were as follows (in thousands):Debt Redemption LiabilityBalance, January 31, 2024$â€”Â Change in fair value20,174Â Balance, October 31, 2024$20,174Â Warrant LiabilityBalance, January 31, 2024$11,992Â Change in fair value through June 27, 20249,369Â Reclassification of warrant liability to equity(21,361)Balance, October 31, 2024$â€”Â Debt Conversion LiabilityBalance, January 31, 2024$6,848Â Change in fair value through June 27, 2024(428)Reclassification of debt conversion liability to equity(6,420)Balance, October 31, 2024$â€”Â Additional information about the debt derivative liabilities (debt redemption liability and debt conversion liability), including the fair value inputs, is included in Note 9. Debt. Additional information about the Warrant liability, including the fair value inputs, is included in Note 10. Warrants to Purchase Shares of Common Stock. As of October 31, 2024, the net carrying amount of the 2029 Notes, defined in Note 9. Debt, was $368.3 million and the estimated fair value was $314.8 million. The fair value of the 2029 Notes is classified as a Level 3 measurement. The carrying amounts of certain financial instruments, including cash held in bank accounts, accounts receivable, accounts payable, and accrued expenses, approximate fair value due to their relatively short maturities. 14Note 5. Prepaid Expenses and Other Current AssetsPrepaid expenses and other current assets consisted of the following (in thousands):Â October 31, 2024January 31, 2024Prepaid software subscriptions$7,321Â $6,582Â Taxes5,722Â 4,348Â Contract assets3,243Â 1,380Â Interest receivable2,156Â 1,377Â Prepaid insurance997Â 2,305Â Deposits936Â 699Â Prepaid hosting costs693Â 1,157Â Other4,115Â 5,413Â Total$25,183Â $23,261Â Note 6. Property and Equipment, NetProperty and equipment, net consisted of the following (in thousands):Â October 31, 2024January 31, 2024Internal-use software$44,157Â $35,883Â Leasehold improvements13,681Â 14,013Â Computer equipment11,139Â 11,125Â Furniture and fixtures3,148Â 4,276Â Purchased software1,342Â 1,333Â 73,467Â 66,630Â Less: accumulated depreciation and amortization(46,064)(40,669)Total$27,403Â $25,961Â The following table summarizes total depreciation and amortization expense related to property and equipment, including amortization of internal-use software, included primarily in General and administrative and Cost of subscription revenue in the accompanying unaudited condensed consolidated statements of comprehensive loss (in thousands):Three Months Ended October 31,Nine Months Ended October 31,2024202320242023Total depreciation and amortization expense$2,804Â $2,192Â $7,738Â $7,174Â 15Note 7. Purchased Intangible Assets and GoodwillThe following tables summarize the purchased intangible asset balances (in thousands):October 31, 2024Gross Carrying AmountAccumulated AmortizationNet Carrying AmountDeveloped technology$33,003Â $(11,773)$21,230Â Customer relationships5,940Â (4,256)1,684Â Trade name1,719Â (1,487)232Â Total$40,662Â $(17,516)$23,146Â January 31, 2024Gross Carrying AmountAccumulated AmortizationNet Carrying AmountDeveloped technology$17,997Â $(9,782)$8,215Â Customer relationships5,187Â (3,786)1,401Â Trade name1,709Â (1,243)466Â Total$24,893Â $(14,811)$10,082Â Purchased intangible assets are being amortized to Cost of subscription revenue in the accompanying unaudited condensed consolidated statements of comprehensive loss on a straight-line basis over their estimated useful lives ranging from three to ten years. The following table summarizes amortization expense recognized on purchased intangible assets during the periods indicated (in thousands): Three Months Ended October 31,Nine Months Ended October 31,2024202320242023Purchased intangible assets amortization expense$1,163Â $607Â $2,705Â $2,083Â Estimated future amortization expense for purchased intangible assets as of October 31, 2024 was as follows (in thousands):Fiscal year ending:2025 (remainder of the year)$1,206Â 20264,361Â 20274,048Â 20283,696Â 20293,220Â Thereafter6,615Â Total estimated amortization expense$23,146Â 16The following table represents the changes to goodwill (in thousands):GoodwillBalance, January 31, 2024$56,657Â Addition from acquisition16,532Â Effects of foreign currency translation745Â Other(31)Balance, October 31, 2024$73,903Â Note 8. Accrued Expenses and Other Current LiabilitiesAccrued expenses and other current liabilities consisted of the following (in thousands):Â October 31, 2024January 31, 2024Â Debt redemption liability$20,174Â $â€”Â Â Accrued outside services and consulting 12,098Â 1,499Â Â Accrued hosting and third-party licenses 3,024Â 2,707Â Â Accrued taxes 1,996Â 4,147Â Â Accrued interest 1,344Â 1,344Â Â Warrant liability â€”Â 11,992Â Â Debt conversion liabilityâ€”Â 6,848Â Â Other accrued expenses6,531Â 3,620Â Total$45,167Â $32,157Â Note 9. Debt2029 NotesOn March 24, 2022 (Initial Closing Date), we issued the initial 2029 Notes (Initial Notes) in the aggregate principal amount of $250.0Â million pursuant to an agreement with certain entities affiliated with Silver Lake Alpine II, L.P. (Silver Lake). On September 22, 2023 (Subsequent Closing Date), we issued additional 2029 Notes in the aggregate principal amount of $150.0Â million (Additional Notes) under the agreement with Silver Lake. The 2029 Notes represent senior unsecured obligations of Zuora. As a condition of the agreement with Silver Lake, we also issued warrants to Silver Lake to acquire up to 7.5Â million shares of Class A Common Stock (Warrants). Refer to Note 10. Warrants to Purchase Shares of Common Stock for more information.The purchase price of the 2029 Notes was 98% of the par value. The 2029 Notes bear interest at a rate of 3.95% per annum, payable quarterly in cash, provided that we have the option to pay interest in kind at 5.50% per annum. The 2029 Notes will mature on March 31, 2029, subject to earlier conversion or repurchase. The 2029 Notes are convertible at Silver Lakeâ€™s option into shares of our Class A Common Stock at an initial conversion rate of 50.0 shares per $1,000 principal amount ($20.00 per share, representing 20.0Â million shares of Class A Common Stock), subject to customary anti-dilution adjustments. Any 2029 Notes that are converted in connection with a "Make-Whole Fundamental Change" are subject to an increase in the conversion rate under certain circumstances. The term "Make-Whole Fundamental Change" is defined in the Convertible Notes Indenture, and generally refers to a "Fundamental Change" including a change in control of Zuora that meets certain specifications or the termination of trading of Zuora's stock on the New York Stock Exchange (or the NASDAQ Global Select Market or the NASDAQ Global Market, or any of their respective successors), in each case subject to certain exceptions and exclusions described in the Convertible Notes Indenture. On the Initial Closing Date, we concluded that the conversion option contained in the 2029 Notes qualified for a scope exception from derivative accounting and therefore was not bifurcated and accounted for separately from the Initial Notes. On the Subsequent Closing Date, we reassessed the classification of the conversion option and concluded that a portion of the conversion option no longer qualified for equity classification under ASC 815-40 as a 17result of the issuance of the Additional Notes, unless we either (i) obtained stockholder approval prior to issuing 20% or more of our outstanding common stock or voting power or (ii) paid cash in lieu of delivering any shares at or above such 20% threshold. At our 2024 Annual Meeting of Stockholders on June 27, 2024 (Stockholder Approval Date), our stockholders approved the issuance of the maximum number of shares Class A Common Stock upon conversion of the 2029 Notes and Warrants. As a result, there is no longer a potential requirement to pay cash in lieu of delivering any shares at or above the 20% threshold. On the Stockholder Approval Date, we reassessed the classification of the portion of the conversion option that was bifurcated and accounted for separately from the 2029 Notes as of the Subsequent Closing Date and concluded that the previously separated portion of the conversion option again qualified for a scope exception from derivative accounting as of the Stockholder Approval Date. Accordingly, we reclassified the previously separated portion of the conversion feature valued at $6.4 million as of the Stockholder Approval Date to equity. With certain exceptions, upon a "Fundamental Change" of Zuora (as defined in the Convertible Notes Indenture), the holders of the 2029 Notes may require that we repurchase all or part of the principal amount of the 2029 Notes (Fundamental Change

Repurchase Obligation) at a purchase price equal to the principal amount and accrued but unpaid interest outstanding, plus the total sum of all remaining scheduled interest payments through the remainder of the term of the 2029 Notes, at the 5.50% per annum paid-in-kind interest rate (Fundamental Change Repurchase Price). On the Initial Closing Date and Subsequent Closing Date, we concluded that the Fundamental Change Repurchase Obligation feature contained in the 2029 Notes met the definition of a derivative and required bifurcation from the 2029 Notes. However, this feature was determined to have de minimis value as of the Initial Closing Date, Subsequent Closing Date, and at the end of each reporting period through July 31, 2024 due to managementâ€™s estimates of the likelihood of certain events. Any time on or after March 24, 2027, the holders of the 2029 Notes may require that we repurchase all or part of the principal amount of the 2029 Notes at a purchase price equal to the principal amount plus accrued interest through the date of repurchase. Upon certain events of default, the 2029 Notes may be declared due and payable (or will automatically become so under certain events of default), at a purchase price equal to the principal amount plus accrued interest through the date of repurchase. We have no right to redeem the 2029 Notes at our option prior to maturity.As a result of the Proposed Merger we agreed to repurchase a portion of the 2029 Notes at the Fundamental Change Repurchase Price immediately prior to the closing of the Proposed Merger for a repurchase price not to exceed $130.0Â million in the aggregate. We determined that this repurchase feature now has value and therefore recorded it as a debt derivative liability, referred to more specifically as the debt redemption liability, at fair value as of October 31, 2024. The debt redemption liability has a fair value of $20.2Â million and is included in Accrued expenses and other current liabilities on the accompanying unaudited condensed consolidated balance sheet as of October 31, 2024. For further information on our derivative financial instruments policy, refer to Note 2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements in our Annual Report on Form 10-K. Deferred loan costs are being amortized to interest expense using the effective interest rate method over the five year expected life of the 2029 Notes (representing the period from the contract date to the earliest noncontingent put date of March 24, 2027), reflecting an effective interest rate of 7.6%.The carrying value of the 2029 Notes was classified as long-term and consisted of the following (in thousands):October 31, 2024January 31, 20242029 Notes principal$400,000Â $400,000Â Unamortized deferred loan costs(31,652)(40,475)Carrying value$368,348Â $359,525Â Interest expense related to the 2029 Notes, included in Interest expense in the accompanying unaudited condensed consolidated statements of comprehensive loss, was as follows (in thousands):18Three Months Ended October 31,Nine Months Ended October 31,2024202320242023Contractual interest expense$3,950Â $3,111Â $11,850Â $8,049Â Amortization of deferred loan costs3,047Â 2,443Â 8,822Â 6,441Â Total interest expense$6,997Â $5,554Â $20,672Â $14,490Â To determine the valuation of the debt conversion liability as of the Stockholder Approval Date and as of January 31, 2024, we used a binomial lattice model to value the bifurcated derivatives contained in the 2029 Notes. To determine the valuation of the debt redemption liability as of October 31, 2024, we used a combination of a binomial lattice model and a discounted cash flow model to value the bifurcated derivatives contained in the 2029 Notes. ASC 815 does not permit an issuer to account separately for individual derivative terms and features embedded in hybrid financial instruments that require bifurcation and liability classification as derivative financial instruments. Rather, such terms and features must be combined together, and fair-valued as a single, compound embedded derivative. We selected a combination of a binomial lattice model and a discounted cash flow model to value the compound embedded derivative because we believe this technique is reflective of all significant assumptions that market participants would likely consider in negotiating the transfer of the 2029 Notes. Such assumptions include, among other inputs, stock price volatility, risk-free rates, credit risk assumptions, early redemption and conversion assumptions and scenario weightings, and the potential for future adjustment of the conversion rate due to triggering events. The discounted cash flow model was introduced during the quarter ended October 31, 2024 for the anticipated repurchase of a portion of the 2029 Notes at the Fundamental Change Repurchase Price immediately prior to the closing of the Proposed Merger described in Note 1. Overview and Basis of Presentation.The debt conversion liability's fair value was measured using the following key inputs:June 27, 20241January 31, 2024Fair value of common stock$9.62$9.14Conversion price$20.00$20.00Expected volatility50.0Â %47.5Â %Risk-free interest rate4.9Â %3.8Â %Corporate bond yield17.9Â %19.2Â %Coupon interest rate3.95Â %3.95Â %______________________________(1) On the Stockholder Approval Date of June 27, 2024, the debt conversion liability was reclassified to equity.The debt redemption liability's fair value was measured using the following key inputs:October 31, 2024Fair value of common stock$9.90Conversion price$20.00Expected volatility50.0Â %Risk-free interest rate4.5Â %Corporate bond yield15.1Â %Coupon interest rate3.95Â %19We recognized gains and losses on the revaluation of the debt derivative liabilities, summarized in the table below (in thousands), which are included in Change in fair value of debt derivative and warrant liabilities in the accompanying unaudited condensed consolidated statements of comprehensive loss. Refer to Note 4. Fair Value Measurements for the fair value of the debt derivative liabilities.Three Months Ended October 31,Nine Months Ended October 31,2024202320242023(Loss) gain on change in fair value of debt derivative liabilities$(20,174)$287Â $(19,746)$287Â Debt AgreementWe have a $30.0 million secured revolving credit facility under an agreement with Silicon Valley Bank, a division of First-Citizens Bank & Trust. This credit facility matures in October 2025. The interest rate under the credit facility is equal to the prime rate published by the Wall Street Journal minus 1.0%. We have not drawn down any amounts under the facility as of October 31, 2024.Note 10. Warrants to Purchase Shares of Common StockIn connection with the issuance of the 2029 Notes (discussed Note 9. Debt), we issued to Silver Lake Warrants to acquire up to 7.5Â million shares of Class A Common Stock, exercisable for a period of approximately seven years from the Initial Closing Date, which are comprised of (i) Warrants to purchase up to 2.5Â million shares of Class A Common Stock, exercisable at $20.00 per share, (ii) Warrants to purchase up to 2.5Â million shares of Class A Common Stock, exercisable at $22.00 per share, and (iii) Warrants to purchase up to 2.5Â million shares of Class A Common Stock, exercisable at $24.00 per share. In addition, Silver Lake can elect to exercise the Warrants on a net-exercise basis. In the event of a "Make-Whole Fundamental Change" (as defined in the Form of Warrant, which has a similar definition as in the Convertible Notes Indenture, described above in Note 9. Debt), the number of shares issuable by Zuora upon exercise of the Warrants may be increased, and the exercise price for the Warrants adjusted. Immediately prior to the Effective Time, each Warrant that is outstanding and unexercised immediately prior to the Effective Time will cease to represent a warrant exercisable for shares of our Common Stock, and the holder thereof will have the right to receive, upon exercise of the Warrant, the same amount of cash as it would have been entitled to receive pursuant to the terms of the applicable Warrant Agreement (as defined in the Proxy Statement) if such holder had, immediately after the Effective Time, exercised such Warrant for cash. Because the Per Share Price is less than the exercise price of the Warrants, no payments will be made in respect of the Warrants to holders thereof in the Proposed Merger, and the Warrants will be canceled. As of October 31, 2024, all 7.5Â million Warrants were outstanding.On the Initial Closing Date, we classified a portion of the Warrants as a current liability due to certain settlement provisions in the Warrants. Under certain make-whole fundamental change scenarios, we would be required to, at our option, either (i) obtain shareholder approval prior to issuing 20% or more of our outstanding common stock or (ii) pay cash in lieu of delivering any shares at or above such 20% threshold. As a result, we concluded that approximately 2.8Â million Warrants valued at $12.0Â million as of the Initial Closing Date did not qualify for equity classification under ASC 815-40, pursuant to our sequencing policy. As a result of the issuance of the Additional Notes, we reassessed the classification of the Warrants and concluded that no Warrants qualified for equity classification under ASC 815-40. Accordingly, we reclassified 4.7Â million Warrants valued at $7.7Â million from equity to liability as of the Subsequent Closing Date. On the Stockholder Approval Date, our stockholders approved the issuance of the maximum number of shares of Class A Common Stock upon exercise of the Warrants and therefore there is no longer a potential requirement to pay cash in lieu of delivering any shares at or above the 20% threshold. On the Stockholder Approval Date, we reassessed the classification of the Warrants and concluded that all Warrants fully qualified for a scope exception from derivative accounting as of the Stockholder Approval Date. Accordingly, we reclassified the Warrants valued at $21.4 million as of the Stockholder Approval Date to equity. We will reassess the classification of the Warrant liability in future reporting periods to determine if any change is required. 20The liability-classified warrants' fair value was measured using a combination of Black-Scholes option pricing and Monte Carlo Simulation models that take into consideration probability factors of the various outcomes related to the exercise terms of the warrants using the following inputs:Â June 27, 20241January 31, 2024Fair value of common stock$9.62Â $9.14Â Exercise price$20.00 - $24.00$20.00 - $24.00Expected volatility255.0Â %41.8Â %Expected term (in years)4.45.2Risk-free interest rate4.2Â %3.9Â %Expected dividend yieldâ€”Â â€”Â ______________________________(1) On the Stockholder Approval Date of June 27, 2024, the warrant liability was reclassified to equity.(2) During the quarter ended April 30, 2024, we changed our approach for estimating our stock price volatility to use only Zuora's historical stock price trading data. Zuora now has sufficient historical trading data to fair value its financial instruments and we believe it better reflects the expected future trading volatility of the Company's outstanding common stock. In previous periods, we used an average volatility based on historical trading data of Zuora and a group of similar publicly traded companies.We recognized losses on the revaluation of the liability-classified Warrants, summarized in the table below (in thousands), which are included in Change in fair value of debt derivative and warrant liabilities in the accompanying unaudited condensed consolidated statements of comprehensive loss. Refer to Note 4. Fair Value Measurements for the fair value of the liability-classified Warrants.Three Months Ended October 31,Nine Months Ended October 31,2024202320242023Gain (loss) on change in fair value of warrant liabilityN/A$6,710Â $(9,369)$1,954Â Note 11. Deferred Revenue and Performance ObligationsThe following table summarizes revenue recognized during the period that was included in the deferred revenue balance at the beginning of each respective period (in thousands):Three Months Ended October 31,Nine Months Ended October 31,2024202320242023Revenue recognized from deferred revenue$89,656Â $80,407Â $178,041Â $153,729Â As of October 31, 2024, total remaining non-cancellable performance obligations under our subscription contracts with customers was approximately $575.1 million and we expect to recognize revenue on approximately 55% of these remaining performance obligations over the next 12 months. Remaining performance obligations under our professional services contracts as of October 31, 2024 were not material.21Note 12. Geographical InformationDisaggregation of RevenueRevenue by country, based on the customerâ€™s address at the time of sale, was as follows (in thousands):Â Â Three Months Ended October 31,Nine Months Ended October 31,Â 2024202320242023United States$73,411$70,312$215,156$205,067Others43,51839,537126,938115,925Total$116,929$109,849$342,094$320,992Percentage of revenue by geographic area:United States63Â %64Â %63Â %64Â %Other37Â %36Â %37Â %36Â %Other than the United States,Â noÂ individual country exceeded 10% of total revenue forÂ the three and nine months ended October 31, 2024 and 2023.Long-lived assetsLong-lived assets, which consist of property and equipment, net, deferred commissions, purchased intangible assets, net and operating lease right-of-use assets by geographic location, are based on the location of the legal entity that owns the asset. As of October 31, 2024 and January 31, 2024, no individual country exceeded 10% of total long-lived assets other than the United States.Note 13. LeasesWe have non-cancelable operating leases for our offices located in the U.S. and abroad. As of October 31, 2024, these leases expire on various dates between 2026 and 2030. Certain lease agreements include one or more options to renew, with renewal terms that can extend the lease up to seven years. We have the right to exercise or forego the lease renewal options. The lease agreements do not contain any material residual value guarantees or material restrictive covenants.The components of our long-term operating leases and related operating lease cost were as follows (in thousands):October 31, 2024January 31, 2024Operating lease right-of-use assets$20,591Â $22,462Â Operating lease liabilities, current portion$7,030Â $6,760Â Operating lease liabilities, net of current portion32,573Â 37,100Â Total operating lease liabilities$39,603Â $43,860Â Three Months Ended October 31,Nine Months Ended October 31,2024202320242023Operating lease cost1$1,590Â $2,117Â $5,581Â $6,526Â 22______________________________(1) Includes costs related to our short-term operating leases and is net of sublease income as follows (in thousands):Â Â Â Â Three Months Ended October 31,Nine Months Ended October 31,2024202320242023Short-term operating lease costs$186Â $146Â $1,011Â $387Â Sublease income$(369)(98)(590)$(293)The future maturities of long-term operating lease liabilities for each fiscal year were as follows (in thousands):Maturities of Operating Lease Liabilities2025 (remainder of the year)$1,752Â 20269,381Â 20278,631Â 20288,034Â 20296,881Â Thereafter10,608Â Â Â Â Total lease payments45,287Â Less imputed interest(5,684)Â Â Â Present value of lease liabilities$39,603Â Other supplemental information related to our long-term operating leases includes the following (dollars in thousands):October 31, 2024January 31, 2024Weighted-average remaining operating lease term5.2 years5.9 yearsWeighted-average operating lease discount rate5.0Â %5.1Â %Three Months Ended October 31,Nine Months Ended October 31,2024202320242023Supplemental Cash Flow InformationCash paid for amounts included in the measurement of lease liabilities:Cash paid for operating leases$2,194Â $3,143Â $7,550Â $10,671Â New right-of-use assets obtained in exchange for lease liabilities:Operating leases obtained$â€”Â $427Â $1,615Â $7,400Â As of October 31, 2024, we had $0.2Â million of undiscounted future payments for an operating lease that has not yet commenced, which is excluded from the tables above and is not yet recognized in our consolidated balance sheets. This operating lease is expected to commence in the fourth quarter of the current fiscal year and has a lease term of 13 months.Note 14. Commitments and ContingenciesLetters of CreditIn connection with the execution of certain facility leases, we had a bank issued irrevocable letter of credit for $3.0 million as of October 31, 2024, and letters of credit for $4.5 million as of January 31, 2024. No draws have been made under such letters of credit.23Legal ProceedingsFrom time to time, we may be subject to legal proceedings, as well as demands, claims and threatened litigation. The outcomes of legal proceedings and other contingencies are inherently unpredictable, subject to significant uncertainties, and could be material to our operating results and cash flows for a particular period. Regardless of the outcome, litigation can have an adverse impact on our business because of defense and settlement costs, diversion of management resources, and other factors. As of the date of this Quarterly Report on Form 10-Q, we are not currently party to any legal proceeding that we believe could have a material adverse effect on our business, operating results, cash flows, or financial condition should such litigation or claim be resolved unfavorably.Other Contractual ObligationsWe have a contractual obligation to spend a minimum of $30.0Â million in purchases of cloud computing services provided by one of our vendors for each of the years ending July 31, 2025, 2026, and 2027. As of October 31, 2024, we have a remaining commitment of $21.8Â million for the annual contractual period ending July 31, 2025. Note 15. Income TaxesThe following table reflects our income tax provision, pretax loss and effective tax rate for the periods presented (in thousands, except percentages):Three Months Ended October 31,Nine Months Ended October 31,2024202320242023Loss before income taxes$(32,432)$(5,162)$(55,287)$(45,963)Income tax (benefit) provision(226)340Â (2,152)1,396Â Effective tax rate0.7Â %(6.6)%3.9Â %(3.0)%The effective tax rates differ from the statutory rates as a result of providing no benefit on pretax losses incurred in the United States, as we have determined that the benefit of the losses is not more likely than not to be realized. We recognized a tax accrual adjustment associated with the Zephr IP transfer tax payment and related reserves that resulted in a $1.2Â million tax benefit for the three months ended October 31, 2024. We previously recognized a net tax benefit of $2.7Â million for the partial release of our U.S. valuation allowance during the three months ended July 31, 2024 in connection with the Togai acquisition. We recorded a net deferred tax liability which provides an additional source of taxable income to support the realization of the pre-existing deferred tax assets. Note 16. Stockholdersâ€™ EquityPreferred StockAs of October 31, 2024, Zuora had authorizedÂ 10 millionÂ shares of preferred stock, each with a par value ofÂ $0.0001Â per share. As of October 31, 2024,Â noÂ shares of preferred stock were issued and outstanding.Common StockPrior to Zuora's IPO, which was effective in April 2018, all shares of common stock then outstanding were reclassified into ClassÂ B Common Stock. Shares offered and sold in the IPO consisted of newly authorized shares of ClassÂ A Common Stock. Holders of ClassÂ A Common Stock and ClassÂ B Common Stock are entitled toÂ oneÂ vote per share andÂ tenÂ votes per share, respectively, and the shares of ClassÂ A Common Stock and ClassÂ B Common Stock are identical, except for voting rights and the right to convert Class B Common Stock to Class A Common Stock.As ofÂ October 31, 2024, Zuora had authorizedÂ 500 millionÂ shares of ClassÂ A Common Stock andÂ 500 million shares of ClassÂ B Common Stock, each with a par valueÂ of $0.0001Â per share. As ofÂ October 31, 2024,Â 145.1 million shares of ClassÂ A Common Stock andÂ 8.6 million shares of ClassÂ B Common Stock were issued and outstanding.24Accumulated Other Comprehensive Loss Components of accumulated other comprehensive loss were as follows (in thousands):Foreign Currency Translation AdjustmentUnrealized Gain on Available-for-Sale SecuritiesTotalBalance, January 31, 2024$(1,015)$156Â $(859)Foreign currency translation adjustment386Â â€”Â 386Â Unrealized gain on available-for-sale securitiesâ€”Â 63Â 63Â Balance, October 31, 2024(629)219Â $(410)There were no material reclassifications out of accumulated other comprehensive loss during the three and nine months ended October 31, 2024. Additionally, there was no material tax impact on the amounts presented.Note 17. Employee Stock PlansEquity Incentive PlansOur 2018 Equity Incentive Plan (2018 Plan) authorizes the award of stock options, restricted stock awards, stock appreciation rights, restricted stock units (RSUs), performance awards, and stock bonuses. As of October 31, 2024, approximately 28.1Â million shares of ClassÂ A Common Stock were reserved and available for issuance under the 2018 Plan. In addition, as of October 31, 2024, 1.9 million stock options and RSUs exercisable or settleable for ClassÂ B Common Stock were outstanding in the aggregate under our 2006 Stock Plan (2006 Plan) and 2015 Equity Incentive Plan (2015 Plan), which plans were terminated in May 2015 and April 2018, respectively. The 2006 Plan and 2015 Plan continue to govern outstanding equity awards granted thereunder.Stock

OptionsThe following tables summarize stock option activity and related information (in thousands, except weighted-average exercise price, weighted-average grant date fair value and average remaining contractual term):SharesSubject ToOutstandingStockÂ OptionsWeighted-AverageExercisePriceAverageRemainingContractualTermÂ (Years)AggregateIntrinsicValueBalance, January 31, 20246,083Â $9.21Â 3.6$15,984Â Exercised(1,611)3.23Â Forfeited(475)13.16Â Balance, October 31, 20243,997Â 11.15Â 4.07,832Â Exercisable as of October 31, 20241,892Â 5.76Â 2.57,832Â Vested and expected to vest as of October 31, 20243,995Â $11.15Â 4.0$7,832Â Â Three Months Ended October 31,Nine Months Ended October 31,Â 2024202320242023Aggregate intrinsic value of options exercised during each respective period$3,289Â $73Â $9,191Â $1,104Â 25No stock options were granted during the three and nine months ended October 31, 2024 and 2023.RSUsThe following table summarizes RSU activity and related information (in thousands, except weighted-average grant date fair value):Number of RSUs OutstandingWeighted-Average Grant Date Fair ValueBalance, January 31, 202411,686Â $10.24Â Granted6,933Â 9.48Â Vested(5,626)10.71Â Forfeited(1,326)10.46Â Balance, October 31, 202411,667Â $9.54Â Performance Stock Units (PSUs)We have granted PSUs to certain executives and other employees under our 2018 Plan as described below. In March 2022 (which were subsequently amended in fiscal 2024), July 2023 and September 2023, we granted PSUs to certain executives. These PSUs are divided into two or three tranches, each tranche having pre-established performance targets that if met, as determined quarterly by our Compensation Committee, would result in the shares attributable to such tranche being earned, subject to a service-based vesting condition. The shares attributable to unearned tranches will expire on January 31, 2025 if the applicable performance criteria for such tranches are not met. As we previously disclosed in our Form 10-Q for the three months ended April 30, 2023 filed with the SEC on June 1, 2023, we modified the performance targets associated with these PSUs that were granted in March 2022. This resulted in $9.6Â million of incremental compensation expense that was being recognized over the remaining vesting periods of the awards. During the three months ended April 30, 2024, we deemed these outstanding PSUs to be improbable of vesting and we recorded an adjustment to reverse all $3.4Â million of previously recognized expense in the current quarter.In April 2024, we granted 300,000 PSUs to our CEO. The PSUs are divided into two tranches, each tranche having a pre-established stock price target that if met, as determined by the Chair of our Compensation Committee, would result in the shares attributable to such tranche being earned and then subject to vesting on a graded basis over a period of four years from the grant date, subject to continued service. The shares attributable to unearned tranches will expire on April 28, 2028 if the applicable stock price targets for such tranches are not met. We used a Monte Carlo simulation to estimate the fair value of the award and the date when the stock price target date is expected to be met for each tranche of the award. We are recognizing the related stock-based compensation expense for each tranche using a graded attribution method over four years following the grant date.In April 2024 and August 2024, we granted a total of 54,000 PSUs to certain non-executive employees. The fair value of each PSU was equal to the closing price of our common stock on the date of grant. The PSUs are subject to pre-established performance targets that if met as of January 31, 2025 will be earned and subsequently vest, with up to 34,000 PSUs vesting on March 31, 2025, and the remaining 20,000 vesting in equal quarterly installments over a period of three years beginning on March 31, 2025, subject to continued service through such vesting dates, or will otherwise expire unvested. We are recognizing the related stock-based compensation expense using the straight-line attribution method over the expected vesting period of the award.26The following table summarizes PSU activity and related information (in thousands, except weighted-average grant date fair value):Number of PSUs OutstandingWeighted-Average Grant Date Fair ValueBalance, January 31, 20242,310Â $14.31Â Granted354Â 8.10Â Forfeited(120)9.15Â Balance, October 31, 20242,544Â $13.69Â 2018 Employee Stock Purchase PlanOur 2018 Employee Stock Purchase Plan (ESPP) is broadly available to our employees in the United States and certain other countries in which we operate. A total of 5.0 million shares of ClassÂ A Common Stock were reserved and available for issuance under the ESPP as of October 31, 2024. The ESPP provides for 24-month offering periods beginning JuneÂ 15 and DecemberÂ 15 of each year, and each offering period contains four six-month purchase periods. On each purchase date, ESPP participants will purchase shares of our ClassÂ A Common Stock at a price per share equal to 85% of the lesser of (1) the fair market value of the ClassÂ A Common Stock on the offering date or (2) the fair market value of the ClassÂ A Common Stock on the purchase date. As required under the Merger Agreement, no new offering periods or purchase periods will be offered under the ESPP following the December 2024 purchase date, subject to closing of the Proposed Merger.We estimated the fair value of ESPP purchase rights using a Black-Scholes option pricing model with the following assumptions:Nine Months Ended October 31, 2024Nine Months Ended October 31, 2023Fair value of common stock$9.50Â $11.55Â Expected volatilityÂ 41.7% - 52.2%37.1% - 45.7%Expected term (in years)0.5 - 2.00.5 - 2.0Risk-free interest rate5.1% - 5.5%5.2% - 5.4%Expected dividend yieldâ€"Â %â€"Â %Stock-Based Compensation ExpenseStock-based compensation expense was recorded in the following cost and expense categories in the accompanying unaudited condensed consolidated statements of comprehensive loss (in thousands):Â Three Months Ended October 31,Nine Months Ended October 31,Â 2024202320242023Cost of subscription revenue$2,331Â $2,350Â $6,291Â $6,889Â Cost of professional services revenue2,598Â 2,747Â 7,359Â 8,997Â Research and development7,697Â 7,165Â 21,680Â 20,661Â Sales and marketing7,613Â 8,191Â 20,609Â 24,857Â General and administrative4,694Â 5,648Â 13,163Â 16,569Â Total stock-based compensation expense$24,933Â $26,101Â $69,102Â $77,973Â As of October 31, 2024, unrecognized compensation costs related to unvested equity awards and the weighted-average remaining period over which those costs are expected to be recognized were as follows (dollars in thousands):27Stock OptionsRSUsPSUsESPPUnrecognized compensation costs$454Â $89,060Â $24,222Â $887Â Weighted-average remaining recognition period0.5 years1.7 years0.6 years0.5 yearsNote 18. Net Loss Per ShareThe following table presents the calculation of basic and diluted net loss per share for the periods presented (in thousands, except per share data):Â Three Months Ended October 31,Nine Months Ended October 31,Â 2024202320242023Numerator:Net loss$(32,206)$(5,502)$(53,135)$(47,359)Denominator:Weighted-average common shares outstanding, basic and diluted152,263Â 141,488Â 149,457Â 138,789Â Net loss per share, basic and diluted(0.21)(0.04)(0.36)(0.34)Since we were in a net loss position for all periods presented, basic net loss per share attributable to common stockholders is the same as diluted net loss per share, as the inclusion of all potential common shares outstanding would have been anti-dilutive. Potentially dilutive securities that were not included in the diluted per share calculations because they would be anti-dilutive were as follows (in thousands):Â October 31,Â 202420232029 Notes conversion20,000Â 20,000Â Unvested RSUs issued and outstanding11,667Â 12,667Â Warrants7,500Â 7,500Â Issued and outstanding stock options3,997Â 6,588Â Unvested PSUs issued and outstanding2,544Â 2,560Â Shares committed under ESPP503Â 598Â Total46,211Â 49,913Â Note 19. AcquisitionsSub(x) AcquisitionOn August 16, 2024, we acquired all outstanding shares of Sub(x), an AI solution for digital publishing and media companies, for a purchase price of $6.0Â million, with approximately $5.0Â million in cash paid at closing. The acquisition is intended to transform Zuora's existing paywall offering into an AI-powered paywall solution to gain deeper insights into subscriber behavior, constantly optimizing how offers are presented to maximize acquisition and retention. Togai AcquisitionOn May 9, 2024 (the Togai Closing Date), we closed the acquisition of Togai through Leeyo Software, Inc., a 100% owned subsidiary, pursuant to an Agreement and Plan of Merger. Effective September 17, 2024, we acquired 100% of the voting equity interest in Togai. Togai is a metering and rating solution company.Purchase ConsiderationThe purchase consideration for the Togai acquisition was $24.3 million. Transaction costs in connection with the acquisition were not significant and were expensed as incurred.28Assets and Liabilities AcquiredThe acquisition was accounted for as a business combination using the acquisition method of accounting in accordance with ASC 805, Business Combinations. The excess of the purchase price over the estimated fair value of the tangible and intangible assets acquired and liabilities assumed has been recorded as goodwill. The Togai acquisition resulted in recorded goodwill as a result of the synergies expected to be realized and how we expect to leverage the business to create additional value for our stockholders. The goodwill is not expected to be deductible for income tax purposes.The following table summarizes the preliminary estimate of the fair value of the assets acquired and liabilities assumed as of May 9, 2024 (in thousands):TotalCash$1,202Â Prepaid expenses and other current assets95Â Fixed Assets29Â Intangible assets:Tradename10Â Developed technology12,700Â Customer relationships340Â Goodwill12,614Â Deferred tax liability(2,663)Accounts payable and other current liabilities(14)Fair value of net assets acquired$24,313Â We engaged a third-party specialist to assist management in the determination of the estimated fair value of intangible assets acquired. Variations of the income approach were used to estimate the fair values. Specifically, the relief from royalty method was used to measure the trade name, the multi period excess earnings method was used to measure the developed technology, and the distributor method was used to measure the customer relationships. The following table summarizes the acquired identifiable intangible assets, Togai Closing Date estimated fair values, and estimated useful lives (dollars in thousands):Fair ValueUseful LifeDeveloped technology$12,700Â 8.0 yearsCustomer relationships340Â 4.0 yearsTrade name10Â 1.0 yearTotal intangible assets acquired$13,050Â The estimated fair values of the consideration transferred and net assets acquired are subject to refinement for up to one year after the closing date of the acquisition as additional information regarding closing date fair value becomes available. During this one-year period, the causes of any changes in cash flow estimates are considered to determine whether the change results from circumstances that existed at the acquisition date or if the change results from an event that occurred after the acquisition date. 29ItemÂ 2.Â Â Â Â Managementâ€™s Discussion and Analysis of Financial Condition and Results of OperationsThe following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes appearing elsewhere in this Form 10-Q and our Annual Report on Form 10-K).Â As discussed in the section titled â€œSpecial Note Regarding Forward-Looking Statements,â€ the following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements.Â Factors that could cause or contribute to these differences include, but are not limited to, those identified below and those discussed in the section titled â€œRisk Factorsâ€ under Part II, Item 1AÂ in this FormÂ 10-Q and in our Annual Report on Form 10-K. Our fiscal year ends on January 31.OverviewZuora provides a leading monetization suite for modern business, built to help companies launch and scale new services and operate dynamic, customer-centric business models, including subscription and usage-based models. Our technology solutions enable companies across multiple industries and geographies to build, run, and grow a modern business, automating the quote-to-revenue process, including offers, billing, collections, and revenue recognition. With Zuoraâ€™s solutions, businesses can change and evolve how they go to market through a mix of monetization models, efficiently comply with revenue recognition standards, analyze customer data to optimize their offerings, and build recurring relationships with their customers.Many of todayâ€™s enterprise software systems manage their quote-to-revenue process using software built for one-time transactions. These systems were not designed for the dynamic, ongoing nature of recurring revenue, usage-based, or hybrid pricing models, and can be extremely difficult to configure. In traditional product-based businesses, quote-to-revenue is a linear process â€" a customer orders a product, is billed for that product, payment is collected, and the revenue is recognized. These legacy product-based systems were not specifically designed to handle the complexities of managing ongoing customer relationships and recurring revenue models commonly found in subscription businesses, including billing proration, revenue recognition and reporting, and calculating the lifetime value of the customer. Using legacy or homegrown software to build a recurring revenue business often results in inefficient processes with prolonged and complex manual downstream work, hard-coded customizations, and a proliferation of stock-keeping units (SKUs).However, enterprise business models are inherently dynamic, with multiple interactions, flexible pricing, global complexities, and continuously evolving relationships and events. The capabilities to launch, price, and bill for products, facilitate and record cash receipts, process and recognize revenue, and analyze data to drive key decisions are mission critical and particularly complex for companies that operate at a global scale. As a result, as companies launch, grow, and scale their businesses, they often conclude that legacy systems are inadequate. This is where Zuora comes in.Our vision is â€œThe World Subscribedâ€ -- the idea that one day every company will be a part of the Subscription Economy. Our focus has been on providing the technology our customers need to thrive as customer-centric, recurring revenue businesses.Our solutions include Zuora Billing, Zuora Revenue, Zuora Payments, Zephr, Zuora Platform, and other software that support and expand upon these core offerings. Our software helps companies analyze data â€" including information such as which customers are delivering the most recurring revenue, or which segments are showing the highest churn - enabling customers to make informed decisions about their monetization strategy and quickly implement changes such as launching new services, updating pricing (usage, time, or outcome based), delivering new offerings, or making other changes to their customersâ€™ experience. We also have a large ecosystem of global partners that can assist our customers with additional monetization strategies and services throughout the subscription journey.Companies in a variety of industries - technology, manufacturing, media and entertainment, telecommunications, and many others - are using our solutions to scale and adapt to a world that is increasingly choosing subscription-based offerings.30Fiscal Third Quarter Financial Performance Summary and Business Highlights:Our financial performance for the three months ended October 31, 2024 compared to the three months ended October 31, 2023 reflects the following:â€¢Subscription revenue wasÂ $105.3 million, an increase ofÂ $7.2 million,Â orÂ 7%; and total revenue wasÂ $116.9 million, an increase ofÂ $7.1 million,Â orÂ 6%. â€¢Gross profit wasÂ $78.6 million, orÂ 67% of totalÂ of revenue, compared toÂ $74.8 million, orÂ 68%Â of total revenue. â€¢Loss from operations wasÂ $11.7 million, or 10% of total revenue, compared to a loss ofÂ $8.8 million, orÂ 8%Â of total revenue, an improvement in operating margin of 2 percentage points year-over-year. â€¢We closed two deals in the quarter ended October 31, 2024 with ACV equal to or greater than $1.0 million.Proposed MergerOn October 17, 2024, we entered into the Merger Agreement with Parent and Merger Sub. Under the terms of the Merger Agreement, immediately prior to the Effective Time, each issued and outstanding share of Common Stock held in the treasury of Zuora, each Rollover Share and any shares of Common Stock owned by Parent or Merger Sub, as of immediately prior to the Effective Time, will be canceled and extinguished and automatically be converted into the right to receive cash in an amount equal to $10.00 per share, without interest thereon and subject to any applicable withholding taxes. The proposed transaction is expected to close in the first calendar quarter of 2025 and is subject to customary closing conditions and approvals.For additional information related to the Merger Agreement and the transactions contemplated thereby, please refer to our Current Report on Form 8-K filed with the SEC on October 18, 2024, including the exhibits attached thereto, and Note 1. Overview and Basis of Presentation of the Notes to Unaudited Condensed Consolidated Financial Statements included in Item 1. Financial Statements of this Form 10-Q, each of which are incorporated by reference into this Item 2. Managementâ€™s Discussion and Analysis.Key Operational and Financial MetricsWe monitor the following key operational and financial metrics to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions:Â October 31,Â 20242023Customers with ACV equal to or greater than $250,000451Â 453Â Dollar-based retention rate103Â %108Â %Annual recurring revenue growth6Â %13Â %Customers with Annual Contract Value Equal to or Greater than $250,000We believe our ability to enter and expand contracts is indicative of broader adoption of our solutions by larger organizations. It also reflects our ability to expand our revenue footprint within our current customer base. We define ACV as the subscription revenue we would contractually expect to recognize from that customer over the next twelve months, assuming no increases or reductions in their subscriptions. We define the number of customers at the end of any particular period as the number of parties or organizations that have entered into a distinct subscription contract with us and for which the term has not ended. Each party with whom we have entered into a distinct subscription contract is considered a unique customer, and in some cases, there may be more than one customer within a single organization. The number of customers with ACV equal to or greater than $250,000 decreased to 451 as of October 31, 2024, and includes the impact of several Zuora customers consolidating into one contract due to mergers and acquisitions, as compared to 453 as of October 31, 2023.31Dollar-Based Retention RateWe believe our dollar-based retention rate is a key measure of our ability to retain and expand revenue from our customer base over time. We calculate our dollar-based retention rate as of a period end by starting with the sum of the ACV from all customers as of twelve months prior to such period end, or prior period ACV. We then calculate the sum of the ACV from these same customers as of the current period end, or current period ACV. The current period ACV includes any upsells and also reflects contraction or attrition over the trailing twelve months, but excludes revenue from new customers added in the current period. We then divide the current period ACV by the prior period ACV to arrive at our dollar-based retention rate. Our dollar-based retention rate was 103% as of October 31, 2024, as compared to 108% as of October 31, 2023. The decrease was primarily driven by customer churn. Annual Recurring RevenueARR represents the annualized recurring value at the time of initial booking or contract modification for all active subscription contracts at the end of a reporting period. ARR excludes the value of non-recurring revenue such as professional services revenue as well as contracts with new customers with a term of less than one year. ARR should be viewed independently of revenue and deferred revenue, and is not intended to be a substitute for, or combined with, any of these items. Our ARR was $419.9 million as of October 31, 2024, compared to $396.0 million as of October 31, 2023, representing an increase of 6% year-over-year. Components of Our Results of OperationsRevenueSubscription revenue. Subscription revenue consists of fees for access to, and use of, our products, as well as customer support and recurring services. We generate subscription fees pursuant to non-cancelable subscription agreements with terms that typically range from one to five years.

Subscription revenue is primarily based on fees to access our services platform over the subscription term. We typically invoice customers in advance in either annual or quarterly installments. Customers can also elect to purchase additional volume blocks or products during the term of the contract. We typically recognize subscription revenue ratably over the term of the subscription period, beginning on the date that access to our platform is provisioned, which is generally on or about the date the subscription agreement is signed. Professional services revenue. Professional services revenue typically consists of fees for implementation services in connection with helping our customers deploy, configure, and optimize the use of our solutions. These services include systems integration, data migration, and process enhancement. Professional services projects generally take three to twelve months to complete. Once the contract is signed, we generally invoice for professional services on a time and materials basis, although we occasionally engage in fixed-price service engagements and invoice for those based upon agreed milestone payments. We recognize revenue as professional services are performed for time and materials engagements and on a proportional performance method when the professional services are performed under fixed fee engagements. We utilize our own services team, as well as strategic partners, for professional services implementations.Deferred RevenueDeferred revenue consists of customer billings in advance of revenue being recognized from our subscription and support services and professional services arrangements. We primarily invoice our customers for subscription services arrangements annually, semi-annually, or quarterly in advance. Amounts anticipated to be recognized within one year of the balance sheet date are recorded as deferred revenue, current portion, and the remaining portion is recorded as deferred revenue, net of current portion in our unaudited condensed consolidated balance sheets.Overhead Allocation and Employee Compensation CostsWe allocate shared costs, such as facilities costs (including rent, utilities, and depreciation on capital expenditures related to facilities shared by multiple departments), information technology costs, and certain administrative personnel costs to all departments based on headcount and location. As such, allocated shared costs are reflected in each cost of revenue and operating expense category. 32Employee compensation costs consist of salaries, bonuses, commissions, benefits, and stock-based compensation.Cost of Revenue, Gross Profit and Gross MarginCost of subscription revenue. Cost of subscription revenue consists primarily of costs related to hosting our platform and providing customer support. These costs include third-party hosting fees, employee compensation costs associated with maintaining our cloud-based infrastructure, amortization expenses associated with capitalized internal-use software and purchased technology, allocated overhead, software and maintenance costs, and outside services associated with the delivery of our subscription services. We intend to continue to invest in our platform infrastructure, including third-party hosting capacity, and support organizations. However, the level and timing of such investment in these areas may fluctuate and affect our cost of subscription revenue in the future.Cost of professional services revenue. Cost of professional services revenue consists primarily of costs related to the deployment of our solutions. These costs include employee compensation costs for our professional services team, allocated overhead, travel costs, and costs of outside services associated with supplementing our internal staff. Gross profit and gross margin. Our gross profit and gross margin may fluctuate from period to period as our revenue fluctuates, and as a result of the timing and amount of our investments to expand hosting capacity, including through third-party cloud providers, amortization expenses associated with our capitalized internal-use software and purchased technology, and our continued efforts to build our cloud infrastructure, support, and optimize our professional services teams. Operating ExpensesResearch and development. Research and development expense consists primarily of employee compensation costs, allocated overhead, and travel costs. We capitalize research and development costs associated with the development of internal-use software and we generally amortize these costs over a period of three years, primarily into the cost of subscription revenue. All other research and development costs are expensed as incurred. We believe that continued investment in our platform is important for our growth, and we will continue to focus investments in key areas of our platform. Sales and marketing. Sales and marketing expense consists primarily of employee compensation costs, including the amortization of deferred commissions related to our sales personnel, allocated overhead, costs of general marketing and promotional activities, and travel costs. Commission costs that are incremental to obtaining a contract are amortized in sales and marketing expense over the period of benefit, which is expected to be five years. General and administrative. General and administrative expense consists primarily of employee compensation costs, allocated overhead, and travel costs for finance, accounting, legal, human resources, and recruiting personnel. In addition, general and administrative expense includes non-personnel costs, such as accounting fees, legal fees, charitable contributions, asset impairments, costs associated with acquisitions, including the Proposed Merger, and all other supporting corporate expenses not allocated to other departments. Other income and expensesOther income and expenses primarily consists of fair value adjustments related to the debt derivatives and warrants; amortization of deferred loan costs and contractual interest on our convertible senior notes; interest income from our cash and cash equivalents and short-term investments; and foreign exchange fluctuations.Income Tax Provision Income tax (benefit) provision consists primarily of income taxes related to foreign and state jurisdictions in which we conduct business, and includes adjustments related to acquisition activity. We maintain a full valuation allowance on our federal and state deferred tax assets as we have concluded that it is more likely than not that the deferred assets will not be utilized.33Results of OperationsThe following tables set forth our unaudited condensed consolidated results of operations for the periods presented in dollars and as a percentage of our total revenue (in thousands):Â Three Months EndedOctober 31,Nine Months EndedOctober 31,Â 2024202320242023Revenue:Subscription$105,253Â $98,048Â $308,263Â $283,232Â Professional services11,676Â 11,801Â 33,831Â 37,760Â Total revenue116,929Â 109,849Â 342,094Â 320,992Â Cost of revenue:Subscription23,954Â 20,378Â 67,207Â 62,304Â Professional services14,383Â 14,650Â 43,483Â 47,851Â Total cost of revenue38,337Â 35,028Â 110,690Â 110,155Â Gross profit78,592Â 74,821Â 231,404Â 210,837Â Operating expenses:Research and development26,833Â 27,504Â 76,853Â 79,428Â Sales and marketing36,597Â 40,245Â 108,579Â 124,488Â General and administrative26,880Â 15,893Â 71,351Â 54,160Â Total operating expenses90,310Â 83,642Â 256,783Â 258,076Â Loss from operations(11,718)(8,821)(25,379)(47,239)Change in fair value of debt derivative and warrant liabilities(20,174)6,997Â (29,115)2,241Â Interest expense(7,045)(5,610)(20,781)(14,604)Interest and other income (expense), net6,505Â 2,272Â 19,988Â 13,639Â Loss before income taxes(32,432)(5,162)(55,287)(45,963)Income tax (benefit) provision(226)340Â (2,152)1,396Â Net loss$(32,206)$(5,502)$(53,135)$(47,359)34Â Three Months EndedOctober 31,Nine Months EndedOctober 31,Â 2024202320242023Revenue:Subscription90Â %89Â %90Â %88Â %Professional services10Â 11Â 10Â 12Â Total revenue100Â 100Â 100Â 100Â Cost of revenue:Subscription20Â 19Â 20Â 19Â Professional services12Â 13Â 13Â 15Â Total cost of revenue33Â 32Â 32Â 34Â Gross profit67Â 68Â 68Â 66Â Operating expenses:Research and development23Â 25Â 22Â 25Â Sales and marketing31Â 37Â 32Â 39Â General and administrative23Â 14Â 21Â 17Â Total operating expenses77Â 76Â 75Â 80Â Loss from operations(10)(8)(7)(15)Change in fair value of debt derivative and warrant liabilities(17)6Â (9)1Â Interest expense(6)(5)(6)(5)Interest and other income (expense), net6Â 2Â 6Â 4Â Loss before income taxes(28)(5)(16)(14)Income tax (benefit) provisionâ€"Â â€"Â (1)â€"Â Net loss(28)%(5)%(16)%(15)%Note: Percentages in the table above may not sum due to rounding.Non-GAAP Financial MeasuresTo supplement our unaudited condensed consolidated financial statements presented in accordance with U.S. GAAP, we monitor and consider non-GAAP financial measures including: non-GAAP cost of subscription revenue, non-GAAP subscription gross margin, non-GAAP cost of professional services revenue, non-GAAP professional services gross margin, non-GAAP gross profit, non-GAAP gross margin, non-GAAP income from operations, non-GAAP operating margin, non-GAAP net income, non-GAAP net income per share, basic and diluted, and adjusted free cash flow. We use non-GAAP financial measures in conjunction with GAAP measures as part of our overall assessment of our performance, including the preparation of our annual operating budget and quarterly forecasts, to evaluate the effectiveness of our business strategies and to communicate with our Board of Directors concerning our financial performance. We believe these non-GAAP measures provide investors consistency and comparability with our past financial performance and facilitate period-to-period comparisons of our operating results. We also believe these non-GAAP measures are useful in evaluating our operating performance compared to that of other companies in our industry, as they generally eliminate the effects of certain items that may vary for different companies for reasons unrelated to overall operating performance. Investors are cautioned that there are material limitations associated with the use of non-GAAP financial measures as an analytical tool. The non-GAAP financial measures we use may be different from non-GAAP financial measures used by other companies, limiting their usefulness for comparison purposes. We compensate for these limitations by providing specific information regarding the GAAP items excluded from our non-GAAP financial measures. The presentation of these non-GAAP financial measures is not intended to be considered in isolation or as a substitute for, or superior to, financial information prepared and presented in accordance with GAAP. Reconciliations of our non-GAAP financial measures to the nearest respective GAAP measures are provided below.35We exclude the following items from one or more of our non-GAAP financial measures:â€¢Stock-based compensation expense. We exclude stock-based compensation expense, which is a non-cash expense, because we believe that excluding this item provides meaningful supplemental information regarding operational performance. In particular, stock-based compensation expense is not comparable across companies given it is calculated using a variety of valuation methodologies and subjective assumptions.â€¢Amortization of acquired intangible assets. We exclude amortization of acquired intangible assets, which is a non-cash expense, because we do not believe it has a direct correlation to the operation of our business.â€¢Charitable contributions. We exclude expenses associated with charitable donations of our common stock. We believe that excluding these non-cash expenses allows investors to make more meaningful comparisons between our operating results and those of other companies.â€¢Shareholder matters. We exclude non-recurring charges and benefits, net of insurance recoveries, including litigation expenses, settlements and other legal, consulting and advisory fees, related to shareholder matters that are outside of the ordinary course of our business, including expenses related to a cooperation agreement. We believe these charges and benefits do not have a direct correlation to the operations of our business and may vary in size depending on the timing, results and resolution of such litigation, settlements, agreements or other shareholder matters.â€¢Asset impairment. We exclude non-cash charges for impairment of assets, including impairments related to internal-use software, office leases, and acquired intangible assets. Impairment charges can vary significantly in terms of amount and timing and we do not consider these charges indicative of our current or past operating performance. Moreover, we believe that excluding the effects of these charges allows investors to make more meaningful comparisons between our operating results and those of other companies.â€¢Change in fair value of debt derivative and warrant liabilities. We exclude fair value adjustments related to the debt derivative and warrant liabilities, which are non-cash gains or losses, as they can fluctuate significantly with changes in Zuora's stock price and market volatility, and do not reflect the underlying cash flows or operational results of the business.â€¢Acquisition-related expenses. We exclude acquisition-related expenses (including integration-related charges) that are not related to our ongoing operations. These expenses include gains or losses recognized on contingent consideration related to acquisitions, including costs associated with the Proposed Merger. We do not consider these transaction expenses as reflective of our core business or ongoing operating performance.â€¢Workforce reductions. We exclude charges related to workforce reduction plans, including severance, health care and related expenses. We believe these charges are not indicative of our continuing operations.36The following tables provide a reconciliation of our GAAP to non-GAAP measures (in thousands, except percentages and per share data): Subscription Gross MarginThree Months EndedOctober 31,Nine Months EndedOctober 31,2024202320242023Reconciliation of cost of subscription revenue:GAAP cost of subscription revenue$23,954Â $20,378Â $67,207Â $62,304Â Less:Stock-based compensation(2,331)(2,350)(6,291)(6,889)Amortization of acquired intangibles(1,164)(607)(2,706)(2,083)Workforce reductions(228)â€"Â (796)(38)Acquisition-related expenses(12)â€"Â (103)â€"Â Shareholder mattersâ€"Â â€"Â (20)â€"Â Asset impairmentâ€"Â (439)â€"Â (439)Non-GAAP cost of subscription revenue$20,219Â $16,982Â $57,291Â $52,855Â GAAP subscription gross margin77Â %79Â %78Â %78Â %Non-GAAP subscription gross margin81Â %83Â %81Â %81Â %Professional Services Gross MarginThree Months EndedOctober 31,Nine Months EndedOctober 31,2024202320242023Reconciliation of cost of professional services revenue:GAAP cost of professional services revenue$14,383Â $14,650Â $43,483Â $47,851Â (Less) Add:Stock-based compensation(2,598)(2,747)(7,359)(8,997)Acquisition-related expenses(22)â€"Â (22)â€"Â Shareholder mattersâ€"Â â€"Â (28)â€"Â Workforce reductionsâ€"Â â€"Â (5)(46)Non-GAAP cost of professional services revenue$11,763Â $11,903Â $36,069Â $38,808Â GAAP professional services gross margin(23)%(24)%(29)%(27)%Non-GAAP professional services gross margin(1)%(1)%(7)%(3)%37Total Gross MarginThree Months EndedOctober 31,Nine Months EndedOctober 31,2024202320242023Reconciliation of gross profit:GAAP gross profit$78,592Â $74,821Â $231,404Â $210,837Â Add:Stock-based compensation4,929Â 5,097Â 13,650Â 15,886Â Amortization of acquired intangibles1,164Â 607Â 2,706Â 2,083Â Workforce reductions228Â â€"Â 801Â 84Â Acquisition-related expenses34Â â€"Â 125Â â€"Â Shareholder mattersâ€"Â â€"Â 48Â â€"Â Asset impairmentâ€"Â 439Â â€"Â 439Â Non-GAAP gross profit$84,947Â $80,964Â $248,734Â $229,329Â GAAP gross margin67Â %68Â %68Â %66Â %Non-GAAP gross margin73Â %74Â %73Â %71Â %Operating (Loss) Income and Operating Margin Three Months Ended October 31,Nine Months EndedOctober 31,2024202320242023Reconciliation of (loss) income from operations:GAAP loss from operations$(11,718)$(8,821)$(25,379)$(47,239)Add:Stock-based compensation24,933Â 26,101Â 69,102Â 77,973Â Acquisition-related expenses10,299Â 19Â 17,100Â 211Â Amortization of acquired intangibles1,164Â 607Â 2,706Â 2,083Â Workforce reductions241Â â€"Â 1,518Â 265Â Shareholder matters181Â (3,508)4,240Â (3,265)Asset impairmentâ€"Â 1,592Â â€"Â 1,592Â Non-GAAP income from operations$25,100Â $15,990Â $69,287Â $31,620Â GAAP operating margin(10)%(8)%(7)%(15)%Non-GAAP operating margin21Â %15Â %20Â %10Â %38Net (Loss) Income and Net (Loss) Income Per ShareThree Months Ended October 31,Nine Months EndedOctober 31,2024202320242023Reconciliation of net (loss) income:GAAP net loss$(32,206)$(5,502)$(53,135)$(47,359)Add:Stock-based compensation24,933Â 26,101Â 69,102Â 77,973Â Change in fair value of debt derivative and warrant liabilities20,174Â (6,997)29,115Â (2,241)Acquisition-related expenses10,299Â 19Â 17,100Â 211Â Amortization of acquired intangibles1,164Â 607Â 2,706Â 2,083Â Workforce reductions241Â â€"Â 1,518Â 265Â Shareholder matters181Â (3,508)4,240Â (3,265)Asset impairmentâ€"Â 1,592Â â€"Â 1,592Â Non-GAAP net income$24,786Â $12,312Â $70,646Â $29,259Â GAAP net loss per share, basic and diluted1(0.21)(0.04)(0.36)(0.34)Non-GAAP net income per share, basic and diluted1$0.16Â $0.09Â $0.47Â $0.21Â ________________________________(1) For the three months ended October 31, 2024 and 2023, GAAP and Non-GAAP net (loss) income per share are calculated based upon 152.3 million and 141.5 million basic and diluted weighted-average shares of common stock, respectively. For the nine months ended October 31, 2024 and 2023, GAAP and Non-GAAP net (loss) income per share are calculated based upon 149.5 million and 138.8 million basic and diluted weighted-average shares of common stock, respectively. Adjusted Free Cash FlowAdjusted free cash flow is a non-GAAP measure that includes adjustments to operating cash flows for cash impacts related to Shareholder matters and Acquisition-related expenses as described above, and net purchases of property and equipment. We include the impact of net purchases of property and equipment in our adjusted free cash flow calculation because we consider these capital expenditures to be a necessary component of our ongoing operations. We consider adjusted free cash flow to be a liquidity measure that provides useful information to management and investors about the amount of cash generated from operations, excluding such expenditures that are not related to our ongoing operations, but it is not intended to represent the residual cash flow available for discretionary expenditures. Three Months EndedOctober 31,Nine Months EndedOctober 31,2024202320242023Reconciliation of adjusted free cash flow: Net cash provided by (used in) operating activities (GAAP)$22,408Â $(55,657)$66,710Â $(35,676)Add:Acquisition-related expenses5,587Â 28Â 7,300Â 135Â Shareholder matters824Â 71,377Â 4,379Â 72,130Â Less:Purchases of property and equipment(3,330)(3,075)(9,252)(6,913)Adjusted free cash flow (non-GAAP)$25,489Â $12,673Â $69,137Â $29,676Â Net cash provided by (used in) investing activities (GAAP)$18,999Â $2,005Â $(51,852)$97,026Â Net cash (used in) provided by financing activities (GAAP)$(1,295)$145,899Â $6,306Â $151,626Â 39Comparison of the Three Months Ended October 31, 2024 and 2023 RevenueÂ Â Three Months EndedOctober 31,Â Â Â 20242023$Â Change%Â ChangeÂ (dollarsÂ inÂ thousands)Â Â Revenue:Subscription$105,253Â $98,048Â $7,205Â 7Â %Professional services11,676Â 11,801Â (125)(1)%Total revenue$116,929Â $109,849Â $7,080Â 6Â %Percentage of revenue:Subscription90Â %89Â %Professional services10Â 11Â Total revenue100Â %100Â %Subscription revenue increased by $7.2 million, or 7%, for the three months ended October 31, 2024 compared to the three months ended October 31, 2023. The increase in subscription revenue was driven by approximately $4.6 million from higher transaction volume and sales of additional products to our existing customers, and approximately $2.6 million from sales to new customers. We calculate subscription revenue from new customers during the quarter by adding the revenue recognized from new customers acquired in the 12 months prior to the reporting date. New business growth reflects the continued impact of macroeconomic headwinds we have faced in the three months ended October 31, 2024.Professional services revenue decreased by $0.1Â million, or 1%, for the three months ended October 31, 2024 as we continue to leverage our system integration partners for implementation of our solutions and due to the overall timing of projects. Cost of Revenue and Gross MarginÂ Three Months EndedOctober 31,Â Â Â 20242023$ Change%Â ChangeÂ (dollars in thousands)Â Â Cost of revenue:Subscription$23,954Â $20,378Â $3,576Â 18Â %Professional services14,383Â 14,650Â (267)(2)%Total cost of revenue$38,337Â $35,028Â $3,309Â 9Â %Gross margin:Subscription77Â %79Â %Professional services(23)(24)Total gross margin67Â %68Â %Cost of subscription revenue increased by $3.6 million, or 18%, for the three months ended October 31, 2024 compared to the three months ended October 31, 2023, driven mainly by increases of $1.5 million in data center costs, $1.2 million in the amortization of purchased technology and internal-use software, and $0.6 million in travel costs.Cost of professional services revenue decreased by $0.3 million, or 2%, for the three months ended October 31, 2024 compared to the three months ended October 31, 2023 driven mainly by a decrease in employee compensation costs.40Our gross margin for subscription services decreased to 77% for the three months ended October 31, 2024 compared to 79% for the three months ended October 31, 2023, primarily due to the increase in data center expenses. Our gross margin for professional services increased to (23)% for the three months ended October 31, 2024 compared to (24)% for the three months ended October 31, 2023 driven mainly by a decrease in employee compensation costs.Research and DevelopmentÂ Three Months EndedOctober 31,Â Â Â 20242023$Â Change%Â ChangeÂ (dollarsÂ inÂ thousands)Â Â Research and development$26,833Â $27,504Â $(671)(2)%Percentage of total revenue23Â %25Â %Research and development expense decreased by $0.7 million, or 2%, for the three months ended October 31, 2024 compared to the three months ended October 31, 2023, primarily related to $1.2 million of capitalized software impairment charges in the previous year.Research and development expense decreased to 23% of total revenue for the three months ended October 31, 2024 from 25% for the three months ended October 31, 2023 due to increased subscription revenue and the capitalized software impairment charges in the previous year. Sales and MarketingÂ Three Months EndedOctober 31,Â Â Â 20242023$Â Change%Â ChangeÂ (dollars in thousands)Â Â Sales and marketing$36,597Â $40,245Â $(3,648)(9)%Percentage of total revenue31Â %37Â %Sales and marketing expense decreased by $3.6 million, or 9%, for the three months ended October 31, 2024 compared to the three months ended October 31, 2023, primarily due to decreases of $3.8 million in employee compensation costs and $0.5 million in allocated overhead resulting from our January 2024 workforce reduction in which we reduced primarily non-quota carrying roles. These decreases were partially offset by a $0.6 million increase in costs related to our Subscribed customer events. Sales and marketing expense decreased to 31% of total revenue during the three months ended October 31, 2024 from 37% during the three months ended October 31, 2023, as a result of increased subscription revenue and decreased employee compensation costs due to the January 2024 workforce reduction.41General and AdministrativeÂ Â Three Months EndedOctober 31,Â Â Â 20242023$Â Change%Â ChangeÂ (dollarsÂ inÂ thousands)Â Â General and administrative$26,880Â $15,893Â $10,987Â 69Â %Percentage of total revenue23Â %14Â %General and administrative expense increased by $11.0 million, or 69%, for the three months ended October 31, 2024 compared to the three months ended October 31, 2023, primarily due to $9.3 million in charges associated with the Proposed Merger, partially offset by a decrease of $1.8 million in employee compensation costs; and $3.5 million of insurance recoveries, net of related charges, that was recognized in the prior period in connection with securities litigation. General and administrative expense increased to 23% of total revenue during the three months ended October 31, 2024 from 14% during the three months ended October 31, 2023 primarily due to costs associated with the Proposed Merger.Other income and expensesÂ Three Months EndedOctober 31,Â Â Â 20242023$Â Change% ChangeÂ (dollarsÂ inÂ thousands)Â Â Change in fair value of debt derivative and warrant liabilities$(20,174)$6,997Â $(27,171)(388)%Interest expense$(7,045)$(5,610)$(1,435)26Â %Interest and other income (expense), net$6,505Â $2,272Â $4,233Â 186Â %The change in fair value of our debt derivative and warrant liabilities decreased $27.2 million for the three months ended October 31, 2024 compared to the three months ended October 31, 2023. The $20.2 million loss for the three months ended October 31, 2024 was driven by a debt redemption liability recognized as a result of the Proposed Merger. Refer to Note 9. Debt and Note 10. Warrants to Purchase Shares of Common Stock for further information. Interest expense on our debt increased $1.4 million as a result of the issuance of the Additional Notes in September 2023. Interest and other income (expense), net increased $4.2 million driven by $2.8 million of revaluation gains on cash, accounts receivable, and accounts payable recorded in a foreign currency, and $1.4 million of increased interest income from higher interest rates on our investments and cash equivalents and higher invested cash balances.Income Tax (Benefit) ProvisionÂ Three Months EndedOctober 31,Â Â Â 20242023$Â Change%Â ChangeÂ (dollars in thousands)Â Â Income tax (benefit) provision(226)340Â $(566)(166)%We are subject to federal and state income taxes in the United States and taxes in foreign jurisdictions. For the three months ended October 31, 2024 and 2023, we recorded a tax benefit of $(0.2) million and a tax provision of $0.3 million, respectively, on a loss before income taxes of $32.4 million and $5.2 million, respectively. The effective tax rate for the three months ended October 31, 2024 and 2023 was 0.7% and (6.6)%, respectively. The change in the effective tax rate was primarily due to tax accrual adjustments associated with the Zephr IP transfer tax payment 42and related reserves. The effective tax rate differs from the statutory rate primarily as a result of providing no benefit on pretax losses incurred in the United States, offset by the Zephr true-up benefit. For the three months ended October 31, 2024 and 2023, we maintained a full valuation allowance on our U.S. federal and state net deferred tax assets as it was more likely than not that those deferred tax assets will not be realized.Comparison of the Nine Months Ended October 31, 2024 and 2023 RevenueÂ Â Nine Months EndedOctober 31,Â Â Â 20242023$Â Change%Â ChangeÂ (dollarsÂ inÂ thousands)Â Revenue:Subscription$308,263Â $283,232Â $25,031Â 9Â %Professional services33,831Â 37,760Â (3,929)(10)%Total revenue$342,094Â $320,992Â $21,102Â 7Â %Percentage of revenue:Subscription90Â %88Â %Professional services10Â 12Â Total revenue100Â %100Â %Subscription revenue increased by $25.0 million, or 9%, for the nine months ended October 31, 2024 compared to the nine months ended October 31, 2023. The increase in subscription revenue was driven by approximately $17.3 million from higher transaction volume and sales of additional products to our existing customers, and $7.7 million from sales to new customers. We calculate subscription revenue from new customers on a year-to-date basis by adding the revenue recognized from new customers acquired in the 12 months prior to each discrete quarter within the year-to-date period. New business growth reflects the continued impact of macroeconomic headwinds we have faced in the nine months ended October 31, 2024.Professional services revenue decreased by $3.9 million, or 10%, for the nine months ended October 31, 2024 compared to the nine months ended October 31, 2023, as we continue to leverage our system integration partners for implementation of our solutions and due to the overall timing of projects.Cost of Revenue and Gross MarginÂ Nine Months EndedOctober 31,Â Â Â 20242023$ Change%Â ChangeÂ (dollars in thousands)Â Â Cost of revenue:Subscription$67,207Â $62,304Â $4,903Â 8Â %Professional services43,483Â 47,851Â (4,368)(9)%Total cost of revenue$110,690Â $110,155Â $535Â â€"Â %Gross margin:Subscription78Â %78Â %Professional services(29)(27)Total gross margin68Â %66Â %Cost of subscription revenue increased by $4.9 million, or 8%, for the nine months ended October 31, 2024 compared to the nine months ended October 31, 2023. The increase in cost of subscription revenue was driven by increases of $1.6 million in data center costs and $1.3 million in the amortization of purchased technology and internal-use software. Additionally, there were increases of $1.3 million in employee compensation costs, $0.7 million in allocated overhead, and $0.6 million in travel costs.43Cost of professional services revenue decreased by $4.4 million, or 9%, for the nine months ended October 31, 2024 compared to the nine months ended October 31, 2023, primarily due to continuing to leverage our system integration partners for leading customer implementations, which has allowed us to reduce our professional services headcount costs, resulting in decreases of $3.4 million in employee compensation costs and $1.2 million in allocated overhead costs.Our gross margin for subscription services remained consistent at 78% for the nine months ended October 31, 2024, compared to the nine months ended October 31, 2023.Our gross margin for professional services decreased to (29)% for the nine months ended October 31, 2024 compared to (27)% for the nine months ended October 31, 2023, primarily due to decreased professional services revenue.Operating ExpensesResearch and DevelopmentÂ Nine Months EndedOctober 31,Â Â Â 20242023$Â Change%Â ChangeÂ (dollarsÂ inÂ thousands)Â Â Research and development$76,853Â $79,428Â $(2,575)(3)%Percentage of total revenue22Â %25Â %Research and development expense decreased by $2.6 million, or 3%, for the nine months ended October 31, 2024 compared to the nine months ended October 31, 2023, primarily due to higher capitalization of internal-use software costs of $3.4 million as we continued to invest in innovation, and $0.6 million in reduced outside professional services costs. These decreases were partially offset by an increase in employee compensation costs of $1.7 million. Research and development expense decreased to 22% from 25% of total revenue during the nine months ended October 31, 2024 compared to nine months ended October 31, 2023 primarily due to increased subscription revenue.Sales and MarketingÂ Nine Months EndedOctober 31,Â Â Â 20242023$Â Change%Â ChangeÂ (dollars in thousands)Â Â Sales and marketing$108,579Â $124,488Â $(15,909)(13)%Percentage of total revenue32Â %39Â %Sales and marketing expense decreased by $15.9 million, or 13%, for the nine months ended October 31, 2024 compared to the nine months ended October 31, 2023. Following the workforce reduction in January 2024, employee compensation costs decreased $15.1 million and allocated overhead decreased $1.0 million. Additionally, outside professional services costs were lower by $1.0 million. These decreases were partially offset by reduced capitalization of internal-use software of $1.0 million. Sales and marketing expense decreased to 32% of total revenue during the nine months ended October 31, 2024 from 39% during the nine months ended October 31, 2023, driven by compensation cost reductions and increased subscription revenue.44General and AdministrativeÂ Nine Months EndedOctober 31,Â Â Â 20242023$Â Change%Â ChangeÂ (dollarsÂ inÂ thousands)Â Â General and administrative$71,351Â $54,160Â $17,191Â 32Â %Percentage of total revenue21Â %17Â %General and administrative expense increased by $17.2 million, or 32%, for the nine months ended October 31, 2024 compared to the nine months ended October 31, 2023, primarily due to higher outside consulting and legal costs of $19.5 million, including those related to the Proposed Merger, acquisitions, and shareholder matters; $3.3 million of insurance recoveries, net of related charges, that was recognized in the prior period in connection with securities litigation; and $0.5 million in sales tax costs. These increases were partially offset by decreases of $5.2 million in employee compensation costs following the workforce reduction in January 2024 and $0.5 million in allocated overhead. General and administrative expense increased to 21% of total revenue during the nine months ended October 31, 2024 compared to 17% during the nine months ended October 31, 2023, as a result of increased consulting and legal costs, including costs associated with the Proposed Merger, recent acquisitions, and shareholder matters.Other income and expensesÂ Nine Months EndedOctober 31,Â Â Â 20242023$Â Change% ChangeÂ (dollarsÂ inÂ thousands)Â Â Change in fair value of debt derivative and warrant liabilities$(29,115)$2,241Â $(31,356)(1399)%Interest expense$(20,781)$(14,604)$(6,177)42Â %Interest and other income (expense), net$19,988Â $13,639Â $6,349Â 47Â %The change in fair value of debt derivative and warrant liabilities decreased $31.4 million for the nine months ended October 31, 2024 compared to the nine months ended October 31, 2023. The loss for the nine months ended October 31, 2024 was primarily driven by a $20.2 million debt redemption liability recognized as a result of the Proposed Merger and a $8.9 million loss representing a change in fair value of the debt conversion and warrant liabilities. Refer to Note 9. Debt and Note 10. Warrants to Purchase Shares of Common Stock for further information. Interest expense increased $6.2 million as a result of the issuance of additional debt under the 2029 Notes in September 2023. Interest and other income (expense), net increased $6.3 million primarily due to $6.1 million of increased interest income from higher interest rates on our investments and cash equivalents and higher invested cash balances, and $0.2 million of gains resulting from the revaluation of cash, accounts receivable, and payables recorded in a foreign currency.Income Tax (Benefit) Provision Â Nine Months EndedOctober 31,Â Â Â 20242023$Â Change%Â ChangeÂ (dollars in thousands)Â Â Income tax (benefit) provision$(2,152)$1,396Â $(3,548)(254)%We are subject to federal and state income taxes in the United States and taxes in foreign jurisdictions. For the nine months ended October 31, 2024 and 2023, we recorded a tax benefit of $(2.2) million and a tax provision of $1.4 million, respectively, on losses before income taxes of $55.3 million and $46.0 million, respectively. The 45effective tax rates for the nine months ended October 31, 2024 and 2023 were 3.9% and (3.0)%, respectively. The change was primarily due to a valuation allowance release benefit as a result of recognizing Togai deferred tax liabilities, as well as tax accrual adjustments associated with the Zephr IP transfer tax payment and related reserves. The effective tax rate differs from the statutory rate primarily as a result of no benefit on pretax losses incurred in the United States, offset by the above mentioned Togai benefit. For the nine months ended October 31, 2024 and 2023, we maintained a full valuation allowance on our U.S. federal and state net deferred tax assets as it was more likely than not that those deferred tax assets will not be realized.Liquidity and Capital ResourcesLiquidity is a measure of our ability to access sufficient cash flows to meet the short-term and long-term cash requirements of our business operations. As of October 31, 2024, we had cash and cash equivalents and short-term investments of $558.5 million that were primarily invested in deposit accounts, money market funds, corporate debt securities, agency bonds, and U.S. government securities. Our investments are highly rated and currently mature in two years or less. In addition to cash and investments, we finance our operations through cash flows generated from sales to our customers, which are generally billed in advance on an annual, semi-annual, or quarterly basis.In the short-term, we have our cash and investments, cash generated from our business, and our $30.0 million credit line available to fund our ongoing business operations, as well as to finance any future acquisitions. In the long-term, we expect cash generated from our operations to increase, improving our ability to fund our operations and repay our debt obligations. Pursuant to the Merger Agreement, immediately prior to the closing of the Proposed Merger, we will purchase from Silver Lake a portion of our 2029 Notes in an amount to be specified by Parent, for cash at the Fundamental Change Repurchase Price, provided that the aggregate amount of cash to be paid by us to repurchase such portion of the 2029 Notes shall not exceed $130.0 million. All other outstanding 2029 Notes held by Silver Lake that are not so purchased shall be contributed directly or indirectly to Parent or another affiliate thereof and following such contribution, the holders of the 2029 Notes shall no longer be entitled or permitted to exercise the Fundamental Change Repurchase Right (as such term is defined in the Convertible Notes Indenture) under the Convertible Notes Indenture, nor to trigger or exercise the Conversion Obligation (as such term is defined in the Convertible Notes Indenture) under the Convertible Notes Indenture, in each case, in respect of the Convertible Notes so contributed. If the Proposed Merger is not consummated, the 2029 Notes include a conversion feature that, if triggered, will convert the Convertible Notes to shares of our Class A Common Stock, after which we would no longer be required to repay the debt balance. Refer to Note 1. Overview and Basis of Presentation. The 2029 Notes are scheduled to mature in March 2029, but may be put to Zuora by the noteholder as early as March 2027. If the 2029 Notes have not been converted by the maturity date or if they are otherwise put by the noteholder prior to maturity, we would be required to repay the debt balance in cash. Additionally, in connection with the 2029 Notes, we issued Warrants for 7.5 million shares of our Class A Common Stock that are exercisable between $20.00 - $24.00 per share which, if exercised, would contribute additional liquidity to our business. Refer to Note 9. Debt and Note 10. Warrants to Purchase Shares of Common Stock.The Merger Agreement contains customary representations, warranties, and covenants and contains certain termination rights to the Parent and Zuora, which could require us to pay the Zuora Termination Fee. We do not believe that the restrictions in the Merger Agreement will prevent us from meeting our working capital needs, or capital expenditure requirements. We believe our existing cash and cash equivalents, marketable securities, and cash flow from operations will be sufficient for at least the next 12 months to meet our requirements and plans for cash, including meeting our working capital requirements and capital expenditure requirements, servicing our debt and funding future acquisitions. In addition, we expect to have access to sufficient capital to repay the 2029 Notes if they are required to be settled in cash. For additional information about our debt, credit line and warrants see Note 9. Debt and Note 10. Warrants to Purchase Shares of Common Stock of the Notes to Unaudited Condensed Consolidated Financial Statements. Our ability to support our requirements and plans for cash, including meeting our working capital and capital expenditure requirements, will depend on many factors, including our revenue growth rate, the timing and the amount of cash received from customers, the expansion of sales and marketing activities, the timing and extent of spending to support research and development efforts, the repayment of the 2029 Notes, the cost to develop and support our offering, the introduction of new products and services, the continuing adoption of our products by 46customers, any acquisitions or investments that we make in complementary businesses, products, and technologies, and our ability to obtain equity or debt financing.We continually evaluate our capital needs and may decide to raise additional capital to fund the growth of our business for general corporate purposes through public or private equity offerings or through additional debt financing. We also may in the future make investments in or acquire businesses or technologies that could require us to seek additional equity or debt financing. To facilitate acquisitions or investments, we may seek additional equity or debt financing, which may not be available on terms favorable to us or at all. Sales of additional equity could result in dilution to our stockholders. We expect proceeds from the exercise of stock options in future years to be impacted by the increased mix of restricted stock units versus stock options granted to employees and to vary based on our share price. Cash FlowsThe following table summarizes our cash flows for the periods indicated (in thousands):Â Nine Months EndedOctober 31,Â 20242023Net cash provided by (used in) operating activities$66,710Â $(35,676)Net cash (used in) provided by investing activities(51,852)97,026Â Net cash provided by financing activities6,306Â 151,626Â Effect of exchange rates on cash and cash equivalents386Â (1,383)Net increase in cash and cash equivalents$21,550Â $211,593Â Operating ActivitiesNet cash provided by operating activities of $66.7 million for the nine months ended October 31, 2024 was comprised primarily of customer collections for our subscription and professional services, cash payments for our personnel, sales and marketing efforts, infrastructure related costs, payments to vendors for products and services related to our ongoing business operations, interest income received on our short-term investments and cash equivalents, interest paid on the 2029 Notes, and payments related to the Proposed Merger. Net cash provided by operating activities for the nine months ended October 31, 2024 increased $102.4 million compared to the same period last year, primarily due to higher customer billings in the fourth quarter of last year that were collected in the first quarter of fiscal 2025.Investing

ActivitiesNet cash used in investing activities for the nine months ended October 31, 2024 was $51.9 million. We used $9.3 million to develop internal-use software and purchase property and equipment as we continued to invest in and grow our business, purchased $17.8 million of short-term investments, net of maturities, and used $24.8 million to purchase Togai and Sub(x), net of cash acquired.Net cash used in investing activities for the nine months ended October 31, 2024 increased $148.9 million compared to the nine months ended October 31, 2023, primarily due to $126.3 million more cash used for short-term investments in the nine months ended October 31, 2024 from the timing of purchases and maturities of our investments. Payments for property and equipment, net of insurance recoveries, were $2.3 million higher compared to the same period last year, primarily due to increased development of our internal-use software in the nine months ended October 31, 2024. We purchased Togai and Sub(x) for $24.8 million, net of cash acquired, in the nine months ended October 31, 2024, compared to $4.5 million paid in contingent consideration in connection with our acquisition of Zephr in the nine months ended October 31, 2023.47Financing ActivitiesNet cash provided by financing activities for the nine months ended October 31, 2024 of $6.3 million was due to $4.5 million of proceeds from issuance of common stock under the ESPP, and $3.4 million of exercise proceeds from employee stock options, partially offset by $1.5 million paid for taxes related to net share settlement of stock options. The decrease in net cash provided by financing activities of $145.3 million compared to the nine months ended October 31, 2023 was due to issuance of the Additional Notes in the nine months ended October 31, 2023.Obligations and Other CommitmentsOur material cash requirements from known contractual and otherÂ obligationsÂ consist of payments of interest and principal under the 2029 Notes, a contractualÂ commitment to one of our vendors for cloud computing services, and payments under our operating leases. For more information, please refer to Note 9. Debt, Note 14. Commitments and Contingencies, and Note 13. Leases, respectively, of the Notes to Unaudited Condensed Consolidated Financial Statements. As of October 31, 2024, our contractual obligations totaled $566.6 million with $46.8 million committed within the next twelve months.In the ordinary course of business, we enter into agreements of varying scope and terms pursuant to which we agree to indemnify customers, vendors, lessors, business partners, and other parties with respect to certain matters, including, but not limited to, losses arising out of the breach of such agreements, services to be provided by us, or from data breaches or intellectual property infringement claims made by third parties. In addition, we have entered into indemnification agreements with our directors and certain officers and employees that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers, or employees. As of October 31, 2024, no demands had been made upon us to provide indemnification under such agreements and there were no claims that we are aware of that could have a material effect on our unaudited condensed consolidated balance sheets, unaudited condensed consolidated statements of comprehensive loss, or unaudited condensed consolidated statements of cash flows.Critical Accounting Policies and EstimatesOur unaudited condensed consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of these unaudited condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the applicable periods. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other factors that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates. Refer to Critical Accounting Estimates within Item 7. Managementâ€™s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for further information on critical accounting estimates. Our significant accounting policies are discussed in Note 2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements in our Annual Report on Form 10-K. Any significant changes to these policies during the nine months ended October 31, 2024 are described in Note 2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements to our unaudited condensed consolidated financial statements provided herein.Recent Accounting Pronouncements - Not Yet AdoptedIn November 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. This ASU is intended to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. ASU 2023-07 will be effective for us for annual periods beginning with our fiscal year ending January 31, 2025, and interim periods thereafter. Early adoption is permitted. We are currently evaluating the impact of this pronouncement on our condensed consolidated financial statements.48In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. This ASU is intended to improve income tax disclosures, specifically requiring disaggregated information about a reporting entityâ€™s effective tax rate reconciliation and information on income taxes paid. ASU 2023-09 will be effective for us for annual periods beginning with our fiscal year ending January 31, 2026. Early adoption is permitted. We are currently evaluating the impact of this pronouncement on our condensed consolidated financial statements.In November 2024, the FASB issued ASU No. 2024-03, Income Statement - Reporting Comprehensive Income - Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses. This ASU requires public companies to disclose, in interim and reporting periods, additional information about certain expenses in the financial statements. ASU 2024-03 will be effective for us for annual periods beginning with our fiscal year ending January 31, 2028, and interim periods thereafter. Early adoption is permitted. We are currently evaluating the impact this pronouncement will have on our disclosures within our consolidated financial statements.ItemÂ 3.Â Â Â Â Quantitative and Qualitative Disclosures About Market RiskWe are exposed to certain market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign currency exchange rates and interest rates.Foreign Currency Exchange RiskOur sales contracts are denominated predominantly in U.S. Dollars, British Pounds (GBP), Euros, and Japanese Yen. A portion of our operating expenses are incurred outside the United States and denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the GBP and Chinese Yuan. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our unaudited condensed consolidated statement of comprehensive loss. The effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have a material impact on our unaudited condensed consolidated financial statements for the nine months ended October 31, 2024 and 2023. Given the effects of foreign currency exchange rates has not been material to our historical operating results, we have not entered into derivative or hedging transactions, but we may do so in the future if our exposure to foreign currency should become more significant. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in currency rates.Interest Rate RiskWe had cash and cash equivalents and short-term investments of $558.5 million as of October 31, 2024. Our cash and cash equivalents and short-term investments are held for working capital purposes. We do not make investments for trading or speculative purposes. A significant decrease in these market rates may adversely affect our expected operating results. The 2029 Notes have a fixed interest rate and therefore are not impacted by market rates. We had no borrowings outstanding under the secured revolving credit facility as of October 31, 2024.Our cash equivalents and short-term investments are subject to market risk due to changes in interest rates. Fixed rate securities may have their market value adversely affected due to a rise in interest rates. Due in part to these factors, our future investment income may fall short of our expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. However, because we classify our short-term investments as â€œavailable for sale,â€ no realized gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or decreases in fair value are determined to be other-than-temporary.As of October 31, 2024, a hypothetical 10% relative change in interest rates would not have had a material impact on the value of our cash equivalents and short-term investments or interest owed on our outstanding debt. In addition, a hypothetical 10% relative change in interest rates would not have had a material impact on our operating results for the nine months ended October 31, 2024.49ItemÂ 4.Â Â Â Â Controls and ProceduresEvaluation of Disclosure Controls and ProceduresOur management, with the participation of our Chief Executive Officer and Chief 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 October 31, 2024. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of October 31, 2024, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in the reports we file and submit under the Exchange Act is recorded, processed, summarized and reported as and when required, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding its required disclosure.Changes in Internal Control Over Financial ReportingThere was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.Inherent Limitations on Effectiveness of ControlsOur management, including our Chief Executive Officer and Chief 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 designed 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, within our company have been detected. Accordingly, our disclosure controls and procedures provide reasonable assurance of achieving their objectives.50PART IIâ€"OTHER INFORMATIONItemÂ 1.Â Â Â Â Legal ProceedingsFor information regarding legal proceedings, see Note 14. Commitments and Contingencies of the Notes to Unaudited Condensed Consolidated Financial Statements included in Item 1. Financial Statements of this Form 10-Q, which is incorporated by reference into this Item 1. Legal Proceedings. Item 1A. Risk FactorsAn investment in our common stock involves a high degree of risk, and the following is a summary of key risk factors when considering an investment. You should read the more detailed discussion of risks set forth following this summary, as well as elsewhere in this Quarterly Report on Form 10-Q. Additional risks, beyond those summarized below or discussed elsewhere in this Quarterly Report on Form 10-Q, may apply to our 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.â€¢The announcement and pendency of the Proposed Merger may result in disruptions to our business which could adversely affect our business, operating results, and financial condition.â€¢Failure to consummate the Proposed Merger within the expected timeframe, or at all, may adversely affect our business, operating results, and financial condition.â€¢The Merger Agreement limits our ability to pursue alternatives to the Proposed Merger and the Merger Agreement and the 2029 Notes may discourage other parties from trying to acquire us for greater consideration than what Parent has agreed to pay pursuant to the Merger Agreement.â€¢Current or potential litigation against us, our officers, and members of our Board of Directors arising out of the Proposed Merger, could be costly, prevent or delay consummation of the Proposed Merger, divert management's attention, and otherwise adversely affect our business.â€¢If the Proposed Merger is consummated, our stockholders will not be able to participate in any further upside to our business.â€¢If we are unable to attract new customers and retain and expand sales to existing customers, our revenue growth could be slower than we expect and our business may be adversely affected.â€¢If we fail to manage our revenue and profitability plans effectively, our business, operating results, and financial condition could be adversely affected. â€¢If the market for monetization platform software and related solutions, and consumer adoption of products and services that are provided through such solutions, develops slower than we expect, our growth may slow or stall, and our operating results could be adversely affected.â€¢If we are unable to successfully execute our strategic initiatives, such as increasing our sales to large enterprises and fast-growing enterprises and disruptors as well as expanding and strengthening our sales channels and relationships with system integrators, our business, operating results and financial condition could be adversely affected. â€¢If we are unable to recruit or retain senior management or other key personnel and maintain our corporate culture, we may not be able to execute on our business strategy.â€¢We have a history of net losses and may not achieve or sustain profitability.â€¢Our revenue growth and ability to achieve and sustain profitability will depend, in part, on our ability to increase productivity of our sales force.â€¢Our success depends in large part on a limited number of products, and if these current or future products fail to gain market acceptance or our product development efforts are unsuccessful, our business, operating results, and financial condition could be adversely affected.â€¢We face risks related to our debt obligations.â€¢Our operating results, which are influenced by a variety of factors, have fluctuated in the past and may continue to fluctuate, making our future results difficult to predict accurately.51â€¢If we are not able to successfully and timely develop, enhance and deploy our products and multi-product strategy, our business, operating results, financial condition and growth prospects could be adversely affected. â€¢We may be unable to integrate businesses we have or will acquire or to achieve expected benefits of such acquisitions. â€¢If our security measures are breached or if unauthorized access to customer, employee or other confidential data is otherwise obtained, or if our solutions are perceived as not being secure, we may lose existing customers or fail to attract new customers, our business may be harmed and we may incur significant liabilities.â€¢Inability or failure to protect our intellectual property could adversely affect our business. â€¢Any disruptions of service at our cloud providers, including Amazon Web Services (AWS) and Microsoft's Azure cloud service, could interrupt or delay our ability to deliver our services to our customers, which could harm our business and our financial results.â€¢Our increased focus on the development and use of various types of AI in our platform and our business, as well as our potential failure to effectively implement, use, and market AI could adversely affect our business.â€¢If we are not able to satisfy government and industry-specific requirements, such as data protection, security, privacy, and export laws, our growth could be harmed.â€¢The stock price of our Class A Common Stock has been, and may continue to be, volatile, and you could lose all or part of your investment.â€¢The dual class structure of our common stock has the effect of concentrating voting control with holders of our Class B Common Stock, including our Chief Executive Officer (CEO), which limits or precludes your ability to influence corporate matters, including the election of directors and the approval of any change of control transaction.Risks Related to the Proposed MergerThe announcement and pendency of the Proposed Merger may result in disruptions to our business which could adversely affect our business, operating results, and financial condition.The announcement and pendency of the Proposed Merger could cause disruptions or uncertainty surrounding our business, that could adversely affect our operating results and financial condition, regardless of whether the Proposed Merger is completed. Such risks include, but are not limited to the following, all of which could be exacerbated by a delay in the completion of the Proposed Merger: â€¢We may not be able to attract, retain, and motivate our employees, including key personnel. Any loss or distraction of such employees could adversely affect our business and operating results. â€¢We have diverted, and will continue to divert, significant management resources, and have expended, and will continue to expend, significant cash amounts, toward the completion of the Proposed Merger, which could adversely affect our business, operating results, and financial condition.â€¢We may face difficulties maintaining relationships with our existing and potential customers, suppliers, and other business partners.â€¢There could be potential uncertainty regarding our future plans and strategy, including business model changes and transformation.â€¢The possibility of negative publicity or a negative impression of us in the financial markets could result from the announcement and pendency of the Proposed Merger.â€¢We may be unable to pursue strategic business opportunities or to take certain actions with respect to our business that we may consider advantageous because of restrictions in the Merger Agreement.â€¢There could be other developments beyond our control that may affect the timing or success of the Proposed Merger.Failure to consummate the Proposed Merger within the expected timeframe, or at all, may adversely affect our business, operating results, and financial condition.52Consummation of the Proposed Merger is subject to several conditions beyond our control. If any of these conditions are not satisfied or waived, it is possible the Proposed Merger will not be consummated in the expected time frame, or at all. For example, the Proposed Merger requires: (a) the requisite Company Stockholder Approval; (b) the absence of any order or other action that is in effect (whether temporary, preliminary or permanent) by a governmental authority restraining, enjoining or otherwise prohibiting the consummation of the Proposed Merger or applicable law that is in effect that makes consummation of the Proposed Merger illegal or otherwise prohibited and (c) the expiration or termination of the applicable waiting period (and any extension thereof) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the receipt of consents required under certain antitrust and foreign investment laws or the expiration or termination of any applicable waiting period thereunder. There is no assurance that the various conditions will be satisfied, or that the Proposed Merger will be consummated on the proposed terms, within the expected timeframe, or at all.The Proposed Merger may be delayed, and ultimately not be completed, due to a number of factors, including, but not limited to:â€¢the failure to obtain requisite Company Stockholder Approval;â€¢the failure to receive the consents required under certain antitrust and foreign investment laws (or the imposition of any conditions, limitations, or restrictions on such consents); â€¢failure to satisfy the other conditions to the consummation of the Proposed Merger; andâ€¢current or potential future stockholder litigation and other legal and regulatory proceedings.If the Proposed Merger is delayed or does not close, we may suffer consequences that could adversely affect our business, operating results and financial condition. We have incurred, and will continue to incur, significant costs, expenses, and fees for professional services and other transaction costs in connection with the Proposed Merger, for which we will have received little or no benefit if the Proposed Merger is not consummated. Many of these fees and costs are payable regardless of whether or not the Proposed Merger is consummated. If there is any delay in the consummation of the Proposed Merger, these costs could increase significantly. Under certain circumstances, if Zuora terminates the Proposed Merger it will be required to pay the Zuora Termination Fee, which could adversely affect our financial condition.The obligation of each party to consummate the Proposed Merger is also conditioned upon each party's representations and warranties being true and correct to the extent specified in the Merger Agreement. Any failure to consummate the Proposed Merger may result in negative publicity or a negative impression of us among our customers or in the investment community or business community generally which may cause the price of our Class A Common Stock to decline.The Merger Agreement limits our ability to pursue alternatives to the Proposed Merger and the Merger Agreement and the 2029 Notes may discourage other parties from trying to acquire us for greater consideration than what Parent has agreed to pay pursuant to the Merger Agreement.The Merger Agreement contains certain customary â€œno-shopâ€ restrictions on Zuora's ability to solicit certain alternative acquisition proposals from third parties, provide certain information to third parties, and participate in discussions or engage in negotiations with third parties regarding certain alternative acquisition proposals, subject to customary exceptions. These restrictions, including the added expense of the Zuora Termination Fee that may become payable by us in certain circumstances, for example if our Board of Directors, acting upon the recommendation of the Special Committee, changes its recommendation, might discourage a third party that has an interest in acquiring all or a significant part of the Company from considering or proposing that acquisition, even if that party were prepared to pay consideration with a higher per share value than that offered by Parent. Furthermore, the requirement that we pay a termination fee under certain circumstances may result in a third-party proposing to pay a lower per-share price to acquire us than it might otherwise have proposed to pay because of the added expense of the termination fee. Finally, the requirement to offer to repurchase our 2029 Notes from Silver Lake upon a â€œFundamental Changeâ€ under the Convertible Notes Indenture may discourage a third party from making a superior proposal.Current or potential litigation against us, our officers, and members of our Board of Directors arising out of the Proposed Merger, may be costly, prevent or delay consummation of the Proposed Merger, divert management's attention, and otherwise adversely affect our business.53Litigation is very common in connection with the sale of public companies, regardless of whether the claims have any merit. As of the date of filing of this report, Zuora is aware of one complaint related to the Merger Agreement filed: Kakarla v. Zuora et al., No. 3:24-cv-8620 (N.D. Cal. Dec. 2, 2024). The complaint is brought by a stockholder against Zuora and members of our Board of Directors alleging that certain disclosures regarding the Proposed Merger in the Proxy Statement are materially deficient and misleading. The plaintiff seeks an order enjoining the Proposed Merger, damages, other equitable relief, and payment of costs and attorneysâ€™ fees. The Company believes this complaint is without merit and intends to vigorously defend itself against all such claims.Regardless of the outcome of this complaint, or any other potential litigation by Zuora's stockholders related to the Proposed Merger, such litigation may be time-consuming and expensive and may distract our management from running the day-to-day operations of our business. The litigation costs and diversion of managementâ€™s attention and resources to address the claims and counterclaims in the current complaint and any other litigation related to the Proposed Merger may adversely affect our business, operating results, and financial condition. If the Proposed Merger is not consummated for any reason, litigation could be filed in connection with the failure to consummate the Proposed Merger. The outcome of litigation is uncertain, and we may not be successful in defending against any such current or future claims. Litigation related to the Proposed Merger may result in negative publicity or an unfavorable impression of us, which could adversely affect the price of our Class A Common Stock, impair our ability to recruit or retain employees, damage our relationships with our advertisers and other business partners, or otherwise materially harm our operations and financial performance.If the Proposed Merger is consummated, our stockholders will not be able to participate in any further upside to our business.If the Proposed Merger is consummated, our stockholders (subject to certain exceptions specified in the Merger Agreement) will receive $10.00 in cash per share of the applicable class of common stock owned by them, without interest thereon and subject to any applicable withholding taxes, and will not receive any equity interests of Parent. As a result, if our business following the Proposed Merger performs well, our current stockholders will not receive any additional consideration and will therefore not receive any benefit from any such future performance of our business.While the Merger Agreement is in effect, we are subject to restrictions on our business activities.While the Merger Agreement is in effect and subject to certain exceptions (including obtaining prior written consent of Parent, which is not to be unreasonably withheld, conditioned, or delayed) we are generally required to conduct our business in all material respects in the ordinary course, and are restricted from taking certain actions. These restrictions could prevent us from pursuing strategic business opportunities and taking actions with respect to our business that we may consider advantageous and may, as a result, materially and adversely affect our business, results of operations, and financial condition.Risks Related to Our Business and IndustryIf we are unable to attract new customers and retain and expand sales to existing customers, our revenue growth could be slower than we expect, and our business may be adversely affected.Our ability to grow revenue will depend, in large part, upon our ability to grow and convert our pipeline by attracting new customers. This may be particularly challenging where an organization has already invested substantial resources into its financial management tools, including custom-built solutions and may be reluctant to adopt our products and services. This often requires us to engage in sophisticated, costly, and lengthy sales efforts with functional experts and senior management at such organizations. For example, during the nine months ended October 31, 2024, sales and marketing expenses represented approximately 32% of our total revenue. Although we dedicate significant resources to sales and marketing programs, such programs may take longer than we anticipate to have the desired effect, or may not expand sales at all.Our revenue growth also depends upon our ability to retain and expand sales and renewals of subscriptions with existing customers. If our existing customers do not expand their use of our solutions, do not renew, or cancel their subscriptions, or request special pricing terms for their subscriptions, our revenue may be adversely affected. Our success is also dependent, in part, on our ability to effectively differentiate and cross-sell our products. If we 54experience issues with successfully implementing or cross-selling our products, revenue may grow more slowly or may not grow at all. Our customers generally enter into subscription agreements with terms of one to five years and have no obligation upon expiration to renew their subscriptions for the same usage amounts or duration, or at all. In addition, in the first year of a subscription, customers often purchase an increased level of professional services (such as deployment services) than they do in renewal years. Costs associated with maintaining a professional services department are relatively fixed in the short term while professional services revenue is dependent on the amount of billable work actually performed for customers in a period, the combination of which may result in variability in, and have an adverse impact on, our gross profit. Customer renewals may decline or fluctuate as a result of a number of factors, including the breadth of deployment, reductions in our customersâ€™ spending levels, the volume of usage purchased upfront relative to actual usage during the subscription term, changes in customersâ€™ business models, our customers' performance, and use cases, our customersâ€™ satisfaction or dissatisfaction with our solutions, our pricing or pricing structure, the pricing or capabilities of products or services offered by our competitors, or the effects of general macroeconomic conditions. If our customers do not renew their agreements with us, or renew on terms less favorable to us, our revenue may decline.Our sales and marketing efforts are impacted by macroeconomic conditions and other events beyond our control. In light of current macroeconomic conditions and uncertainty, certain customers and prospective customers have reduced or delayed technology or other spending and, as a result, we are experiencing longer sales cycles in some cases. If macroeconomic conditions and uncertainty persist or worsen, our business, operating results, financial condition and prospects could be materially and adversely affected. If we fail to manage our revenue and profitability plans effectively, our business, operating results, and financial condition could be adversely affected. In connection with our revenue and profitability plans, we may continue to experience organizational changes which may make our operations more complex and place significant demands on our management and our operational and financial resources. For example, we have reduced our workforce in the past and continue to make operational changes. To manage such changes, we will need to continue to improve our controls and our reporting systems and procedures, including improving timely access to operational information to optimize business decisions. Failure to manage revenue and profitability plans effectively could result in difficulty or delays in deploying customers, declines in quality or customer satisfaction, increases in costs, difficulties in introducing new products and services or enhancing existing products and services, loss of customers, or other operational difficulties in executing sales strategies, any of which could adversely affect our business, operating results, and financial condition.If the market for monetization platform software and related solutions, and consumer adoption of products and services that are provided through such solutions, develops slower than we expect, our growth may slow or stall, and our operating results could be adversely affected.Our success depends on companies investing in monetization solutions and consumers consuming our products and services. Companies may be unwilling, unable, or slow to invest in monetization solutions because they are costly or if the organizations believe that their consumers would not be receptive to such offerings. Our growth also depends, to a large extent, on the willingness of large enterprises that have adopted recurring revenue or usage-based business models utilizing cloud-based products and services to manage billings and financial accounting relating to their offerings and for those enterprises to recognize that they will benefit from the range of functionalities that we offer. Many companies have invested substantial resources to develop custom-built applications or integrate traditional enterprise software into their businesses and may be reluctant or unwilling to switch to different applications. Factors that may affect market acceptance and sales of our products and services include:â€¢the number of companies shifting to recurring revenue business models;â€¢the number of consumers and businesses adopting new, flexible ways to consume products and services;55â€¢the security capabilities, reliability, and availability of cloud-based services;â€¢customer concerns with entrusting a third party to store and manage their data, especially transaction-critical, confidential, or sensitive data;â€¢our ability to minimize the time and resources required to deploy our solutions;â€¢our ability to achieve and maintain high levels of customer satisfaction;â€¢our ability to deploy upgrades and changes to our solutions without disruption to customers;â€¢the level of customization or configuration we offer; â€¢the overall level of corporate spending and budgets of our customers and prospects;â€¢general macroeconomic conditions; andâ€¢the price, performance, and availability of competing products and services.The markets for monetization products and services and for monetization software may not develop further or may develop slower than we expect. If companies do not shift to recurring revenue business models and monetization software does not achieve widespread adoption, or if there is a reduction in demand for such software, our business could be materially and adversely affected. In addition, our subscription agreements with our customers generally provide for a minimum monetization platform fee and usage-based fees, which depend on the total dollar amount that is invoiced or managed on our solutions, or the total usage of our solutions. Because a portion of our revenue depends on the volume of transactions that our customers process through our solutions, if our customers do not adopt our solutions throughout their business, if their businesses decline or fail such that they discontinue using our solutions, or if they are unable to successfully shift to recurring revenue business models, including if they fail to successfully deploy our solutions, our revenue could decline and our operation results could be adversely impacted. The market in which we participate is competitive, and our operating results could be harmed if we do not compete effectively.The market in which we participate is highly competitive, rapidly evolving, and fragmented, and subject to changing technology, shifting customer needs, and frequent introductions of new products and services. In addition to our current competitors, an increasing transition to disaggregated solutions that focus on addressing specific customer use cases may continue to disrupt the enterprise software space and enable new competitors to emerge.Certain of our current and potential competitors have longer operating histories, access to alternative fundraising sources, significantly greater financial, technical, marketing, distribution or professional services experience, a greater variety of products, better name recognition, and more well-established relationships than we do. As a result, such competitors may be able to respond more quickly and effectively or devote more resources than we can to address new or changing opportunities, technologies, standards, or customer requirements. In addition, competitors may offer products or services that address one or a limited number of functions at lower prices or with greater depth than our solutions, or integrate or bundle their products and services with their other product offerings. Potential customers may prefer to purchase from their existing suppliers rather than from a new supplier. Competitors may develop and market new technologies with comparable functionality to our solutions. In addition, because our products and services are integral to our customersâ€™ ability to accurately maintain books and records and prepare financial statements, our potential customers may prefer to purchase applications that are critical to their business from one of our larger, more established competitors, or leverage the software that they have already purchased from our competitors. We may experience fewer customer orders, reduced gross margins, longer sales cycles, and loss of market share and may need to introduce alternative or nominal pricing structures to remain competitive. We may not be able to compete successfully against current and future competitors, and our business and operating results will be adversely impacted if we fail to meet these competitive pressures. Moreover, current and future competitors may also make strategic acquisitions or establish cooperative relationships among themselves or with others, including our current or future technology partners, putting them in a better position to meet the needs of our customers or potential customers, limiting our ability to obtain revenue from existing and new customers. If we are unable to compete successfully against current and future competitors, our business, operating results, and financial condition could be adversely impacted.56Our business depends largely on our ability to attract and retain talented employees, including senior management, and maintain our corporate culture. If we lose the services of Tien Tzuo, our founder, Chairman, and CEO, or other critical talent across our executive team and in other key roles, or fail to maintain our corporate culture, we may not be able to execute on our business strategy. We have historically faced intense competition for talented employees. While our future success depends on our continuing ability to attract, train, engage, assimilate, and retain such qualified individuals, we could experience heightened attrition of those highly skilled employees and others with significant institutional knowledge and expertise, adversely impacting productivity and our corporate culture. In addition, attracting and retaining highly skilled personnel is costly, and we may lose new employees before we realize the benefit of our investment in recruiting and training them. If we are unable to attract and retain suitably qualified individuals who are capable of meeting our growing technical, operational, and managerial requirements on a timely basis or at all, our business may be adversely affected. Further, given that our employees continue to be distributed globally and most of our employees continue to work remotely in some capacity, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture.Changes to our business strategies, including changes to our organizational structure or workforce adjustments such as workforce reductions, could have an adverse effect on our business, including creating negative employee morale, harming our reputation and making it difficult to attract new talent, contributing to attrition of employees targeted for retention, and hindering our ability to meet operational targets due to loss of employees. To the extent our workplace is not viewed as competitive, or changes in our workforce or other initiatives are not viewed favorably, our ability to attract, retain, and motivate employees can be weakened, which could harm our operating results.In order to attract and retain personnel in a competitive marketplace, we believe that we must provide a competitive compensation package, including cash and equity-based compensation. Many of our senior personnel and other key employees hold a substantial amount of equity awards and shares and volatility or lack of appreciation in our stock price may affect our ability to attract and retain our senior personnel and key employees. If our stock price is depressed for an extended period of time or if the exercise price of outstanding stock options is significantly above the market price of our Class A Common Stock (or, conversely, if outstanding equity or vested equity awards have significantly appreciated in value), employees may leave us. We therefore may modify our compensation policies by, for example, increasing cash compensation to certain employees or modifying existing share options, which may increase our operating expenses and dilute our stockholders. Alternatively, we may elect to reduce equity compensation to mitigate the effects of dilution, which could adversely impact employee retention. We cannot be certain that these and any other changes in our compensation policies will or would improve our ability to attract, retain and motivate employees.Our future success also depends in large part on the continued services of senior management, including Tien Tzuo, our founder, Chairman and CEO, who is critical to the development of our technology, platform, future vision, and strategic direction. We also rely on other leaders and key personnel across our company. Our senior management and other key personnel are all employed on an at-will basis, which means that they could terminate their employment with us at any time and for any reason. If we lose the services of senior management or other key personnel and fail to execute effective succession planning for such key personnel, or if we are unable to attract, train, assimilate, and retain the highly skilled personnel we need, our business, operating results, and financial condition could be adversely affected.If we are unable to grow our sales channels and our relationships with strategic partners, such as system integrators, management consulting firms, and strategic technology partners, sales of our products and services may suffer and our growth could be slower than we project.In addition to our direct sales force, we use strategic partners, such as system integrators, management consulting firms, and strategic technology partners, to market, sell, and implement our solutions. While we expect to continue to utilize our own professional services, especially for smaller fast-growing companies, we also expect to utilize strategic partners, and as a result we expect our professional services revenue as an overall percentage of Zuora's total revenue to continue to decline over time. Our relationships with these strategic partners are still evolving, and we cannot assure you that these partners will be successful in marketing, selling or implementing our solutions. Identifying strategic partners, negotiating and supporting relationships with them, including training them in how to sell or deploy our solutions, and maintaining these relationships requires significant commitment of time and resources that may not yield a significant return on our investment in these relationships. If we are unable to 57establish and maintain our relationships with these partners, or otherwise develop and expand our indirect distribution channel, our business, operating results, financial condition, or cash flows could be adversely affected.Our strategic partners do not have an exclusive relationship with us, and as a result, they may not continue to cooperate with us, choose not to prioritize our products and services, or even market competitive products and services to our customers. We are also unable to control the quantity or quality of resources that our strategic partners commit to deploying our products and services, or the quality or timeliness of such deployment. As a result, our customers may be less satisfied, or less supportive with references, or may require the investment of our resources at discounted rates. These, and other failures by our partners to successfully deploy our products and services, may have an adverse effect on our business and our operating results.Current and future economic uncertainty and other unfavorable conditions in our industry or the global economy have limited and may continue to limit our ability to grow our business and adversely affect our operating results.Our operating results may vary based on the impact of changes in the U.S. and global economy, including fluctuations in inflation and interest rates, geopolitical tensions, debt and equity market fluctuations, diminished liquidity and credit availability, bank failures, debt ceiling negotiations, potential government shutdowns, recessionary conditions and general economic downturns, which can arise suddenly. The impact, duration and severity of such uncertainty can be difficult to predict. As a result of ongoing uncertain macroeconomic conditions, and related corporate cost cutting and tighter budgets, we have experienced and may continue to experience longer sales cycles and collection periods. Prolonged macroeconomic uncertainty could continue to adversely affect the ability or willingness of our current and prospective customers to purchase or expand their purchase of our products, further delay customer purchasing decisions, reduce the value of customer contracts, affect attrition rates, or further lengthen collection periods, which could materially and adversely affect our business, operating results, financial conditions and prospects. Moreover, any future banking system disruptions may impact our or our customersâ€™ liquidity and, as a result, adversely impact our business and operating results. We have a history of net losses and may not achieve or sustain profitability.We have incurred net losses in each fiscal year since inception, including net losses of $68.2 million, $198.0Â million, and $99.4Â million in fiscal 2024, 2023, and 2022, respectively, and may continue to incur net losses in the future. We expect to make additional expenditures to develop and expand our business, including increasing our customer base, expanding relationships with existing customers, entering new vertical markets, expanding our global footprint, expanding and leveraging our relationships with strategic partners (including system integrators), optimizing pricing and packaging, expanding our operations and infrastructure, and potentially acquiring other businesses. These efforts may prove more expensive than we anticipate, and we may not succeed in increasing our revenue sufficiently, or at all, to offset these increased expenses. In addition, we may delay or reevaluate some or all of the foregoing initiatives in the event that factors, including those beyond our control, adversely impact our business or operating results and may adversely affect our ability to expand our operations and maintain or increase our sales. While our revenue has grown in recent years, such results are not indicative of future growth and if our revenue declines or fails to grow, we may not be able to achieve or maintain profitability in future periods.Our revenue growth and ability to achieve and sustain profitability will depend, in part, on being able to increase the productivity of our sales force.To date, most of our revenue has been attributable to our direct sales force.Our solutions are often sold to large enterprises and may involve long sales cycles and complex customer requirements. Our ability to achieve significant revenue growth will depend, in large part, on our success recruiting, hiring, training, motivating, and retaining sufficient numbers of effective sales personnel to support our growth, and such efforts may be difficult and expensive. If we are not able to attract and maintain sufficient numbers of effective sales personnel, our sales personnel do not reach sufficient levels of productivity on the timelines we have projected or at all, or our sales personnel are not successful in bringing potential customers into the pipeline, converting them into new customers, or increasing sales to our existing customer base, our revenue will not increase at anticipated levels and our ability to achieve long-term projections may be adversely impacted.We may also be unable to hire or retain sufficient numbers of qualified individuals in the markets where we operate or plan to operate. Furthermore, hiring sales personnel in new countries requires additional upfront costs 58that we may not recover if the sales personnel fail to achieve full productivity. In addition, as we continue to grow, a larger percentage of our sales force will be new to our company and our solutions, which may adversely affect our sales if we cannot train our sales force quickly or effectively. Attrition rates may increase, and we may also face integration challenges inherent in efficiently managing an increased number of employees over large geographic distances. If we are unable to hire and train sufficient numbers of effective sales personnel, if attrition increases, or if the sales personnel are not successful in obtaining new customers or increasing sales to our existing customer base, our business will be adversely affected.In response to market opportunities, competitive threats, management changes, product and service introductions or enhancements, acquisitions, sales performance, increases in sales headcount, cost levels, and other internal and external considerations, we periodically adjust our sales organization. Any future changes in our sales organization may result in a temporary reduction of productivity, which could adversely affect our rate of growth. In addition, any significant change to the way we structure our compensation of our sales organization may be disruptive and may affect our revenue growth.Our success depends in large part on a limited number of products. If these products, enhancements to these products, or future products we develop, fail to gain or lose market acceptance, our business will suffer.We derive and expect to continue to derive substantially all of our revenue and cash flows from sales of subscriptions and associated deployment of our Zuora Billing, Zuora Revenue, Zuora Payments, Zephr, Zuora Platform, and other software products. The continued growth in market demand for these products is critical to our success and may be impacted by a number of factors outside of our control. We cannot assure you that our solutions, future enhancements to our solutions, or new products we develop or add to our portfolio as a result of future acquisitions, will address future advances in technology or the requirements of enterprise customers, including changing requirements from existing customers. If we are unable to meet customer demands in creating flexible solutions designed to address all these needs or otherwise achieve more widespread market acceptance of our solutions, our business, operating results, financial condition, and growth prospects would be adversely affected.Currency exchange rate fluctuations may adversely affect our operating results.Our international operations expose us to the effects of fluctuations in currency exchange rates, and may increase the cost of our solutions to customers outside of the United States when the U.S. Dollar is stronger relative to other currencies. Currency exchange rate fluctuations have and may adversely affect our business, operating results, financial condition, and cash flows. In addition, we incur expenses for employee compensation and other operating expenses at our non-U.S. locations in the local currency. Fluctuations in the exchange rates between the U.S. Dollar and other currencies could result in the dollar equivalent of such expenses being higher. Furthermore, volatile market conditions arising from current and potential future macroeconomic conditions and geopolitical events may result in significant fluctuations in exchange rates, and, in particular, a weakening of foreign currencies relative to the U.S. Dollar may adversely affect our revenue. This could have an adverse impact on our operating results. Although we may in the future decide to undertake foreign exchange hedging transactions to cover a portion of our foreign currency exchange exposure, we currently do not hedge our exposure to foreign currency exchange risks.We face risks related to our debt obligations.We have issued $400.0 million aggregate principal amount of our 2029 Notes and Warrants for 7.5 million shares of our Class A Common Stock to Silver Lake. Our debt obligations under the 2029 Notes could adversely impact us. For example, if the Proposed Merger is not consummated, these obligations could:â€¢require us to use a substantial portion of our cash flow from operations to pay principal and interest on debt, or to repurchase the 2029 Notes when required upon the occurrence of certain events or otherwise pursuant to the terms thereof, which will reduce or exhaust the amount of cash flow available to fund working capital, capital expenditures, acquisitions, and other business activities and could require us to seek additional financing that may not be available on favorable terms, or at allÍ¾59â€¢require us to use cash and/or issue shares of our Class A Common Stock to settle any obligations;â€¢result in certain of our debt instruments being accelerated or being deemed to be in default if certain terms of default are triggered, such as applicable cross payment default and/or cross-acceleration provisionsÍ¾â€¢adversely impact our credit rating, which could increase future borrowing costsÍ¾â€¢limit our future ability to raise funds for capital expenditures, strategic acquisitions or business opportunities, and other general corporate requirementsÍ¾â€¢restrict our ability to create or incur liens and engage in other transactions and activity;â€¢increase our vulnerability to adverse economic and industry conditionsÍ¾â€¢dilute our outstanding Class A Common Stock, which, to the extent we generate net income, may negatively impact earnings per share, as a result of the conversion provisions in the 2029 NotesÍ¾ andâ€¢place us at a competitive disadvantage compared to our less leveraged competitors.We also have a $30.0 million revolving credit facility, which is currently undrawn, under an agreement with Silicon Valley Bank, a division of First-Citizens Bank & Trust. The credit facility contains restrictive covenants, including limitations on our ability to transfer or dispose of assets, merge with other companies or consummate certain changes of control, acquire other companies, pay dividends or repurchase our stock, incur additional indebtedness and liens and enter into new businesses. We therefore may not be able to engage in any of the foregoing transactions unless we obtain the consent of the lender or terminate the credit facility. Failure to comply with the covenants or other restrictions could result in a default. In addition, the credit facility is secured by substantially all of our non-intellectual property assets and requires us to satisfy certain financial covenants. Our ability to meet our payment obligations under our debt instruments depends on our ability to generate significant cash flows in the future. This, to some extent, is subject to market, economic, financial, competitive, legislative, and regulatory factors as well as other factors that are beyond our control. There can be no assurance that our business will generate cash flow from operations, or that additional capital will be available to us, either on favorable terms or in amounts sufficient to enable us to meet our debt payment obligations and to fund other liquidity needs. For example, we may utilize proceeds from the 2029 Notes for acquisitions or other investments or for other corporate purposes, such as purchases of our outstanding common stock. Any such actions may not increase our enterprise value. If we are unable to generate sufficient cash flow to service our debt obligations, we may be required to adopt one or more alternatives, such as reducing or delaying investments or capital expenditures, selling assets, refinancing or obtaining additional capital on terms that may be onerous or highly dilutive. Our ability to refinance the 2029 Notes, our revolving credit facility or future indebtedness will depend on market conditions and our financial condition at such time. We may not be able to engage in any of these activities on desirable terms, or at all, which could result in a default on our debt obligations. Any such default could have a material adverse effect on our business and financial condition. See Note 9. Debt and Note 10. Warrants to Purchase Shares of Common Stock of the Notes to Unaudited Condensed Consolidated Financial Statements for more information about the 2029 Notes, Warrants and the revolving credit facility.Our operating results may fluctuate from quarter to quarter, which makes our future results difficult to predict.Our quarterly operating results have fluctuated in the past and may fluctuate in the future. As a result, you should not rely upon our past quarterly operating results as indicators of future performance. We have encountered, and will continue to encounter, risks and uncertainties frequently experienced by growing companies in rapidly evolving markets, such as the risks and uncertainties described herein. Our operating results in any given quarter can be influenced by numerous factors, many of which are unpredictable or are outside of our control, including:â€¢our ability to maintain and grow our customer base and convert our pipeline into paying customers;â€¢our ability to retain and increase revenue from existing customers;â€¢our ability to introduce new products and services, balance investment in our suite of products in ways that maximize revenues, and enhance existing products and services;â€¢our ability to integrate or implement our existing products and services on a timely basis or at all; 60â€¢our ability to deploy our products successfully within our customers' information technology ecosystems;â€¢increases or decreases in subscriptions to our platform;â€¢our ability to sell to large enterprise customers and fast-growing companies;â€¢the transaction volume that our customers process through our system;â€¢our ability to respond to competitive developments, including competitors' pricing changes and their introduction of new products and services;â€¢macroeconomic conditions, including the effects of foreign exchange fluctuations and rising interest rates and inflation, including wage inflation;â€¢changes in the pricing of our products;â€¢the productivity of our sales force;â€¢our ability to grow our relationships with strategic partners such as system integrators and their effectiveness in increasing our sales and implementing our products;â€¢changes in the mix of products and services that our customers use;â€¢the length and complexity of our sales cycles;â€¢cost to develop and upgrade our solutions to incorporate new technologies;â€ ¢seasonal purchasing patterns of our customers;â€¢the impact of outages of our solutions and reputational harm;â€¢costs related to the acquisition of businesses, talent, technologies, or intellectual property, including potentially significant amortization costs and possible write-downs;â€¢failures or breaches of security or privacy, and the costs associated with responding to and addressing any such failures or breaches;â€¢changes to financial accounting standards and the interpretation of those standards that may affect the way we recognize and report our financial results, including changes in accounting rules governing recognition of revenue;â€¢general economic and political conditions and government regulations in the countries where we currently operate or plan to expand;â€¢decisions by us to incur additional expenses, such as increases in sales and marketing or research and development;â€¢the timing of stock-based compensation expense; â€¢political unrest, changes and uncertainty associated with terrorism, hostilities, war (including the ongoing conflicts in Ukraine and Israel), natural disasters, pandemics, and potential disruptions to the global banking system; andâ€¢potential costs to attract, onboard, retain, and motivate qualified personnel.The impact of one or more of the foregoing and other factors may cause our operating results to vary significantly. As such, we believe that quarter-to-quarter comparisons of our operating results may not be meaningful and should not be relied upon as an indication of future performance. If we fail to meet or exceed the expectations of investors or securities analysts, or perform below any guidance we may provide, then the trading price of our ClassÂ A Common Stock could fall substantially, and we could face costly lawsuits, including shareholder litigation.61The growth forecasts and expectations regarding trends for our key operational and financial metrics that we have provided publicly may prove to be inaccurate, and even if the markets in which we compete achieve the forecasted growth or certain of the expected trends our key operational and financial metrics are accurate, our business could fail to grow at similar rates, if at all.Growth forecasts and our expectations regarding trends for our key operational and financials metrics are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. The forecasts we have provided publicly relating to the expected growth of the markets in which we compete may prove to be inaccurate due to unforeseen or unanticipated events. Even if these markets experience the growth we forecast, we may not grow our business at similar rates, or at all. Our growth is subject to many factors, including our success in executing our business strategy, which is subject to many risks and uncertainties. Accordingly, the forecasts of market growth we have provided publicly should not be taken as indicative of our future growth.If we are not able to develop and release new products and services, or successful enhancements, new features, and modifications to our existing products and services, or otherwise successfully implement our multi-product strategy, our business could be adversely affected.Our industry and the market for our solutions are characterized by rapid technological change and innovations (such as the use of AI and machine learning technologies), frequent new product and service introductions and enhancements, changing customer demands, and evolving industry standards. If we are unable to develop new products that achieve market acceptance, provide enhancements and new features, or innovate quickly enough to keep pace with these rapid technological developments, our business could be harmed. Additionally, because we provide billing and finance solutions to help our customers with compliance and financial reporting, changes in law, regulations, and accounting standards could impact the usefulness of our products and services and could necessitate changes or modifications to our products and services to accommodate such changes. Monetization products and services, including our billing, payments and revenue recognition offerings, are inherently complex, and our ability to implement our multi-product strategy, including developing, releasing, marketing and selling new products and services or enhancements, new features and modifications to our existing products and services depends on several factors, including our internal departments aligning their respective responsibilities, timely completion, competitive pricing, adequate quality testing, integration with new and existing technologies and our solutions, and overall market acceptance. We cannot be sure that we will succeed in developing, marketing, and delivering on a timely and cost-effective basis enhancements or improvements to our platform or any new products and services that respond to continued changes in monetization practices or new customer requirements, nor can we be sure that any enhancements or improvements to our platform or any new products and services will achieve market acceptance. Since developing our solutions is complex, the timetable for the release of new products and enhancements to existing products is difficult to predict, and we may not offer new products and updates as rapidly as our customers require or expect. In addition, our product development efforts could be delayed or otherwise adversely impacted if there is an adverse geopolitical event in the countries where we operate, including in China, where we continue to employ a sizable number of research and development employees despite relocating a portion of such employees to other countries. Any new products or services that we develop may not be introduced in a timely or cost-effective manner, may contain errors or defects, or may not achieve the broad market acceptance necessary to generate sufficient revenue. The introduction of new products and enhancements could also increase costs associated with customer support and customer success as demand for these services increase. This increase in cost could adversely impact profit margins, including our gross margin. Moreover, even if we introduce new products and services, we may experience a decline in revenue of our existing products and services that is not offset by revenue from the new products or services. For example, customers may delay making purchases of new products and services to permit them to make a more thorough evaluation of these products and services or until industry and marketplace reviews become widely available. Some customers may hesitate to migrate to a new product or service due to concerns regarding the complexity of migration or performance of the new product or service. In addition, we may lose existing customers who choose a competitorâ€™s products and services or choose to utilize internally developed applications instead of our products and services. This could result in a temporary or permanent revenue shortfall and adversely affect our business.In addition, because our products and services are designed to interoperate with a variety of other internal or third-party software products and business systems applications, we will need to continuously modify and enhance our products and services to keep pace with changes in APIs, and other software and database technologies. We may not be successful in either developing these new products and services, modifications, and enhancements or in bringing them to market in a timely fashion. There is no assurance that we will successfully resolve such issues in a timely and cost-effective manner. Furthermore, modifications to existing platforms or technologies, including any 62APIs with which we interoperate, will increase our research and development expenses. Any failure of our products and services to operate effectively with each other or with other platforms and technologies could reduce the demand for our products and services, result in customer dissatisfaction, and adversely affect our business.We may acquire or invest in additional companies, which may divert our managementâ€™s attention, result in additional dilution to our stockholders, and consume resources that are necessary to sustain our business. We may be unable to integrate acquired businesses and technologies successfully or to achieve the expected benefits of such acquisitions. Our business strategy includes acquiring other complementary products, technologies, or businesses, such as our acquisitions of Zephr in September 2022, Togai in May 2024, and Sub(x), an AI solution for digital publishing and media companies, in August 2024. We regularly evaluate and consider potential strategic transactions. An acquisition, investment, or business relationship may result in unforeseen operating difficulties and expenditures that may impact our operating results. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products, personnel, or operations of the acquired companies, particularly if the key personnel of the acquired companies choose not to work for us, if an acquired companyâ€™s software is not easily adapted to work with ours, or if we have difficulty retaining the customers of any acquired business due to changes in management or otherwise.Acquisitions may also disrupt our business, divert our resources, and require significant management attention that would otherwise be available for other business development activities. Moreover, the anticipated benefits of any acquisition, investment, or business relationship may not be realized or we may be exposed to unknown liabilities. We may in the future acquire or invest in additional businesses, products, technologies, or other assets. We also may enter into relationships with other businesses to expand our products and services or our ability to provide our products and services in foreign jurisdictions, which could involve preferred or exclusive licenses, additional channels of distribution, discount pricing, or investments in other companies. Negotiating these transactions can be time consuming, difficult, and expensive, and our ability to close these transactions may be subject to approvals that are beyond our control. In addition, we have limited experience in acquiring other businesses. We may be unable to find and identify desirable acquisition targets, may incorrectly estimate the value of a target, may fail to conduct effective due diligence on a target to identify problems or incompatibilities or obstacles to integration, or may not be successful in entering into an agreement with any particular target. Consequently, these transactions, even if undertaken and announced, may not close. For any transactions we undertake, we may:â€¢issue additional equity securities that would dilute our stockholders;â€¢use cash that we may need in the future to operate our business;â€ ¢incur debt on terms unfavorable to us or that we are unable to repay;â€¢incur large charges or substantial liabilities;â€¢incur operating losses, including due to integration-related charges; â€¢encounter difficulties retaining key employees of the acquired company or integrating diverse software codes or business cultures; andâ€¢become subject to adverse tax consequences, substantial depreciation, or deferred compensation charges.Any of these risks could adversely impact our business and operating results.A customerâ€™s failure to deploy our solutions after it enters into a subscription agreement with us, or the incorrect or improper deployment or use of our solutions could result in customer dissatisfaction, harm our reputation and brand, and adversely affect our business, operating results, financial condition, and growth prospects.Our solutions are deployed in a wide variety of technology environments and into a broad range of complex workflows. We believe our future success will depend in part on our ability to increase both the speed and success of our deployments, by improving our deployment methodology, hiring and training qualified professionals, deepening relationships with deployment partners, and increasing our ability to integrate into large-scale, complex technology environments. We often assist our customers in deploying our solutions, either directly or through our 63deployment partners. In other cases, customers rely on third-party partners to complete the deployment. In some cases, customers initially engage us to deploy our solutions, but, for a variety of reasons, including strategic decisions not to utilize recurring revenue business models, fail to ultimately deploy our solutions. If we or our third-party partners are unable to deploy our solutions successfully, or unable to do so in a timely manner and, as a result, customers do not utilize our solutions, we would not be able to generate future revenue from such customers based on transaction or revenue volume and the upsell of additional products and services, and our future operating results could be adversely impacted. In addition, customers may also seek refunds of their initial subscription fee. Moreover, customer perceptions of our solutions may be impaired, our reputation and brand may suffer, and customers may choose not to renew or expand their use of our solutions.As a portion of our sales efforts are targeted at large enterprise customers, our sales cycle for these customers may become longer and more expensive, we may encounter still greater pricing pressure and deployment and customization challenges, and we may have to delay revenue recognition for more complicated transactions, all of which could adversely impact our business and operating results.As a portion of our sales efforts are targeted at large enterprise customers, we may face greater costs, longer sales cycles, and less predictability in the completion of our sales to these customers. In this market segment, the customerâ€™s decision to use our solutions may be an enterprise-wide decision, in which case these types of sales frequently require approvals by multiple departments and executive-level personnel and require us to provide greater levels of customer education regarding the uses and benefits of our solutions, as well as education regarding security, privacy, and scalability of our solutions, especially for large â€œbusiness to consumerâ€ customers or those with extensive international operations. These large enterprise transactions might also be part of a customerâ€™s broader business model or business systems transformation project, which are frequently subject to budget constraints, multiple approvals, and unplanned administrative, processing, security review, and other delays that could further lengthen the sales cycle. Larger enterprises typically have longer decision-making and deployment cycles, may have greater resources to develop and maintain customized tools and applications, demand more customization, require greater functionality and scalability, expect a broader range of services, demand that vendors take on a larger share of risks, demand increased levels of customer service and support, require acceptance provisions that can lead to a delay in revenue recognition, and expect greater payment flexibility from vendors. We are often required to spend time and resources to better familiarize potential customers with the value proposition of our solutions. As a result of these factors, sales opportunities with large enterprises may require us to devote greater sales and administrative support and professional services resources to individual customers, which could increase our costs, lengthen our sales cycle, and divert our sales and professional services resources to a smaller number of larger customers. We may spend substantial time, effort, and money in our sales, design and implementation efforts without being successful in producing any sales or deploying our products in such a way that is satisfactory to our customers. All these factors can add further risk to business conducted with these customers. In addition, if sales expected from a large customer for a particular quarter are not realized in that quarter or at all, our business, operating results, and financial condition could be materially and adversely affected.Furthermore, our sales and implementation cycles could be interrupted or affected by other factors outside of our control. For example, due to global economic uncertainty, rising inflation and interest rates, and foreign exchange fluctuations, many large enterprises have generally reduced or delayed technology or other spending, which may materially and adversely impact our operating results, financial condition and prospects.64Our long-term success depends, in part, on our ability to expand the sales of our solutions to customers located outside of the United States. Our current international operations, and any further expansion of those operations, expose us to risks that could have a material adverse effect on our business, operating results, and financial condition.We conduct our business activities in various foreign countries and have operations in North America, Europe, Asia, and Australia. During the nine months ended October 31, 2024, we derived approximately 37% of our total revenue from customers located outside the United States. Our ability to manage our business and conduct our operations internationally requires considerable management attention and resources and is subject to the particular challenges of supporting a rapidly growing business in an environment of multiple cultures, customs, legal systems, regulatory systems, and commercial infrastructures. International expansion requires us to invest significant funds and other resources. Our operations in international markets may not develop at a rate that supports our level of investment. Our international operations, including any future expansion, may subject us to risks, including with:â€¢recruiting and retaining talented and capable employees in foreign countries;â€¢efficiently managing employees over large geographic distances;â€¢maintaining our company culture with a dispersed workforce; â€¢providing our solutions to customers from different cultures, which may require us to adapt sales practices, modify our solutions, and provide features necessary to effectively serve the local market;â€¢compliance with multiple, conflicting, ambiguous or evolving governmental laws and regulations and court decisions, including those relating to employment matters, e-invoicing, consumer protection, intellectual property, privacy, data protection, information security, data residency, and encryption;â€¢investing in infrastructure, typically well in advance of revenue generation; â€¢longer sales cycles in some countries;â€¢generally longer payment cycles and greater difficulty in collecting accounts receivable;â€¢credit risk and higher levels of payment fraud;â€¢weaker privacy and intellectual property protection in some countries, including China and India;â€¢compliance with anti-bribery laws, such as the U.S. Foreign Corrupt Practices Act of 1977, as amended (FCPA) and the UK Bribery Act 2010 (UK Bribery Act);â€¢currency exchange rate fluctuations and inflationary pressure;â€¢tariffs, export and import restrictions, restrictions on foreign investments, sanctions, and other trade barriers or protection measures;â€¢foreign exchange controls that might prevent us from repatriating cash earned outside the United States;â€¢economic instability and inflationary conditions;â€¢political instability and unrest, including the effects of the ongoing conflicts in Ukraine and Israel, especially as it impacts countries in Europe, and changes in the public perception of governments in the countries where we operate or plan to operate;â€¢corporate espionage;â€¢treatment of revenue from international sources and compliance with the laws of numerous taxing jurisdictions, both foreign and domestic, in which we conduct business, potential double taxation of our international earnings, and potentially adverse tax consequences due to changes in applicable U.S. and foreign tax laws;â€¢continuing uncertainty regarding social, political, immigration, and tax and trade policies in the U.S. and abroad;â€¢disruptions to the U.S. and international banking systems; â€¢increased costs to establish and maintain effective controls at foreign locations; andâ€¢overall higher costs of doing business internationally.65In addition, geopolitical tensions in countries where we operate may increase our costs of or otherwise prevent us from operating in these countries. If authorities in these locations impose costly or overly burdensome requirements or other sanctions, we may not be able to continue or may need to limit our operations in these countries. For example, we have a sizable number of research and development employees in China. If trade relations between the U.S. and China continue to deteriorate or if sanctions or other regulatory requirements are imposed on our operations in China, it could negatively impact our business operations, product development plans, operating results, and financial condition.If we fail to offer high-quality support and training to our customers and third-party partners, our business and reputation will suffer.High-quality education, training and support for our customers and third-party partners is important for the successful marketing and sale of our products to new customers and to maintain and expand our relationship with existing customers. The importance of high-quality customer and third-party partner training and support will increase as we expand our business and pursue new customers. As we add or integrate new services to our portfolio (such as with our acquisitions of Zephr, Togai, and Sub(x)), and as we expand internationally, we and our third-party partners may experience challenges in accurately assessing the capabilities of, and providing technical support for, such services. In addition, we are unable to control our third-party partners and therefore cannot control the speed or effectiveness of their support services, which could harm our reputation. If we or our third-party partners do not help our customers quickly resolve post-deployment technical and operational issues related to our platform, including configuring and using features, and provide them with effective ongoing customer support, our ability to upsell additional products to existing customers could suffer and our reputation with existing or potential customers could be harmed.Future changes in market conditions or customer demand could require changes to our prices or pricing model, which could adversely affect our business, operating results, and financial condition.We generally charge our customers a flat fee for their use of our platform and modules and a variable fee based on the amount of transaction volume they process through our system and the number of their subscribers. If our customers do not increase their transaction volume or the number of their subscribers, or an event outside of our control, such as an economic downturn, reduces their transaction volume or the number of their subscribers, our revenue may be adversely impacted by customers reducing their contracted transaction volume. As the market moves to hybrid pricing models, we have and expect in the future to need to change our pricing model from time to time. As the market for our products matures, or as new competitors introduce new products or services that compete with ours or reduce their prices, we may be unable to attract or retain customers at the same price or based on the same pricing models as we have used historically. We may experience pressure to change our pricing model to defer fees until our customers have fully deployed our solutions. Moreover, larger organizations, which comprise a large and growing component of our sales efforts, may demand substantial price concessions. As a result, in the future, we may be required to reduce our prices or change our pricing model, which could adversely affect our revenue, gross margin, profitability, financial position, and cash flow.If we fail to integrate our solutions with a variety of operating systems, software applications, and hardware platforms that are developed by others, our solutions may become less marketable, less competitive, or obsolete, and our operating results may be adversely affected.Our solutions must integrate with a variety of network, hardware, and software platforms, and we need to continuously modify and enhance our solutions to adapt to changes in cloud-enabled hardware, software, networking, browser, and database technologies. We have developed our solutions to be able to integrate with third-party Software as a Service (SaaS) applications, including the applications of software providers that compete with us, by utilization of APIs. In general, we rely on the fact that the providers of such software systems, including Salesforce, continue to allow us access to their APIs to enable these integrations, and the terms with such companies may be subject to change from time to time. We also integrate certain aspects of our solutions with other platform providers. We may not be successful in either developing necessary modifications and enhancements or resolving interoperability issues in a timely and cost-effective manner. Any failure of our products and services to continue to operate effectively with third-party infrastructures and technologies, as well as any change or deterioration in our relationship with any platform provider, may reduce the demand for our products and services, resulting in dissatisfaction of our customers, and may materially and adversely impact our business and operating results.66Our business may be adversely impacted if any platform provider:â€¢discontinues or limits our access to its APIs;â€¢makes changes to its platform;â€¢terminates or does not allow us to renew or replace our contractual relationship;â€¢modifies its terms of service or other policies, including fees charged to, or other restrictions on, us or other application developers, or changes how customer information is accessed by us or our customers;â€¢establishes more favorable relationships with one or more of our competitors, or acquires one or more of our competitors or is acquired by a competitor and offers competing services to us; orâ€¢otherwise develops its own competitive offerings.In addition, we have benefited from these platform providersâ€™ brand recognition, reputations, and customer bases. Any losses or shifts in the market position of these platform providers in general, in relation to one another or to new competitors or new technologies could lead to losses in our relationships or customers, or to our need to identify or transition to alternative channels for marketing our solutions. Such changes could consume substantial resources and may not be effective. If we are unable to respond to changes in a cost-effective manner, our solutions may become less marketable, less competitive, or obsolete and our operating results may be adversely impacted.If we fail to develop, maintain, and enhance our brand and reputation cost-effectively, our business and financial condition may be adversely affected.We believe that developing, maintaining, and enhancing awareness and integrity of our brand and reputation in a cost-effective manner are important to achieving widespread acceptance of our solutions and are important elements in attracting new customers and maintaining existing customers. We believe that the importance of our brand and reputation will increase as competition in our market further intensifies. Successful promotion of our brand will depend on the effectiveness of our marketing efforts, our ability to provide reliable and useful solutions at competitive prices, the perceived value of our solutions, and our ability to provide quality customer support. In addition, the promotion of our brand requires us to make substantial expenditures, and we anticipate that our expenditures will increase as our market becomes more competitive, as we expand into new markets, and as more sales are generated through our strategic partners. Brand promotion activities may not yield increased revenue, and even if they do, the increased revenue may not offset the expenses we incur in building and maintaining our brand and reputation. We also rely on our customer base and community of end-users in a variety of ways, including to give us feedback on our solutions and to provide user-based support to our other customers. If we fail to promote and maintain our brand successfully or to maintain loyalty among our customers, or if we incur substantial expenses in an unsuccessful attempt to promote and maintain our brand, we may fail to attract new customers and partners or retain our existing customers and partners and our business and financial condition may be adversely affected. Any negative publicity relating to our customers, employees, partners, or others associated with these parties, may also tarnish our own reputation simply by association and may reduce the value of our brand. Damage to our brand and reputation may result in reduced demand for our solutions and increased risk of losing market share to our competitors. Any efforts to restore the value of our brand and rebuild our reputation may be costly and may not be successful.We employ third-party licensed software for use in or with our software, and the inability to maintain these licenses or errors in the software we license could result in increased costs or reduced service levels, which could adversely affect our business.Our software incorporates certain third-party software obtained under licenses from other companies. We anticipate that we will continue to rely on such third-party software and development tools from third parties in the foreseeable future. Although we believe that there are commercially reasonable alternatives to the third-party software we currently license, including open source software, this may not always be the case, or it may be difficult or costly to migrate to other third-party software. Our use of additional or alternative third-party software would require us to enter into license agreements with third parties. In addition, integration of our software with new third-party software may require significant work and require substantial investment of our time and resources. Also, any undetected or uncorrected errors or defects in third-party software could prevent the deployment or impair the functionality of our software, present security risks, delay new updates or enhancements to our solutions, result in a failure of our solutions, and harm our reputation.67Certain of our operating results and financial metrics may be difficult to predict as a result of seasonality.Although we have not historically experienced significant seasonality with respect to our subscription revenue throughout the year, we have seen seasonality in our sales cycle as a large percentage of our customers make their purchases in the third month of any given quarter. In addition, our fourth quarter has historically been our strongest quarter. We believe that this results in part from the procurement, budgeting, and deployment cycles of many of our customers. We generally expect a relative increase in sales in the second half of each year as budgets of our customers for annual capital purchases are being fully utilized. We may be affected by seasonal trends in the future, particularly as our business matures and diversifies. Such seasonality may result from a number of factors, including a slowdown in our customersâ€™ procurement process during certain times of the year, both domestically and internationally, and customers choosing to spend remaining budgets shortly before the end of their fiscal years. These effects may become more pronounced as we target larger organizations and their larger budgets for sales of our solutions. Additionally, this seasonality may be reflected to a much lesser extent, and sometimes may not be immediately apparent, in our revenue, due to the fact that we recognize subscription revenue over the term of the applicable subscription agreement. In addition, our ability to record professional services revenue can potentially vary based on the number of billable days in the given quarter, which is impacted by holidays and vacations. To the extent we experience this seasonality, it may cause fluctuations in our operating results and financial metrics and make forecasting our future operating results and financial metrics more difficult.Risks Related to Information Technology, Intellectual Property, and Data Security and PrivacyIf our security measures are breached or if unauthorized access to customer, employee or other confidential data is otherwise obtained, or if our solutions are perceived as not being secure, we may lose existing customers or fail to attract new customers, our business may be harmed and we may incur significant liabilities.Our solutions involve the storage, transmission and processing of our customersâ€™ proprietary data, including highly confidential financial information regarding their business, and personal or confidential information of our customers' customers or other end users. Additionally, we maintain our own proprietary, confidential and otherwise sensitive information, including employee information. While we have security measures in place designed to protect customer information and prevent data loss and other security breaches, these measures may be breached as a result of third-party action, including cyberattacks or other intentional misconduct by computer hackers, employee error, malfeasance or otherwise. As more companies and individuals work remotely and threat actors utilize emerging technologies such as AI and machine learning, the risk of a cybersecurity incident occurring increases and potentially exposes us to new, complex threats. Additionally, due to political uncertainty and military actions such as those associated with the conflicts in Ukraine and Israel, we and our service providers are vulnerable to heightened risks of cybersecurity incidents and security and privacy breaches from or affiliated with nation-state actors. If any unauthorized or inadvertent access to, or a security breach or incident impacting our platform or other systems or networks used in our business occurs, such event could result in the loss, alteration, or unavailability of data, unauthorized access to, or use or disclosure of data, and any such event, or the belief or perception that it has occurred, could result in a loss of business, severe reputational damage adversely affecting customer or investor confidence, regulatory investigations and orders, litigation, indemnity obligations, and damages for contract breach or penalties for violation of applicable laws or regulations. Service providers who store or otherwise process data on our behalf, including third party and public-cloud infrastructure, also face security risks. As we rely more on third-party and public-cloud infrastructure and other third-party service providers, we will become more dependent on third-party security measures to protect against unauthorized access, cyberattacks and the mishandling of customer, employee and other confidential data and we may be required to expend significant time and resources to address any incidents related to the failure of those third-party security measures. Our ability to monitor our third-party service providers' data security is limited, and in any event, attackers may be able to circumvent our third-party service providers' data security measures. There have been and may continue to be significant attacks on certain third-party providers, and we cannot guarantee that our or our third-party providers' systems and networks have not been breached or otherwise compromised, or that they do not contain exploitable defects or bugs that could result in a breach of or disruption to our systems and networks or the systems and networks of third parties that support us and our platform. We may also suffer breaches of, or incidents impacting, our internal systems. Security breaches or incidents impacting our platform or our internal systems could also result in significant costs incurred in order to remediate or otherwise respond to a breach or incident, which may include liability for stolen assets or information and repair of system damage that may 68have been caused, incentives offered to customers or other business partners in an effort to maintain business relationships after a breach, and other costs, expenses and liabilities. We may be required to or find it appropriate to expend substantial capital and other resources to alleviate problems caused by any actual or perceived security breaches or incidents. Additionally, the SEC and many jurisdictions have enacted or may enact laws and regulations requiring companies to disclose or otherwise provide notifications regarding data security breaches. These or other disclosures regarding a security breach or incident could result in negative publicity to us, which may cause our customers to lose confidence in the effectiveness of our data security measures which could impact our operating results.Despite our investments into measures designed to minimize the risk of security breaches, we are subject to the risk of security incidents or breaches. If a high profile security breach or incident occurs with respect to us, another SaaS provider or other technology company, our current and potential customers may lose trust in the security of our solutions or in the SaaS business model generally, which could adversely impact our ability to retain existing customers or attract new ones. Such a breach or incident, or series of breaches or incidents, could also result in regulatory or contractual security requirements that could make compliance challenging. Even in the absence of any security breach or incident, customer concerns about privacy, security, or data protection may deter them from using our platform for activities that involve personal or other sensitive information.Because the techniques used to obtain unauthorized access or to sabotage systems change frequently, and often are not identified until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. We may also experience security breaches and incidents that may remain undetected for an extended period of time. Periodically, we experience cyber security events including â€œphishingâ€ attacks targeting our employees, web application and infrastructure attacks and other information technology incidents. These threats continue to evolve in sophistication and volume and are difficult to detect and predict due to advances in electronic warfare techniques, new discoveries in the field of cryptography and new and sophisticated methods used by criminals including phishing, social engineering or other illicit acts. There can be no assurance that our defensive measures will prevent cyberattacks or other security breaches or incidents, and any such attacks, breaches or incidents could damage our brand and reputation and adversely impact our business.Because data security is a critical competitive factor in our industry, we make numerous statements in our privacy policy and customer agreements, through our certifications to standards and in our marketing materials regarding the security of our platform including detailed descriptions of security measures we employ. If we fail to adhere to our stated security standards, even through circumstances beyond our reasonable control, we may face claims of misrepresentation or deceptiveness by the U.S. Federal Trade Commission, state and foreign regulators and private litigants. Our insurance policies covering certain security and privacy damages and claim expenses may not be sufficient to compensate for all potential liability. Although we maintain cyber liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred, or that insurance will continue to be available to us on economically reasonable terms, or at all.In addition, like many similarly situated technology companies, we have a sizable number of research and development and other personnel located outside the United States, including in China, which has exposed and could continue to expose us to governmental and regulatory, as well as market and media, scrutiny, regarding the actual or perceived integrity of our platform or data security and privacy features. Any actual or perceived security compromise could reduce customer confidence in the effectiveness of our security measures, adversely affect our ability to attract new customers, and cause existing customers to reduce the use or stop using our solutions, any of which could harm our business and reputation. Privacy and security concerns, laws, and regulations, may adversely affect our business.Governments and agencies worldwide have adopted or may adopt laws and regulations regarding the collection, use, storage, data residency, security, disclosure, transfer across borders and other processing of information obtained from individuals within jurisdictions. These laws and regulations increase the costs and burdens of compliance, including the ability to transfer information from, or a requirement to store in, particular jurisdictions and could:â€¢impact our ability to offer our products and services in certain jurisdictions,69â€¢decrease demand for or require us to modify or restrict our product or services, orâ€¢impact our customersâ€™ ability and willingness to use, adopt and deploy our solutions globally. Compliance burdens or our inability to comply with such laws, regulations, and other obligations, could lead to reduced overall demand and impair our ability to maintain and grow our customer base and increase our revenue. We may be unable to make changes that are necessary or appropriate to address changes in laws, regulations, or other obligations in a commercially reasonable manner, in a timely fashion, or at all.Additionally, laws and regulations relating to the processing of information can vary significantly based on the jurisdiction. Some regions and countries have or are enacting strict laws and regulations, including the European Union (EU), China, Australia, and India, as well as states within the United States, such as California, that may create conflicts, obligations or inconsistent compliance requirements. Despite our efforts to comply with these varying requirements, a regulator or supervisory authority may determine that we have not done so and subject us to fines, potentially costly remediation requirements, and public censure, which could harm our business. For example, the European Unionâ€™s General Data Protection Regulation mandates requirements for processing personal information and imposes penalties of up to the greater of â‚¬20 million or 4% of worldwide revenue for non-compliance. In addition, in the United States, we may be subject to both federal and state laws. Certain U.S. state laws may be more stringent or broader in scope, or offer greater individual rights, with respect to the protection of personal information than federal, international, or other state laws, and such laws may differ from each other, all of which may complicate compliance efforts. For example, California continues to be a critical state with respect to evolving consumer privacy laws after enacting the California Consumer Privacy Act (CCPA), amended by the California Privacy Rights Act (the CPRA), which took effect in January 2023 and expanded the CCPAâ€™s requirements, including by adding new rights for individuals regarding their personal information and establishing a new regulatory agency to implement and enforce the law. Failure to comply with the CCPA and the CPRA may result in significant civil penalties, injunctive relief, or statutory or actual damages as determined by the California Privacy Protection Agency and California Attorney General through its investigative authority. We also are bound by standards, contracts and other obligations relating to processing personal information that may be more stringent than applicable laws and regulations. The costs of compliance with, and other burdens imposed by, these laws, regulations, and other obligations are significant. In addition, some companies, particularly larger or global enterprises, often will not contract with vendors that do not meet these rigorous obligations and often seek contract terms to ensure we are financially liable for any breach of these obligations. Accordingly, our or our vendors' failure, or perceived inability, to comply with these obligations may limit the demand, use and adoption of our solutions, lead to regulatory investigations, breach of contract claims, litigation, damage our reputation and brand and lead to significant fines, penalties, or liabilities or slow the pace at which we close sales transactions, any of which could harm our business. In addition, there is no assurance that our privacy and security-related safeguards, including measures we may take to mitigate the risks of using third parties, will protect us from the risks associated with the third-party processing, storage, and transmission of such information. Privacy advocacy groups, the technology industry, and other industries have established or may establish various new, additional, or different self-regulatory standards that may place additional burdens on us. Our customers may require us or we may find it advisable to meet voluntary certifications or adhere to other standards established by them or third parties. Our customers may also expect us to take proactive stances or contractually require us to take certain actions should a request for personal information belonging to customers be received from a government or regulatory agency. If we are unable to maintain such certifications, comply with such standards, or meet such customer requests, it could reduce demand for our solutions and adversely affect our business.Future laws, regulations, standards, and other obligations, actions by governments or other agencies, and changes in the interpretation or inconsistent interpretation of existing laws, regulations, standards, and other obligations could result in increased regulation, increased costs of compliance and penalties for non-compliance, costly changes to Zuora's products or their functionality, and limitations on processing personal information. Any failure or perceived failure by us (or the third parties with whom we have contracted to process such information) to comply with applicable privacy and security laws, policies or related contractual obligations, or any compromise of security that results in unauthorized access, use, or transmission of, personal information, could result in a variety of claims against us, including litigation, governmental enforcement actions, investigations, and proceedings by data protection authorities, as well as fines, sanctions, loss of export privileges, damage to our reputation, or loss of customer confidence, any of which may have a material adverse effect on our business, operating results, and financial condition.70Inability or failure to protect our intellectual property could adversely affect our business.Our success depends in large part on our proprietary technology. We rely on various intellectual property rights, including patents, copyrights, trademarks, and trade secrets, as well as confidentiality provisions and contractual arrangements, to protect our proprietary rights. If we do not protect and enforce our intellectual property rights successfully, our competitive position could be affected, which in turn could adversely impact our business and operating results.Our pending patent or trademark applications may not be allowed, or competitors may challenge the validity, enforceability or scope of our patents, copyrights, trademarks or the trade secret status of our proprietary information. There can be no assurance that additional patents will be issued or that any patents that are issued will provide significant protection for our business, including our technology, innovations and similar assets. There is also no assurance that we will be able to register trademarks that are critical to our business. In addition, our patents, copyrights, trademarks, trade secrets, and other intellectual property rights may not provide us a significant competitive advantage. There is no assurance that the particular forms of intellectual property protection that we seek, including business decisions about when to file patents and when to maintain trade secrets, will be adequate to protect our business.Moreover, U.S. patent law, developing jurisprudence regarding U.S. patent law, and possible future changes to U.S. or foreign patent laws and regulations may affect our ability to protect and enforce our intellectual property rights. In addition, the laws of some countries do not provide the same level of protection of our intellectual property as do the laws of the United States. As we expand our international activities, our exposure to unauthorized copying and use of our solutions and proprietary information will likely increase. Despite our precautions, our intellectual property is vulnerable to unauthorized access through employee error or actions, theft, and cybersecurity incidents, and other security breaches. It may be possible for third parties to infringe upon or misappropriate our intellectual property, to copy our solutions, and to use information that we regard as proprietary to create products and services that compete with ours, all of which could result in costly litigation. Effective intellectual property protection may not be available to us in every country in which our solutions are available, and where such protection is available, may be costly. For example, some foreign countries have compulsory licensing laws under which a patent owner must grant licenses to third parties. In addition, many countries limit the enforceability of patents against certain third parties, including government agencies or government contractors. In these countries, patents may provide limited or no benefit. We may need to expend additional resources to defend our intellectual property rights domestically or internationally, which could impair our business or adversely affect our domestic or international expansion. Moreover, we may not pursue or file patent applications or apply for registration of copyrights or trademarks in the United States and foreign jurisdictions in which we operate with respect to our potentially patentable inventions, works of authorship, marks and logos for a variety of reasons, including the cost of procuring such rights and the uncertainty involved in obtaining adequate protection from such applications and registrations. If we cannot adequately protect and defend our intellectual property, we may not remain competitive, and our business, operating results, and financial condition may be adversely affected.We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with other parties. We cannot assure you that these agreements will be effective in controlling access to, use of, and distribution of our proprietary information or in effectively securing exclusive ownership of intellectual property developed by our current or former employees and consultants. Further, these agreements may not prevent other parties from reverse engineering or independently developing technologies that are substantially equivalent or superior to our solutions.We may need to spend significant resources securing and monitoring our intellectual property rights, and we may or may not be able to detect infringement by third parties. Our competitive position may be harmed if we cannot detect infringement and enforce our intellectual property rights quickly or at all. In some circumstances, we may choose to not pursue enforcement because an infringer has a dominant intellectual property position or for other business reasons. In addition, competitors might avoid infringement by designing around our intellectual property rights or by developing non-infringing competing technologies. Litigation may be necessary in the future to enforce our intellectual property rights and to protect our trade secrets. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming, and distracting to management, and could result in the impairment or loss of portions of our intellectual property. Further, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims attacking the scope, validity, and enforceability of our intellectual property rights, or with counterclaims and countersuits asserting infringement by our products and services of third-71party intellectual property rights. Our failure to secure, protect, and enforce our intellectual property rights could have a material adverse effect on our brand and our business.Additionally, the United States Patent and Trademark Office and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment, and other similar provisions in order to complete the patent or trademark application process and to maintain issued patents or trademarks, which can be costly. There are situations in which noncompliance or non-payment can result in abandonment or lapse of the patent or trademark or associated application, resulting in partial or complete loss of patent or trademark rights in the relevant jurisdiction. If this occurs, it could have a material adverse effect on our business operations and financial condition.Errors, defects, or disruptions in our solutions could diminish demand, harm our financial results, and subject us to liability.Our customers use our products for important aspects of their businesses, and any errors, defects, or disruptions to our solutions, or other performance problems with our solutions, could harm our reputation and may damage our customersâ€™ businesses. We are also reliant on third-party software and infrastructure, including the infrastructure of the Internet, to provide our products and services. Any failure of or disruption to this software and infrastructure, which could be caused by a variety of factors, including infrastructure changes, power or network outages, fire, flood or other natural disasters, human or software errors, viruses, security breaches, fraud or other malicious activity, could also make our solutions unavailable to our customers. Our solutions are constantly changing with new software releases, which may contain undetected errors when first introduced or released. Any errors, defects, disruptions in service, or other performance problems with our solutions could result in negative publicity, loss of or delay in market acceptance of our products, loss of competitive position, delay of payment to us, lower renewal rates, or claims by customers for losses sustained by them. In such an event, we may be required, or may choose even when not required, for customer relations or other reasons, to expend additional resources in order to help correct the problem. Accordingly, any errors, defects, downtime, or disruptions and other performative quality problems, or any perception of the aforementioned problems, to our solutions could adversely impact our brand and reputation, revenue, and operating results. In addition, we may not carry insurance sufficient to offset any losses that may result from claims arising from errors, defects or other disruptions in our products.Any disruption of service at our cloud providers, including AWS and Microsoft's Azure cloud service, could interrupt or delay our ability to deliver our services to our customers, which could harm our business and our financial results.We currently host our solutions, serve our customers, and support our operations using AWS, a provider of cloud infrastructure services, and have begun enabling new features and capabilities for our solutions using Microsoft's Azure cloud service. We also leverage AWS in various geographic regions for our disaster recovery plans. We do not have control over the operations of the facilities of AWS or Azure. These facilities are vulnerable to damage or interruption from earthquakes, hurricanes, floods, fires, cyber security attacks, terrorist attacks, power losses, telecommunications failures, and similar events, including events due to the effects of climate change. The occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice, or other unanticipated problems could result in lengthy interruptions in our solutions. In addition, breaks in the supply chain due to transportation issues or other factors could potentially disrupt the delivery of hardware needed to maintain these third-party systems or to run our business. The facilities also could be subject to break-ins, computer viruses, sabotage, intentional acts of vandalism, and other misconduct. The continuing and uninterrupted performance of our solutions are critical to our success. Because our products and services are used by our customers for billing and financial accounting purposes, it is critical that our solutions be accessible without interruption or degradation of performance, and we typically provide our customers with service level commitments with respect to service uptime. Customers may become dissatisfied by any system failure that interrupts our ability to provide our solutions to them. Outages could lead to the triggering of our service level agreements and the issuance of credits to our customers, in which case, we may not be fully indemnified for such losses by AWS or Azure. We may not be able to easily switch our public cloud providers, including AWS and Azure, to another cloud provider if there are disruptions or interference with our use of either facility. Sustained or repeated system failures would reduce the attractiveness of our solutions to customers and result in contract terminations, thereby reducing revenue. Moreover, negative publicity arising from these types of disruptions could damage our reputation and may adversely impact use of our solutions. We may not carry sufficient business 72interruption insurance to compensate us for losses that may occur as a result of any events that cause interruptions in our service.Our agreement with AWS expires in July 2027. AWS and our other cloud providers do not have an obligation to renew their agreements with us on commercially reasonable terms, or at all. If we are unable to renew our agreements with these providers on commercially reasonable terms, if our agreements with our providers are prematurely terminated, or if in the future we add additional public cloud providers, we may experience additional costs or service downtime in connection with the transfer to, or the addition of, new public cloud providers. If these providers were to increase the cost of their services, we may have to increase the price of our solutions, and our operating results may be adversely impacted.Our solutions contain open source software components, and failure to comply with the terms of the underlying licenses could restrict our ability to sell our solutions.Our solutions incorporate certain open source software. An open source license typically permits the use, modification, and distribution of software in source code form subject to certain conditions. Some open source licenses contain conditions that any person who distributes or uses a modification or derivative work of software that was subject to an open source license make the modified version subject to the same open source license. Distributing or using software that is subject to this kind of open source license can lead to a requirement that certain aspects of our solutions be distributed or made available in source code form. Although we do not believe that we have used open source software in a manner that might condition its use on our distribution of any portion of our proprietary and confidential solutions in source code form, the interpretation of open source licenses is legally complex and, despite our efforts, it is possible that we could face assertions of copyright infringement, breach of contract, or other claims if our use of open source software fails to comply with the applicable open source licenses.Moreover, we cannot guarantee that our processes for controlling our use of open source software in our solutions will be effective. To continue offering our solutions, we may need to seek licenses from third parties on terms that are not economically feasible, re-engineer our solutions to remove or replace certain open source software, discontinue the sale of our solutions if re-engineering cannot be accomplished on a timely basis, pay monetary damages, or make available corresponding source code for aspects of our proprietary and confidential technology, any of which could adversely affect our business, operating results, and financial condition.In addition to risks related to license requirements, use of open source software generally comes without warranties, assurances of title, performance, non-infringement, or controls on the origin of the software. There is typically no support available for open source software, and we cannot assure you that the authors of such open source software will not abandon further development and maintenance. Open source software may contain security vulnerabilities, and we may be subject to additional security risk by using open source software. Many of the risks associated with the use of open source software, such as the lack of warranties or assurances of title or performance, cannot be eliminated, and could, if not properly addressed, adversely affect our business. We have established processes to help alleviate these risks, including a review process for screening requests from our development organizations for the use of open source software, but we cannot be sure that all open source software is identified or submitted for approval prior to use in our solutions.Our increased focus on the development and use of various types of AI in our platform and our business, as well as our potential failure to effectively implement, use, and market AI, may result in reputational harm or liability, or could otherwise adversely affect our business. We have incorporated and may continue to incorporate AI solutions and features into our platform, and otherwise within our business, and these solutions and features may become more important to our operations or to our future growth over time. There can be no assurance that we will realize any of the desired or anticipated benefits from AI, and we may fail to properly implement or market our AI solutions and features. Additionally, our competitors may incorporate AI into their products, offerings, and solutions more quickly or more successfully than we do, or they may have access to more complete or adequate data than our use of AI relies on, which could impair our ability to compete effectively, and adversely affect our results or operations. Our AI solutions and features may also expose us to additional claims, demands, and proceedings by private parties and regulatory authorities and subject us to legal liability or brand and reputational harm, and could also require us to spend time, expenses, and other resources on making necessary changes to our AI practices, as the legal, regulatory, and policy environments around AI are evolving rapidly and the availability of legal protections for intellectual property generated by AI is uncertain.73Risks Related to Legal, Regulatory, Accounting, and Tax MattersAdverse litigation judgments or settlements could expose us to significant monetary damages or limit our ability to operate our business.From time to time, we face litigation or claims arising in or outside the ordinary course of business, which may include class actions, derivative actions, private actions, collective actions, investigations, and various other legal proceedings by stockholders, customers, employees, suppliers, competitors, government agencies, or others. The results of any such litigation, investigations, and other legal proceedings are inherently unpredictable and expensive. Any claims against us, whether meritorious or not, could be time consuming, result in costly litigation, damage our reputation, require significant amounts of management time, and divert significant resources. If legal proceedings were to be determined adversely to us, or we were to enter into a settlement arrangement, we could be exposed to significant monetary damages or limits on our ability to operate our business, which could have a material adverse effect on our business, financial condition, and operating results. We are vulnerable to lawsuits brought against us by others alleging infringement or proprietary rights or for other intellectual property related claims.There has been considerable activity in our industry to develop and enforce patents, copyrights, trademarks, trade secrets and other intellectual property and proprietary rights, resulting in frequent litigation based on allegations of infringement or other violations of such rights. Moreover, in recent years, individuals and groups have acquired patents or other intellectual property assets without practicing the inventions solely to attempt to enforce them against others and ultimately extract monetary settlements. Successful intellectual property infringement claims against us or certain third parties, such as our customers, resellers, or strategic partners, whether by operating entities, non-practicing entities or patent assertion entities, could result in monetary liability or a material disruption in the conduct of our business. We cannot be certain that our products and services, content, and brand names do not or will not infringe valid patents, trademarks, copyrights, or other intellectual property rights held by third parties. We may be subject to legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. Any intellectual property litigation to which we might become a party, or for which we are required to provide indemnification, may require us to cease selling or using solutions that incorporate the intellectual property that we allegedly infringe and obtaining a license may not be available on reasonable terms or at all, thereby hindering our ability to sell or use the relevant technology, or requiring redesign of the allegedly infringing solutions to avoid infringement, which could be costly, time-consuming, or impossible. It may also cause us to make substantial payments for legal fees, settlement payments, licensing costs, or other costs or damages. Any claims or litigation, regardless of merit, could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our products and services, or require that we comply with other unfavorable terms. We do not have a significant patent portfolio, which could prevent us from deterring patent infringement claims through our own patent portfolio, and our competitors and others may now and in the future have significantly larger and more mature patent portfolios than we have. We may also be obligated to indemnify our customers or strategic partners in connection with such infringement claims, or to obtain licenses from third parties or modify our solutions, and each such obligation could further exhaust our resources. Some of our intellectual property infringement indemnification obligations are contractually capped at a very high amount or not capped at all.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 time and attention of our management and other employees, and adversely affect our business and operating results, including by preventing us from offering our services. We expect that the occurrence of infringement claims is likely to grow as the market for monetization products and services grows. Accordingly, our exposure to damages resulting from infringement claims could increase and this could further exhaust our financial and management resources.If we are not able to satisfy data protection, security, privacy, and other government- and industry-specific requirements, our growth could be harmed.We are subject to data protection, security, privacy, and other government- and industry-specific requirements, including those that require us to notify individuals of data security and privacy incidents involving certain types of personal information. Security and privacy compromises experienced by us or our service providers may lead to public disclosures, which could harm our reputation, erode customer confidence in the effectiveness of our security and privacy measures, adversely impact our ability to attract new customers, cause existing customers to elect not 74to renew their subscriptions with us, or adversely impact our employee relationships or impair our ability to attract new employees. In addition, some of the industries we serve have industry-specific requirements relating to compliance with certain security, privacy and regulatory standards, such as those required by the Health Insurance Portability and Accountability Act. We also maintain compliance with the Payment Card Industry Data Security Standard, which is critical to the financial services and insurance industries. As we expand and sell into new verticals and regions, we will likely need to comply with these and other requirements to compete effectively. If we cannot comply or if we incur a violation in one or more of these requirements, our growth could be adversely impacted, and we could incur significant liability.Because we typically recognize subscription revenue over the term of the applicable agreement, a lack of subscription renewals or new subscription agreements may not be reflected immediately in our operating results and may be difficult to discern.We generally recognize subscription revenue from customers ratably over the terms of their contracts, which typically vary between one and five years. As a result, most of the subscription revenue we report in each quarter is derived from the recognition of unearned revenue relating to subscriptions entered during previous quarters. Consequently, a decline in new or renewed subscriptions in any particular quarter would likely have a minor impact on our revenue results for that quarter, but could adversely affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales and market acceptance of our solutions, and potential changes in our pricing policies or rate of renewals, may not be fully reflected in our operating results until future periods. Moreover, our recurring revenue model makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription term.We typically provide service level commitments under our customer contracts. If we fail to meet these contractual commitments, we could be obligated to provide credits or refunds for prepaid amounts related to unused subscription services or face contract terminations, which could adversely affect our operating results.Our customer contracts typically provide for service level commitments, which relate to service uptime, response times, and escalation procedures. If we are unable to meet the stated service level commitments or suffer extended periods of unavailability for our solutions, we may be contractually obligated to provide these customers with service credits, refunds for prepaid amounts related to unused subscription services, or other remedies, or we could face contract terminations. In addition, we could face legal claims for breach of contract, product liability, tort, or breach of warranty. Although we have contractual protections, such as warranty disclaimers and limitation of liability provisions, in our customer agreements, they may not fully or effectively protect us from claims by customers, commercial relationships, or other third parties. We may not be fully indemnified by our vendors for service interruptions beyond our control, and any insurance coverage we may have may not adequately cover all claims asserted against us, or may cover only a portion of such claims. In addition, even claims that ultimately are unsuccessful could result in our expenditure of funds in litigation and divert managementâ€™s time and other resources. Thus, our revenue could be harmed if we fail to meet our service level commitments under our agreements with our customers, including, but not limited to, maintenance response times and service outages. Typically, we have not been required to provide customers with service credits that have been material to our operating results, but we cannot assure you that we will not incur material costs associated with providing service credits to our customers in the future. Additionally, any failure to meet our service level commitments could adversely impact our reputation, business, operating results, and financial condition.Our customers may fail to pay us in accordance with the terms of their agreements, necessitating action by us to compel payment.We typically enter into non-cancelable agreements with our customers with a term of one to five years. If customers fail to pay us under the terms of our agreements, we may be adversely affected both from the inability to collect amounts due and the cost of enforcing the terms of our contracts, including litigation. The risk of such adverse effects increases with the term length of our customer arrangements. Furthermore, some of our customers may seek bankruptcy protection or other similar relief and fail to pay amounts due to us, or pay those amounts more slowly, either of which could adversely affect our operating results, financial position, and cash flow. Although we have processes in place that are designed to monitor and mitigate these risks, we cannot guarantee these programs will be effective. If we are unable to adequately control these risks, our business, operating results and financial condition could be harmed. 75Our ability to use our NOL carryforwards to offset future taxable income or our research and development tax credits to offset our future taxes may be subject to certain limitations which could subject our business to higher tax liability.Our federal NOLs arising in tax years beginning before December 31, 2017 are subject to a 20-year carryover limitation and may expire if unused within that period. Our state NOLs and our federal and state research and development tax credits are subject to similar limitations. Our federal NOLs arising in tax years beginning after December 31, 2017 do not expire and are available to reduce future federal taxable income, if any, over an indefinite period. However, for tax years beginning after December 31, 2020, the utilization of those NOL carryforwards in any given year is limited to 80% of our taxable income in such year.There may be periods during which the use of NOLs or certain tax credits is suspended or otherwise limited. California Senate Bill 167 (SB 167), signed into law on June 27, 2024, suspends the California NOL deductions for certain taxpayers and limits certain California tax credits, including the research and development tax credit, for 2024, 2025 and 2026.Utilization of NOLs and research and development tax credit carryforwards also may be subject to a substantial annual limitation due to the â€œownership changeâ€ limitations provided by Section 382 and 383 of the Internal Revenue Code of 1986, as amended, and other similar state provisions. Any annual limitation may result in the expiration of NOL and tax credit carryforwards before utilization. As a result of the limitations described herein, we may not be able to realize a tax benefit from the use of our NOLs or tax credits, whether or not we attain profitability.We may need to raise additional capital required to grow our business, and we may not be able to raise capital on terms acceptable to us or at all.In order to support our growth and respond to business challenges, such as developing new features or enhancements to our solutions to stay competitive, acquiring new technologies, and improving our infrastructure, we have made significant financial investments in our business, and we intend to continue to make such investments. As a result, to provide the funds required for these investments and other business endeavors, we may need to engage in equity or debt financings. For example, we have issued $400.0 million in 2029 Notes. See Note 9. Debt of the Notes to Unaudited Condensed Consolidated Financial Statements for more information about the 2029 Notes. If we raise additional funds through equity or convertible debt issuances such as the 2029 Notes, our existing stockholders may suffer significant dilution, and these securities could have rights, preferences, and privileges that are superior to that of holders of our common stock. If we obtain additional funds through debt financing, we may not be able to obtain such financing on terms favorable to us. Such terms may involve additional restrictive covenants making it difficult to engage in capital raising activities and pursue business opportunities, including potential acquisitions. Our 2029 Notes, for example, restrict our ability to incur additional indebtedness, including secured indebtedness. Our credit facility also contains restrictive and financial covenants and is secured by substantially all of our non-intellectual property assets.In addition, servicing the interest and principal repayment obligations under our current or future indebtedness could divert funds that would otherwise be available to fund working capital, capital expenditures, acquisitions, and other business activities.Future volatility in the trading price of our common stock may reduce our ability to access equity capital on favorable terms or at all. Our ability to make payments on our indebtedness, refinance indebtedness or incur additional indebtedness to fund or expand our business will depend on our financial condition and market conditions. A recession, depression or other sustained adverse market event resulting from deteriorating macroeconomic factors could materially and adversely affect our business and the value of our common stock and our access to capital. If we are unable to generate sufficient cash flows or obtain adequate financing or financing on terms satisfactory to us, or at all, when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired and our business may be adversely affected, requiring us to delay, reduce, or eliminate development of new services or future marketing efforts, or reduce or discontinue some or all of our operations. Any of these events could significantly harm our business, financial condition, and prospects.76Failure to comply with anti-corruption and anti-money laundering laws, including the FCPA and similar laws associated with our activities outside of the United States, could subject us to penalties and other adverse consequences.We are subject to the FCPA, the U.S. domestic bribery statute contained in 18 U.S.C. Â§ 201, the U.S. Travel Act, the USA PATRIOT Act, the UK Bribery Act, and possibly other anti-bribery and anti-money laundering laws in countries in which we conduct activities. We face significant risks if we fail to comply with the FCPA and other anti-corruption laws that prohibit companies and their employees and third-party intermediaries from promising, authorizing, offering, or providing, directly or indirectly, improper payments or benefits to foreign government officials, political parties, and private-sector recipients for the purpose of obtaining or retaining business, directing business to any person, or securing any advantage. In many foreign countries, particularly in countries with developing economies, it may be a local custom that businesses engage in practices that are prohibited by the FCPA or other applicable laws and regulations. In addition, we use various third parties to sell our solutions and conduct our business abroad. We or our 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 these third-party intermediaries, 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 of 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, and anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, or severe criminal or civil sanctions, which could have a material adverse effect on our reputation, business, operating results, and prospects. In addition, responding to any enforcement action may result in a significant diversion of managementâ€™s attention and resources, significant defense costs, and other professional fees.We are required to comply with governmental export control laws and regulations. Our failure to comply with these laws and regulations could have an adverse effect on our business and operating results.Our solutions are subject to governmental, including United States and European Union, export control laws and import regulations, and as a U.S. company we are covered by the U.S. sanctions regulations. Export control and economic sanctions laws and regulations restrict or prohibit the shipment of certain products and services to embargoed or sanctioned countries, governments, entities and persons, and complying with export control and sanctions regulations for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities. While we take precautions to prevent our solutions from being exported in violation of these laws or engaging in any other activities that are subject to these regulations, if we were to fail to comply with U.S. export laws, U.S. Customs regulations and import regulations, U.S. economic sanctions, and other countriesâ€™ import and export laws, we could be subject to substantial civil and criminal penalties, including fines for our company, enforcement actions, incarceration for responsible officers and employees, reputational harm, and/or the possible loss of export or import privileges which could impact our ability to provide our solutions to customers. We could also be held liable for our third-party affiliatesâ€™ non-compliance with sanctions and export controls.We incorporate encryption technology in our products, and certain encryption products may be exported outside of the United States only by a license or a license exception. In addition, various countries regulate the import of certain encryption technology, including import permit and/or license requirements, and some have enacted laws that could limit our ability to distribute our products or could limit our customersâ€™ ability to deploy our products in those countries. Although we take precautions to prevent our products from being provided in violation of such laws, we cannot assure you that inadvertent violations of such laws have not occurred or will not occur in connection with the distribution or use of our products despite the precautions we take. Governmental regulation of encryption technology and regulation of imports or exports, or our failure to obtain required import or export approval for our products, could harm our international sales and adversely affect our operating results.Further, if our partners, including suppliers, fail to obtain required import, export, or re-export licenses or permits, we may also be impacted by becoming the subject of government investigations or penalties and therefore incur reputational harm. Changes in our solutions or changes in sanctions or export and import regulations may create delays in the introduction of our solutions in international markets, prevent our customers with international operations from deploying our solutions globally or, in some cases, prevent the export or import of our solutions to 77certain countries, governments, or persons altogether. Any change in export or import laws or regulations, economic sanctions, or related legislation, shift in the enforcement or scope of existing laws and regulations, or change in the countries, governments, persons, or technologies targeted by such laws and regulations, could result in decreased use of our solutions by, or in our decreased ability to export or sell our solutions to, existing or potential customers such as customers with international operations or customers who are added to the restricted entities list published by the U.S. Office of Foreign Assets Control. Any decreased use of our solutions or limitation on our ability to export or sell our solutions would likely harm our business, financial condition, and operating results.The applicability of sales, use and other tax laws or regulations in the U.S. and internationally on our business is uncertain. Adverse tax laws or regulations could be enacted or existing laws could be applied to us or our customers, which could subject us to additional tax liability and related interest and penalties, increase the costs of our services and adversely impact our business.The application of federal, state, local, and non-U.S. tax laws to services provided electronically is evolving. New income, sales, use, value-added, or other direct or indirect tax laws, statutes, rules, regulations, or ordinances could be enacted at any time (possibly with retroactive effect), and could be applied solely or disproportionately to services provided over the Internet or could otherwise materially affect our financial position and operating results. Many countries in the European Union, as well as a number of other countries and organizations such as the Organization for Economic Cooperation and Development, have proposed or recommended changes to existing tax laws or have enacted new laws that could impact our tax obligations. 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, operating results, and financial condition.In addition, state, local, and foreign tax jurisdictions have differing rules and regulations governing sales, use, value-added, and other taxes, and these rules and regulations can be complex and are subject to varying interpretations that may change over time. Existing tax laws, statutes, rules, regulations, or ordinances could be interpreted, changed, modified, or applied adversely to us (possibly with retroactive effect), which could require us or our customers to pay additional tax amounts on prior sales and going forward, as well as require us or our customers to pay fines or penalties and interest for past amounts. Although our customer contracts typically provide that our customers must pay all applicable sales and similar taxes, our customers may be reluctant to pay back taxes and associated interest or penalties, or we may determine that it would not be commercially feasible to seek reimbursement. If we are required to collect and pay back taxes and associated interest and penalties, or we are unsuccessful in collecting such amounts from our customers, we could incur potentially substantial unplanned expenses, thereby adversely impacting our operating results and cash flows. Imposition of such taxes on our services going forward could also adversely affect our sales activity and have an adverse impact on our operating results and cash flows.Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States. GAAP is subject to interpretation by the 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, including those described in Note 2. Summary of Significant Accounting Policies and Recent Accounting Pronouncements of the Notes to Unaudited Condensed Consolidated Financial Statements, could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm investors' confidence in us.Risks Related to Ownership of Our Class A Common StockThe stock price of our ClassÂ A Common Stock has been and may continue to be volatile, and you could lose all or part of your investment.The market price of our ClassÂ A Common Stock since our initial public offering in 2018 has been and may continue to be volatile. In addition to factors discussed in this Form 10-Q, the market price of our ClassÂ A Common Stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:â€¢potential uncertainty over whether or not the Proposed Merger will be consummated;78â€¢overall performance of the equity markets;â€¢actual or anticipated fluctuations in our key metrics, revenue and other operating results;â€¢failure of securities analysts to initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;â€¢recruitment or departure of key personnel;â€¢the economy as a whole and market conditions in our industry;â€¢negative publicity related to the real or perceived quality of our solutions, as well as the failure to timely launch new products and services that gain market acceptance;â€¢growth of the market for our products;â€¢rumors and market speculation involving us or other companies in our industry;â€¢announcements by us or our competitors of new products, commercial relationships, or significant technical innovations;â€¢acquisitions, strategic partnerships, joint ventures, or capital commitments;â€¢issuance of shares of our common stock, including shares issued by us in an acquisition or upon conversion or exercise of some or all of our outstanding 2029 Notes and Warrants;â€¢new laws or regulations or new interpretations of existing laws or regulations applicable to our business;â€¢lawsuits threatened or filed against us, litigation involving our industry, or both;â€¢developments or disputes concerning our or other partiesâ€™ products, services, or intellectual property rights;â€¢changes in accounting standards, policies, guidelines, interpretations, or principles;â€¢actions instituted by activist shareholders or others; â€¢actual or perceived privacy, security, data protection, or cybersecurity incidents; â€¢other events or factors, including those resulting from geopolitical developments such as war, incidents of terrorism, or responses to these events;â€¢the impact of catastrophic events such as natural disasters or pandemics on the global macroeconomy, our operating results and enterprise technology spending; â€¢sales of shares of our ClassÂ A Common Stock by us or our stockholders; â€¢inflation; â€¢fluctuations in interest rates; andâ€¢disruptions to the U.S. or international banking system.In addition, the stock markets have experienced extreme 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, and technology companies in particular, have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. Some companies that have experienced volatility in the market price of their securities have been subject to shareholder litigation. We have been subject to shareholder litigation in the past, and future shareholder litigation could subject us to substantial costs, divert resources and the attention of management from our business, and adversely affect our business. The market price of our Class A Common Stock could decline as a result of a substantial number of shares of our ClassÂ A Common Stock being issued or sold, which may make it more difficult for you to sell your ClassÂ A Common Stock at a time and price that you deem appropriate.As of NovemberÂ 30, 2024, a total of 145.1 million shares of Class A Common Stock and 8.6 million shares of Class B Common Stock were outstanding. The issuance and sale of a substantial number of shares of our Class A Common Stock, including as a result of the exercise or conversion into Class A Common Stock of outstanding 2029 Notes, warrants, equity awards, shares of Class B Common Stock or other securities, could result in significant 79dilution to our existing stockholders and cause the market price of our Class A Common Stock to decline. The perception that such issuances could occur could also adversely affect the market price of our Class A Common Stock. From time to time, we may also issue shares of common stock or securities convertible into shares of common stock in connection with a financing, an acquisition, investments, or otherwise. For example, as described in Note 9. Debt of the Notes to Unaudited Condensed Consolidated Financial Statements, we issued to Silver Lake 2029 Notes in the aggregate principal amount of $400.0 million, as well as Warrants initially exercisable for up to 7.5 million shares of Class A Common Stock. In addition, under certain circumstances, the number of shares issuable upon conversion of the 2029 Notes or exercise of the Warrants may be subject to increase, as described in Note 9. Debt and Note 10. Warrants to Purchase Shares of Common Stock of the Notes to Unaudited Condensed Consolidated Financial Statements. The conversion of these 2029 Notes or exercise of these Warrants could result in a substantial number of shares of our Class A Common Stock being issued (assuming the Proposed Merger is not consummated). In addition, we grant equity awards to employees, directors, and consultants under our 2018 Equity Incentive Plan on an ongoing basis and our employees have the right to purchase shares of our ClassÂ A Common Stock semi-annually under our 2018 Employee Stock Purchase Plan. As of October 31, 2024, there were a total of 18.2 million shares of Class A Common Stock subject to outstanding options and RSUs, including PSUs. Subject to vesting and other applicable requirements, the shares issued upon the exercise of such options or settlement of such RSUs will be available for resale in the open market. Moreover, the market price of our ClassÂ A Common Stock could decline as a result of sales of a large number of shares of our ClassÂ A Common Stock in the market over a short period of time, such as sales by our directors, executive officers, or significant stockholders, sales by Zuora for employee tax withholding purposes upon vesting of RSUs or PSUs, and sales by employees during limited open trading windows. We also have granted and may grant from time to time certain registration rights that, subject to certain conditions, require us to file registration statements for the public resale of certain securities or to include such securities in registration statements that we may file on behalf of our company or other stockholders. If securities or industry analysts do not publish research, or publish inaccurate or unfavorable research, about our business, the price of our ClassÂ A Common Stock and trading volume could decline.The trading market for our ClassÂ A Common Stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If industry analysts cease coverage of us, the trading price for our ClassÂ A Common Stock could be adversely affected. If one or more of the analysts who cover us downgrade our ClassÂ A Common Stock or publish inaccurate or unfavorable research about our business, the price of our ClassÂ A Common Stock would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our ClassÂ A Common Stock could decrease, which might cause our ClassÂ A Common Stock price and trading volume to decline.Even if our stock is actively covered by analysts, we do not have any control over the analysts or the measures that analysts or investors may rely upon to forecast our future results. For example, in order to assess our business activity in a given period, analysts and investors may look at the combination of revenue and changes in deferred revenue in a given period (sometimes referred to as â€œbillingsâ€). Over-reliance on billings or similar measures may result in analyst or investor forecasts that differ significantly from our own for a variety of reasons, including:â€¢a relatively large number of transactions occur at the end of the quarter. Invoicing of those transactions may or may not occur before the end of the quarter based on a number of factors including receipt of information from the customer, volume of transactions, and holidays. A shift of a few days has little economic impact on our business, but will shift deferred revenue from one period into the next;â€¢a shift in billing frequency (i.e., from monthly to quarterly or from quarterly to annually), which may distort trends;â€¢subscriptions that have deferred start dates; andâ€¢services that are invoiced upon delivery.In addition, the revenue recognition disclosure obligations under ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) are prepared on the basis of estimates that can change over time and on the basis of events over which we have no control. It is possible that analysts and investors may misinterpret our disclosure or 80that our methods for estimating this disclosure may differ significantly from others, which could lead to inaccurate or unfavorable forecasts by analysts and investors.The dual class structure of our common stock has the effect of concentrating voting control with holders of our ClassÂ B Common Stock, including our CEO, which limits or precludes your ability to influence corporate matters, including the election of directors and the approval of any change of control transaction.Our common stock consists of two classes, including our ClassÂ B Common Stock, which has ten votes per share, and our Class A Common Stock, which has one vote per share. As of October 31, 2024, our Class B Common Stock held approximately 37% of the total voting power of our common stock, with our CEO and his affiliates holding substantially all of our Class B Common Stock. As a result, the holders of our Class B Common Stock, including our CEO, could substantially influence all matters submitted to our stockholders for approval until the earlier of (i)Â the date specified by a vote of the holders of 66 2/3% of the outstanding shares of ClassÂ B Common Stock, (ii)Â AprilÂ 16, 2028, and (iii)Â the date the shares of ClassÂ B Common Stock cease to represent at least 5% of all outstanding shares of our common stock (such date referred to as the Class B expiration). Until the Class B expiration, the concentrated influence held by our Class B Common Stock limits or precludes 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. In addition, this may prevent or discourage unsolicited acquisition proposals or offers for our capital stock that you may feel are in your best interest as one of our stockholders. As discussed in Note 1. Overview and Basis of Presentation, the Merger Agreement contains specific stockholder approval requirements.Future transfers by holders of ClassÂ B Common Stock will generally result in those shares converting to ClassÂ A Common Stock, subject to limited exceptions, such as certain permitted transfers effected for estate planning purposes. The conversion of ClassÂ B Common Stock to ClassÂ A Common Stock will have the effect, over time, of increasing the relative voting power of those holders of ClassÂ B Common Stock who retain their shares in the long term.The dual class structure of our common stock may adversely affect the trading market for our ClassÂ A Common Stock.Stock index providers, such as FTSE Russell, exclude or limit the eligibility of public companies with multiple classes of shares of common stock for certain indices. In addition, several shareholder advisory firms have announced their opposition to the use of multiple class structures. As a result, the dual class structure of our common stock may prevent the inclusion of our ClassÂ A Common Stock in such indices and may cause shareholder advisory firms to publish negative commentary about our corporate governance practices or otherwise seek to cause us to change our capital structure. Any such exclusion from indices could result in a less active trading market for our ClassÂ A Common Stock. Any actions or publications by shareholder advisory firms critical of our corporate governance practices or capital structure could also adversely affect the value of our ClassÂ A Common Stock.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. Additionally, our ability to pay dividends on our common stock is limited by restrictions under the terms of our credit facility with Silicon Valley Bank, a division of First-Citizens Bank & Trust. We anticipate that for the foreseeable future we will retain all of our future earnings for use in the development 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. Accordingly, investors must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investments.81Provisions in our charter documents and under Delaware law and the 2029 Notes and the Warrants could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove our current management, limit our stockholdersâ€™ ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees, and limit the market price of our ClassÂ 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:â€¢provide that our Board of Directors will be classified into three classes of directors with staggered three-year terms;â€¢permit our Board of Directors to establish the number of directors and fill any vacancies and newly-created directorships;â€¢require supermajority voting to amend some provisions in our restated certificate of incorporation and amended and restated bylaws;â€¢authorize the issuance of â€œblank checkâ€ preferred stock that our Board of Directors could use to implement a stockholder rights plan;â€¢provide that only the chairman of our Board of Directors, our chief executive officer, lead independent director, or a majority of our Board of Directors will be authorized to call a special meeting of stockholders;â€¢provide for a dual class common stock structure in which holders of our ClassÂ B Common Stock may 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 common stock, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets;â€¢prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;â€¢provide that our Board of Directors is expressly authorized to make, alter, or repeal our bylaws; andâ€¢establish 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.In addition, our restated certificate of incorporation provides that, to the fullest extent permitted by law, the Court of Chancery of the State of Delaware is the exclusive forum for: any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the Delaware General Corporation Law (the DGCL), our restated certificate of incorporation, or our amended and restated bylaws; or any action asserting a claim against us that is governed by the internal affairs doctrine. This exclusive forum provision does not apply to suits brought to enforce a duty or liability created by the Exchange Act. It would apply, however, to a suit that falls within one or more of the categories enumerated in the exclusive forum provision.Section 22 of the Securities Act of 1933, as amended (Securities Act), creates concurrent jurisdiction for federal and state courts over all claims brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder. Our bylaws provide that the federal district courts of the United States of America will, to the fullest extent permitted by law, be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act (Federal Forum Provision). Our decision to adopt a Federal Forum Provision followed a decision by the Supreme Court of the State of Delaware holding that such provisions are facially valid under Delaware law. While there can be no assurance that federal or state courts will follow the holding of the Delaware Supreme Court or determine that the Federal Forum Provision should be enforced in a particular case, application of the Federal Forum Provision means that suits brought by our stockholders to enforce any duty or liability created by the Securities Act must be brought in federal court and cannot be brought in state court.Section 27 of the Exchange Act creates exclusive federal jurisdiction over all claims brought to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder. In addition, neither the exclusive forum provision nor the Federal Forum Provision applies to suits brought to enforce any duty or liability 82created by the Exchange Act. Accordingly, actions by our stockholders to enforce any duty or liability created by the Exchange Act or the rules and regulations thereunder must be brought in federal court. Our stockholders will not be deemed to have waived our compliance with the federal securities laws and the regulations promulgated thereunder.Any person or entity purchasing or otherwise acquiring or holding any interest in any of our securities shall be deemed to have notice of and consented to our exclusive forum provisions, including the Federal Forum Provision. These provisions may limit a stockholdersâ€™ ability to bring a claim in a judicial forum of their choosing for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers, and other employees.Moreover, we are subject to SectionÂ 203 of the DGCL, which may discourage, delay, or prevent a change of control of our company. SectionÂ 203 imposes certain restrictions on mergers, business combinations, and other transactions between us and holders of 15% or more of our common stock. In connection with the transactions contemplated by the Merger Agreement, the Special Committee granted Mr. Tien Tzuo and Silver Lake certain waivers with respect to Section 203 of the DGCL.Finally, provisions of the 2029 Notes and Warrants may also have the effect of delaying or preventing a change of control or changes in our management. Holders of the 2029 Notes have the right to require us to repurchase their notes upon the occurrence of a â€œFundamental Changeâ€ (as defined in the Convertible Notes Indenture) that occurs prior to the maturity date at repurchase price equal to 100% of the principal amount of the 2029 Notes to be repurchased, plus the sum of the amounts of all remaining scheduled interest payments (at the 5.50% per annum paid-in-kind interest rate) through and including the maturity date. Additionally, on and after March 24, 2027, holders of the 2029 Notes have the right, at each holderâ€™s option and on one or more occasions, to require us, subject to certain exceptions and deferral provisions, to repurchase all of such holderâ€™s notes equal to 100% of the principal amount of the notes (or portion thereof) to be so repurchased, plus accrued and unpaid interest, if any, to, but excluding, the applicable repurchase date. In addition, provisions of (i) the 2029 Notes require an increase to the conversion rate for 2029 Notes converted in connection with a â€œMake-Whole Fundamental Changeâ€ and (ii) the Warrants require an increase in the number of shares of Class A Common Stock the Warrants are exercisable for upon the occurrence of a â€œMake-Whole Fundamental Changeâ€ (as defined in the Convertible Notes Indenture and the form of Warrant, respectively). Furthermore, the Convertible Notes Indenture prohibits us from engaging in specified types of mergers or acquisitions unless, among other things, the acquiring or surviving entity assumes Zuoraâ€™s obligations under the 2029 Notes.Any of these provisions of our charter documents, Delaware law, the 2029 Notes and the Warrants that have the effect of making an acquisition of our company more difficult or limiting attempts by our stockholders to replace or remove our current management could limit the price investors are willing to pay for our Class A Common Stock.General Risk FactorsPolitical developments, economic uncertainty or downturns could adversely affect our business and operating results.Political developments impacting government spending and international trade, including future government shutdowns in the United States or elsewhere, debt ceiling negotiations, potential government shutdowns, armed conflict such as the conflicts in Ukraine and Israel, retaliatory actions, treaties, increased barriers, policies favoring domestic industries, increased import or export licensing requirements or restrictions, trade disputes and tariffs, including the U.S.â€™s ongoing trade disputes with China and other countries, inflation, and rising interest rates, may adversely impact markets and cause weaker macroeconomic conditions. The continuing effect of any or all of these political or other uncertainties could adversely impact demand for our products, harm our operations and weaken our financial results. In addition, in recent years, the United States and other significant markets have experienced cyclical downturns and worldwide economic conditions remain uncertain. Economic uncertainty and associated macroeconomic conditions, such as a recession or rising inflation rates or economic slowdown in the United States or internationally, including due to the ongoing conflicts in Ukraine and Israel, make it extremely difficult for our customers and us to accurately forecast and plan future business activities, and could cause our customers to cancel planned purchases or slow spending on our solutions, which could delay and lengthen sales cycles. Rising inflation may also increase our employee and facilities costs and decrease demands for our products. Furthermore, 83during uncertain economic times our customers may face issues gaining timely access to sufficient credit, which could result in an impairment of their ability to make timely payments to us. If that were to occur, we may be required to increase our allowance for credit losses and our results could be adversely impacted.We have customers in a variety of different industries. A significant downturn in the economic activity attributable to any particular industry may cause organizations to react by reducing their capital and operating expenditures in general or by specifically reducing their spending on information technology. In addition, our customers may delay or cancel information technology projects or seek to lower their costs by renegotiating vendor contracts. To the extent purchases of our solutions are perceived by customers and potential customers to be discretionary, our revenue may be disproportionately affected by delays or reductions in general information technology spending. Also, customers may choose to develop in-house software or modify their legacy business software as an alternative to using our solutions. Moreover, competitors may respond to challenging market conditions by lowering prices and attempting to lure away our customers. We cannot predict the timing or duration of any economic slowdown, instability, or recovery, generally or within any particular industry. If the economic conditions of the general economy or markets in which we operate worsen from present levels, our business, financial condition, and operating results could be adversely affected.We cannot predict the timing, strength, or duration of any economic slowdown or any subsequent recovery generally, or any industry in particular. If the conditions in the general economy and the markets in which we operate worsen from present levels, our business, financial condition, and operating results could be materially and adversely affected.Moreover, any potential disruptions in the banking system, both in the U.S. or abroad, may impact our or our customersâ€™ liquidity and, as a result, adversely impact our business and operating results.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. As a public company, we are required, pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act), to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. Effective internal control over financial reporting is necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could cause us to fail to meet our reporting obligations. Ineffective internal controls could also cause investors to lose confidence in our reported financial information, which could have an adverse effect on the trading price of our Class A Common Stock. This management report will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting, as well as a statement that our independent registered public accounting firm has issued an opinion on our internal control over financial reporting.Section 404(b) of the Sarbanes-Oxley Act requires our independent registered public accounting firm to annually attest to the effectiveness of our internal control over financial reporting, which has required, and will continue to require, increased costs, expenses, and management resources. An independent assessment of the effectiveness of our internal controls could detect problems that our managementâ€™s assessment might not. Undetected material weaknesses in our internal controls could lead to financial statement restatements and require us to incur the expense of remediation. We are required to disclose changes made in our internal controls and procedures on a quarterly basis. To comply with the requirements of being a public company, we have undertaken, and may need to further undertake in the future, various actions, such as implementing new internal controls and procedures and hiring additional accounting or internal audit staff.If we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal control, including as a result of any identified material weakness, we could lose investor confidence in the accuracy and completeness of our financial reports, which would cause the price of our Class A Common Stock to decline, and we may be subject to investigation or sanctions by the SEC. 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.84We may be adversely affected by natural disasters, pandemics, epidemics, and other catastrophic events, and by man-made problems such as terrorism, that could disrupt our business operations. Our business continuity and disaster recovery plans may not adequately protect us from a serious disaster.Natural disasters, pandemics and epidemics, or other catastrophic events such as fire, power shortages, and other events beyond our control may cause damage or disruption to our operations, international commerce, and the global economy, and could have an adverse and material effect on our business, operating results, and financial condition. For example, as a result of the COVID-19 pandemic and its impacts on the global economy and financial markets, we experienced certain disruptions to our business operations, including delays and lengthening of our customer sales cycles, certain customers not purchasing or renewing our products or services, and requests for pricing and payment concessions by certain customers. In the event of the development of other public health emergencies, climate change, pandemics, or epidemics, we could experience similar or more significant impacts to our operations, which may adversely impact our business, financial condition and operating results. More generally, the extent to which a public health crisis or other catastrophic event could adversely affect economies and financial markets and lead to an economic downturn is highly uncertain and could harm our business, financial condition, operating results and liquidity.In the event of a natural disaster, including a major earthquake, blizzard, wildfire, or hurricane, or other catastrophic event such as a fire, power loss, or telecommunications failure, we may be unable to continue our operations and may endure system interruptions, reputational harm, delays in development of our solutions, lengthy interruptions in service, breaches of data security, and loss of critical data, all of which could have an adverse effect on our future operating results. For example, our corporate headquarters is located in California, a state that frequently experiences earthquakes and wildfires. Additionally, all the aforementioned risks may be further increased if we do not implement an effective disaster recovery plan or our partnersâ€™ disaster recovery plans prove to be inadequate. Investorsâ€™ expectations of our performance relating to ESG factors, and our disclosed performance and aspirations for these practices, may expose us to new risks and require us to incur additional costs. Certain investors, legislators, regulators, employees, and other stakeholders, including those in Europe, where we have a significant number of customers, focus on corporate responsibility, including ESG factors. Some investors may use these factors to guide their investment strategies and, in some cases, may choose not to invest in us if they believe our corporate responsibility policies are inadequate. Standards and laws by which ESG efforts are tracked and measured continue to evolve. For example, in March 2024, the SEC adopted final rules aimed at enhancing and standardizing climate-related disclosures, which includes quantitative and qualitative climate-related disclosures, which were subsequently stayed by the SEC. We are also subject to California's recently enacted climate disclosure laws, which will require in-scope companies to report on greenhouse gas emissions, climate-related financial risks, and the use of carbon offsets and emissions reduction claims relating to their corporate operations or products. The future of such legislation is uncertain, and two of the three proposed laws are subject to ongoing litigation. Our efforts to abide by these developing standards and laws, if and when they go into effect, may require significant expenditures. In May 2022, we announced our commitment to remain carbon neutral going forward, including by purchasing high quality carbon offsets in future years, which may become increasingly more expensive. In addition, the corporate responsibility criteria could change, which could result in greater expectations of us and cause us to undertake more costly initiatives to satisfy such new criteria. If we elect not to or are unable to satisfy such new criteria, investors may conclude that our policies with respect to corporate responsibility are inadequate. We may face reputational damage in the event that our corporate responsibility procedures or standards do not meet the standards set by various constituencies.Furthermore, if our competitorsâ€™ corporate responsibility performance is perceived to be greater than ours, potential or current investors may elect to invest with our competitors instead. Any failure or perceived failure of previously stated goals, targets and objectives or to satisfy various reporting standards within the timelines we announce, or not at all, regarding ESG matters, could have negative impacts on our reputation and business, operating results, and our financial condition could be adversely impacted.In addition, compliance with ESG-related rules and efforts to meet stakeholder expectations on ESG matters may place strain on our employees, systems, and resources. Moreover, increasingly, different stakeholder groups have divergent views on sustainability and ESG matters, which increases the risk that any action or lack thereof with respect to sustainability or ESG matters will be perceived negatively by at least some stakeholders and adversely impact our reputation and business. â€œAnti-ESGâ€ sentiment has also gained some momentum across the United 85States, with several states having enacted or proposed "anti-ESG" policies or legislation. If we do not successfully manage ESG-related expectations across stakeholders, it could erode stakeholder trust, impact our reputation, and adversely affect our business, financial condition, results of operations and cash flows.ItemÂ 2.Â Â Â Â Unregistered Sales of Equity Securities and Use of ProceedsNot Applicable.Item 5. Other InformationRule 10b5-1 Trading ArrangementsDuring the three months ended October 31, 2024, none of our directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted or terminated any contract, instruction or written plan for the purchase or sale of Zuora securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) of the Exchange Act or any "non-Rule 10b5-1 trading arrangement" as defined in Item 408 of Regulation S-K.86ItemÂ 6. Exhibits.ExhibitNumberÂ Incorporated By ReferenceFiled orFurnishedHerewithExhibit DescriptionFormFile No.ExhibitFilingDate2.1Agreement and Plan of Merger, dated as of October 17, 2024, by and among Zuora, Inc., Parent and Merger Sub*8-K001-384512.110/18/202410.1Voting, Support and Rollover Agreement, dated as of October 17, 2024, by and among Zodiac Purchaser, L.L.C., Zodiac Holdco, L.L.C., Silver Lake Alpine II, L.P., Zuora, Inc., and the stockholders party thereto8-K001-3845110.110/18/202431.1Certification of Chief Executive Officer pursuant to RuleÂ 13a-14(a)/15d-14(a) of the Exchange ActX31.2Certification of Chief Financial Officer pursuant to RuleÂ 13a-14(a)/15d-14(a) of the Exchange ActX32.1**Certification of the Chief Executive Officer pursuant to 18Â U.S.C. SectionÂ 1350, as adopted pursuant to SectionÂ 906 of the Sarbanes-Oxley Act of 2002X32.2**Certification of the Chief Financial Officer pursuant to 18Â U.S.C. SectionÂ 1350, as adopted pursuant to SectionÂ 906 of the Sarbanes-Oxley Act of 2002X101.INSInline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL documentX101.SCHInline XBRL Taxonomy Extension Schema DocumentX101.CALInline XBRL Taxonomy Extension Calculation Linkbase DocumentX101.DEFInline XBRL Taxonomy Extension Definition Linkbase DocumentX101.LABInline XBRL Taxonomy Extension Label Linkbase DocumentX101.PREInline XBRL Taxonomy Extension Presentation Linkbase DocumentX104Cover Page Interactive Data File (embedded within the Inline XBRL document and included in Exhibit 101).X* All schedules to the Merger Agreement have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Company hereby agrees to furnish supplementally a copy of any omitted schedule to the SEC upon request.** The certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Form 10-Q and are not deemed â€œfiledâ€ for purposes of SectionÂ 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall they be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.87SIGNATURESPursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.Â ZUORA, INC.Date: December 9, 2024Â By:/s/ Todd McElhattonÂ Todd McElhattonÂ Chief Financial Officer(Principal Financial Officer)Date: December 9, 2024By:/s/ Matthew DobsonMatthew DobsonChief Accounting Officer(Principal Accounting Officer)DocumentExhibit 31.1CERTIFICATION PURSUANT TO RULEÂ 13a-14(a)Â ORÂ 15d-14(a)Â OFTHE SECURITIES EXCHANGE ACT OF 1934,AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002I, Tien Tzuo, certify that:1.I have reviewed this Quarterly Report on FormÂ 10-QÂ of Zuora, Inc.;2.Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;3.Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report; 4.The registrantâ€™s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act RulesÂ 13a-15(e)Â andÂ 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:a.designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;b.designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;c.evaluated the effectiveness of the registrantâ€™s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; andd.disclosed in this report any change in the registrantâ€™s internal control over financial reporting that occurred during the registrantâ€™s most recent fiscal quarter (the registrantâ€™s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrantâ€™s internal control over financial reporting; and5.The registrantâ€™s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrantâ€™s auditors and the audit committee of the registrantâ€™s board of directors (or persons performing the equivalent functions):a.all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrantâ€™s ability to record, process, summarize and report financial information; andb.any fraud, whether or not material, that involves management or other employees who have a significant role in the registrantâ€™s internal control over financial reporting.Â Date: December 9, 2024/s/ Tien TzuoTien TzuoChief Executive Officer(Principal Executive Officer)DocumentExhibit 31.2CERTIFICATION PURSUANT TO RULEÂ 13a-14(a)Â ORÂ 15d-14(a)Â OFTHE SECURITIES EXCHANGE ACT OF 1934,AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002I, Todd McElhatton, certify that:1.I have reviewed this Quarterly Report on FormÂ 10-QÂ of Zuora, Inc.;2.Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;3.Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report; 4.The registrantâ€™s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act RulesÂ 13a-15(e)Â andÂ 15d-15(e))Â and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:a.designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;b.designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;c.evaluated the effectiveness of the registrantâ€™s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; andd.disclosed in this report any change in the registrantâ€™s internal control over financial reporting that occurred during the registrantâ€™s most recent fiscal quarter (the registrantâ€™s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrantâ€™s internal control over financial reporting; and5.The registrantâ€™s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrantâ€™s auditors and the audit committee of the registrantâ€™s board of directors (or persons performing the equivalent functions):a.all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrantâ€™s ability to record, process, summarize and report financial information; andb.any fraud, whether or not material, that involves management or other employees who have a significant role in the registrantâ€™s internal control over financial reporting.Â Date: December 9, 2024/s/ Todd McElhattonTodd McElhattonChief Financial Officer(Principal Financial Officer)DocumentExhibit 32.1CERTIFICATION PURSUANT TO18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TOSECTION 906 OF THE SARBANES-OXLEY ACT OF 2002I, Tien Tzuo, Chief Executive Officer of Zuora, Inc. (the â€œCompanyâ€), do hereby certify, pursuant to 18 U.S.C. SectionÂ 1350, as adopted pursuant to SectionÂ 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:1.the Quarterly Report on FormÂ 10-QÂ of the Company for the fiscal quarter ended October 31, 2024 (the â€œReportâ€) fully complies with the requirements of SectionÂ 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and2.the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.Date: December 9, 2024/s/ Tien TzuoTien TzuoChief Executive Officer(Principal Executive Officer)DocumentExhibit 32.2CERTIFICATION PURSUANT TO18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TOSECTION 906 OF THE SARBANES-OXLEY ACT OF 2002I, Todd McElhatton, Chief Financial Officer of Zuora, Inc. (the â€œCompanyâ€), do hereby certify, pursuant to 18 U.S.C. SectionÂ 1350, as adopted pursuant to SectionÂ 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:1.the Quarterly Report on FormÂ 10-QÂ of the Company for the fiscal quarter ended October 31, 2024 (the â€œReportâ€) fully complies with the requirements of SectionÂ 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and2.the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.Â Date: December 9, 2024/s/ Todd McElhattonTodd McElhattonChief Financial Officer(Principal Financial Officer)