

# Datadog

## Annual Report

### 2019





**Datadog, Inc.**

620 8th Avenue, 45th Floor  
New York, New York 10018

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held On June 11, 2020**

To the Stockholders of Datadog, Inc.:

On behalf of our board of directors, it is our pleasure to cordially invite you to attend the Annual Meeting of Stockholders of Datadog, Inc., a Delaware corporation. The Annual Meeting will be held virtually, via live webcast at [www.virtualshareholdermeeting.com/DDOG2020](http://www.virtualshareholdermeeting.com/DDOG2020), originating from New York, New York, on Thursday, June 11, 2020 at 1:00 p.m., Eastern Time. We believe hosting a virtual meeting enables participation by more of our stockholders, while lowering the cost of conducting the meeting. Further, we believe the virtual meeting format is even more critical in light of the recent COVID-19 pandemic, as the safety of our employees, communities and stockholders is our first priority. Stockholders attending the virtual meeting will be afforded the same rights and opportunities to participate as they would at an in-person meeting. We encourage you to attend online and participate. We recommend that you log in a few minutes before 1:00 p.m., Eastern Time, on June 11, 2020 to ensure you are logged in when the Annual Meeting starts.

The Annual Meeting will be held for the following purposes:

1. To elect three Class I directors, Olivier Pomel, Dev Ittycheria and Shardul Shah, each to hold office until our Annual Meeting of Stockholders in 2023;
2. To ratify the selection by the audit committee of our board of directors of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2020; and
3. To conduct any other business properly brought before the Annual Meeting.

These items of business are more fully described in the Proxy Statement accompanying this Notice.

The record date for the Annual Meeting is April 14, 2020. Only stockholders of record at the close of business on that date may vote at the Annual Meeting or any adjournment thereof.

By Order of the Board of Directors

Laszlo Kopits  
General Counsel and Secretary

New York, New York  
April 24, 2020

**You are cordially invited to attend the Annual Meeting. Whether or not you expect to attend the Annual Meeting, PLEASE VOTE YOUR SHARES. As an alternative to voting online at the Annual Meeting, you may vote your shares in advance of the Annual Meeting through the internet, by telephone or, if you receive a paper proxy card in the mail, by mailing the completed proxy card. Voting instructions are provided in the Notice of Internet Availability of Proxy Materials or, if you receive a paper proxy card by mail, the instructions are printed on your proxy card.**

**Even if you have voted by proxy, you may still vote online if you attend the Annual Meeting. Please note, however, that if your shares are held of record by a broker, bank or other agent and you wish to vote at the Annual Meeting, you must follow the instructions from such organization and will need to obtain a proxy issued in your name from that record holder.**

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**Datadog, Inc.**

620 8th Avenue, 45th Floor  
New York, New York 10018

**PROXY STATEMENT  
FOR THE 2020 ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held on June 11, 2020 at 1:00 p.m., Eastern Time**

Our board of directors is soliciting your proxy to vote at the 2020 Annual Meeting of Stockholders (the “Annual Meeting”) of Datadog, Inc., a Delaware corporation, to be held virtually, via live webcast at [www.virtualshareholdermeeting.com/DDOG2020](http://www.virtualshareholdermeeting.com/DDOG2020), originating from New York, New York, on Thursday, June 11, 2020 at 1:00 p.m., Eastern Time, and any adjournment or postponement thereof. We believe hosting a virtual meeting enables participation by more of our stockholders, while lowering the cost of conducting the meeting. Further, we believe the virtual meeting format is even more critical in light of the recent COVID-19 pandemic, as the safety of our employees, communities and stockholders is our first priority. Stockholders attending the virtual meeting will be afforded the same rights and opportunities to participate as they would at an in-person meeting.

For the Annual Meeting, we have elected to furnish our proxy materials, including this proxy statement and our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (the “Annual Report”), to our stockholders primarily via the internet. On or about April 24, 2020, we expect to mail to our stockholders a *Notice of Internet Availability of Proxy Materials* (the “Notice”) that contains notice of the Annual Meeting and instructions on how to access our proxy materials on the internet, how to vote at the Annual Meeting, and how to request printed copies of the proxy materials. Stockholders may request to receive all future materials in printed form by mail or by email by following the instructions contained in the Notice. A stockholder’s election to receive proxy materials by mail or email will remain in effect until revoked. We encourage stockholders to take advantage of the availability of the proxy materials on the internet to help reduce the environmental impact and cost of our Annual Meeting.

Only stockholders of record at the close of business on April 14, 2020 (the “Record Date”) will be entitled to vote at the Annual Meeting. On the Record Date, there were 156,294,652 shares of Class A common stock and 142,588,212 shares of Class B common stock outstanding and entitled to vote (together, the “common stock”). **Each holder of Class A common stock will have the right to one vote per share of Class A common stock and each holder of Class B common stock will have the right to ten votes per share of Class B common stock.** The holders of shares of common stock will vote together as a single class on all matters submitted to a vote at the Annual Meeting. A list of stockholders entitled to vote at the Annual Meeting will be available for examination during normal business hours for ten days before the Annual Meeting at our address above. To the extent office access is impracticable due to the recent COVID-19 pandemic, you may email us at [IR@datadoghq.com](mailto:IR@datadoghq.com) for alternative arrangements. The stockholder list will also be available online during the Annual Meeting. For instructions on how to attend the Annual Meeting, please see the instructions at [www.virtualshareholdermeeting.com/DDOG2020](http://www.virtualshareholdermeeting.com/DDOG2020) and on page 2 of this proxy statement.

In this proxy statement, we refer to Datadog, Inc. as “Datadog,” “we” or “us” and the board of directors of Datadog as “our board of directors.” The Annual Report, which contains consolidated financial statements as of and for the fiscal year ended December 31, 2019, accompanies this proxy statement. You also may obtain a copy of the Annual Report without charge by emailing [IR@datadoghq.com](mailto:IR@datadoghq.com).

## QUESTIONS AND ANSWERS ABOUT THESE PROXY MATERIALS AND VOTING

### **Why did I receive a notice regarding the availability of proxy materials on the internet?**

Pursuant to rules adopted by the Securities and Exchange Commission (the “SEC”), we have elected to provide access to our proxy materials over the internet. Accordingly, we have sent you the Notice because our board of directors is soliciting your proxy to vote at the 2020 Annual Meeting of Stockholders, including at any adjournments or postponements thereof. All stockholders will have the ability to access the proxy materials on the website referred to in the Notice or to request a printed set of the proxy materials. Instructions on how to access the proxy materials over the internet or to request a printed copy may be found in the Notice.

We intend to mail the Notice on or about April 24, 2020 to all stockholders of record entitled to vote at the Annual Meeting.

### **Will I receive any other proxy materials by mail?**

We may send you a proxy card, along with a second Notice, after ten calendar days have passed since our first mailing of the Notice.

### **How do I attend, participate in, and ask questions during the Annual Meeting?**

We will be hosting the Annual Meeting via live webcast only. Any stockholder can attend the Annual Meeting live online at [www.virtualshareholdermeeting.com/DDOG2020](http://www.virtualshareholdermeeting.com/DDOG2020). The meeting will start at 1:00 p.m., Eastern Time, on Thursday, June 11, 2020. Stockholders attending the Annual Meeting will be afforded the same rights and opportunities to participate as they would at an in-person meeting.

In order to enter the Annual Meeting, you will need the control number, which is included in the Notice or on your proxy card if you are a stockholder of record of shares of common stock, or included with your voting instruction card and voting instructions received from your broker, bank or other agent if you hold your shares of common stock in a “street name.” Instructions on how to attend and participate are available at [www.virtualshareholdermeeting.com/DDOG2020](http://www.virtualshareholdermeeting.com/DDOG2020). We recommend that you log in a few minutes before 1:00 p.m., Eastern Time to ensure you are logged in when the Annual Meeting starts. The webcast will open 15 minutes before the start of the Annual Meeting.

If you would like to submit a question during the Annual Meeting, you may log in at [www.virtualshareholdermeeting.com/DDOG2020](http://www.virtualshareholdermeeting.com/DDOG2020) using your control number, type your question into the “Ask a Question” field, and click “Submit.”

To help ensure that we have a productive and efficient meeting, and in fairness to all stockholders in attendance, you will also find posted our rules of conduct for the Annual Meeting when you log in prior to its start. These rules of conduct will include the following guidelines:

- You may submit questions and comments electronically through the meeting portal during the Annual Meeting.
- Only stockholders of record as of the Record Date for the Annual Meeting and their proxy holders may submit questions or comments.
- Please direct all questions to Olivier Pomel, our Chief Executive Officer.
- Please include your name and affiliation, if any, when submitting a question or comment.
- Limit your remarks to one brief question or comment that is relevant to the Annual Meeting and/or our business.
- Questions may be grouped by topic by our management.

- Questions may also be ruled as out of order if they are, among other things, irrelevant to our business, related to pending or threatened litigation, disorderly, repetitious of statements already made, or in furtherance of the speaker's own personal, political or business interests.
- Be respectful of your fellow stockholders and Annual Meeting participants.
- No audio or video recordings of the Annual Meeting are permitted.

### **What if I have technical difficulties or trouble accessing the Annual Meeting?**

We will have technicians ready to assist you with any technical difficulties you may have accessing the Annual Meeting. If you encounter any difficulties accessing the Annual Meeting during the check-in or meeting time, please call the technical support number that will be posted at [www.virtualshareholdermeeting.com/DDOG2020](http://www.virtualshareholdermeeting.com/DDOG2020) or at [www.proxyvote.com](http://www.proxyvote.com). Technical support will be available starting at 12:00 p.m., Eastern Time on June 11, 2020.

### **Who can vote at the Annual Meeting?**

Only stockholders of record at the close of business on the Record Date, April 14, 2020, will be entitled to vote at the Annual Meeting. On the Record Date, there were 156,294,652 shares of Class A common stock and 142,588,212 shares of Class B common stock outstanding and entitled to vote.

- **Stockholder of Record: Shares Registered in Your Name.** If, on the Record Date, your shares were registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, LLC, then you are a stockholder of record. As a stockholder of record, you may vote online during the Annual Meeting or by proxy in advance. Whether or not you plan to attend the Annual Meeting, we urge you to vote your shares by proxy in advance of the Annual Meeting through the internet, by telephone or by completing and returning a printed proxy card that you may request or that we may elect to deliver at a later time to ensure your vote is counted.
- **Beneficial Owner: Shares Registered in the Name of a Broker or Bank.** If, on the Record Date, your shares were held not in your name, but rather in an account at a brokerage firm, bank or other similar organization, then you are the beneficial owner of shares held in "street name" and the Notice is being forwarded to you by that organization. The organization holding your account is considered to be the stockholder of record for purposes of voting at the Annual Meeting. As a beneficial owner, you have the right to direct your broker, bank or other agent regarding how to vote the shares in your account. You are also invited to attend the Annual Meeting. However, since you are not the stockholder of record, you may vote your shares online during the Annual Meeting only by following the instructions from such organization and after obtaining a valid proxy from your broker, bank or other agent.

### **How many votes do I have?**

Each holder of shares of our Class A common stock will have one vote per share of Class A common stock held as of the Record Date, and each holder of shares of our Class B common stock will have ten votes per share of Class B common stock held as of the Record Date. The holders of the shares of our Class A common stock and Class B common stock will vote as a single class on all matters described in this proxy statement for which your vote is being solicited.

### **What am I voting on?**

There are two matters scheduled for a vote:

- **Proposal 1:** Election of three Class I directors, each to hold office until our annual meeting of stockholders in 2023; and

- **Proposal 2:** Ratification of the selection by the audit committee of our board of directors of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2020.

### **What if another matter is properly brought before the Annual Meeting?**

Our board of directors knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the Annual Meeting, it is the intention of the persons named in the accompanying proxy to vote on those matters in accordance with their best judgment.

### **How do I vote?**

- **Stockholder of Record: Shares Registered in Your Name.** If you are a stockholder of record, you may vote (1) online during the Annual Meeting or (2) in advance of the Annual Meeting by proxy through the internet, by telephone or by using a proxy card that you may request or that we may elect to deliver at a later time. Whether or not you plan to attend the Annual Meeting, we urge you to vote by proxy to ensure your vote is counted. You may still attend the Annual Meeting and vote online even if you have already voted by proxy.
  - To vote online during the Annual Meeting, follow the provided instructions to join the Annual Meeting at [www.virtualshareholdermeeting.com/DDOG2020](http://www.virtualshareholdermeeting.com/DDOG2020), starting at 1:00 p.m., Eastern Time on Thursday, June 11, 2020. The webcast will open 15 minutes before the start of the Annual Meeting.
  - To vote in advance of the Annual Meeting through the internet, go to [www.proxyvote.com](http://www.proxyvote.com) to complete an electronic proxy card. You will be asked to provide the company number and control number from the Notice or the printed proxy card. Your internet vote must be received by 11:59 p.m., Eastern Time on Wednesday, June 10, 2020 to be counted.
  - To vote in advance of the Annual Meeting by telephone, dial 1-800-690-6903 using a touch-tone phone and follow the recorded instructions. You will be asked to provide the company number and control number from the Notice or the printed proxy card. Your telephone vote must be received by 11:59 p.m., Eastern Time on Wednesday, June 10, 2020 to be counted.
  - To vote in advance of the Annual Meeting using a printed proxy card that may be delivered to you, simply complete, sign and date the proxy card and return it promptly in the envelope provided. If you return your signed proxy card to us before the Annual Meeting, we will vote your shares as you direct.
- **Beneficial Owner: Shares Registered in the Name of Broker or Bank.** If you are a beneficial owner of shares registered in the name of your broker, bank or other agent, you should have received a Notice containing voting instructions from that organization rather than from us. Simply follow the voting instructions in the Notice to ensure that your vote is counted. To vote online during the Annual Meeting, you must follow the instructions from your broker, bank or other agent and will need to obtain a proxy issued in your name from that record holder.

**Internet voting during the Annual Meeting and/or internet proxy voting in advance of the Annual Meeting allows you to vote your shares online, with procedures designed to ensure the authenticity and correctness of your vote instructions. Please be aware that you must bear any costs associated with your internet access.**

### **Can I vote my shares by filling out and returning the Notice?**

No. The Notice identifies the items to be voted on at the Annual Meeting, but you cannot vote by marking the Notice and returning it. The Notice provides instructions on how to vote by proxy in advance of the Annual Meeting through the internet, by telephone, using a printed proxy card or online during the Annual Meeting.



### **What does it mean if I receive more than one Notice?**

If you receive more than one Notice, your shares may be registered in more than one name or in different accounts. Please follow the voting instructions on the Notices to ensure that all of your shares are voted.

### **Can I change my vote after submitting my proxy?**

- **Stockholder of Record: Shares Registered in Your Name.** If you are a stockholder of record, then yes, you can revoke your proxy at any time before the final vote at the Annual Meeting. You may revoke your proxy in any one of the following ways:
  - Submit another properly completed proxy card with a later date.
  - Grant a subsequent proxy by telephone or through the internet.
  - Send a timely written notice that you are revoking your proxy to our Secretary via email at [IR@datadoghq.com](mailto:IR@datadoghq.com).
  - Attend the Annual Meeting and vote online during the meeting. Simply attending the Annual Meeting will not, by itself, revoke your proxy. Even if you plan to attend the Annual Meeting, we recommend that you also submit your proxy or voting instructions or vote in advance of the Annual Meeting by telephone or through the internet so that your vote will be counted if you later decide not to attend the Annual Meeting.

Your most current proxy card or telephone or internet proxy is the one that is counted.

- **Beneficial Owner: Shares Registered in the Name of Broker or Bank.** If you are a beneficial owner and your shares are held in “street name” by your broker, bank or other agent, you should follow the instructions provided by your broker, bank or other agent.

### **If I am a stockholder of record and I do not vote, or if I return a proxy card or otherwise vote without giving specific voting instructions, what happens?**

If you are a stockholder of record and do not vote through the internet, by telephone, by completing the proxy card that may be delivered to you or online during the Annual Meeting, your shares will not be voted.

If you return a signed and dated proxy card or otherwise vote without marking voting selections, your shares will be voted in accordance with the recommendations of our board of directors: “**FOR**” the election of each of the three nominees for director and “**FOR**” the ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2020. If any other matter is properly presented at the Annual Meeting, your proxyholder (one of the individuals named on your proxy card) will vote your shares using his best judgment.

### **If I am a beneficial owner of shares held in “street name” and I do not provide my broker, bank or other agent with voting instructions, what happens?**

If you are a beneficial owner and do not instruct your broker, bank or other agent how to vote your shares, the question of whether your broker or nominee will still be able to vote your shares depends on whether, pursuant to stock exchange rules, the particular proposal is deemed to be a “routine” matter. Brokers and nominees can use their discretion to vote “uninstructed” shares with respect to matters that are considered to be “routine,” but not with respect to “non-routine” matters. Under applicable rules and interpretations, “non-routine” matters are matters that may substantially affect the rights or privileges of stockholders, such as mergers, stockholder proposals, elections of directors (even if not contested), executive compensation, and certain corporate governance proposals, even if management-supported. Accordingly, your broker or nominee may vote your shares on Proposal 2. Your broker or nominee, however, may not vote your shares on Proposal 1 without your

instructions. Such an event would result in a “broker non-vote” and these shares will not be counted as having been voted on Proposal 1. Please instruct your bank, broker or other agent to ensure that your vote will be counted.

**What are “broker non-votes”?**

As discussed above, when a beneficial owner of shares held in “street name” does not give instructions to the broker or nominee holding the shares as to how to vote on matters deemed to be “non-routine,” the broker or nominee cannot vote the shares. These unvoted shares are counted as “broker non-votes.”

*As a reminder, if you a beneficial owner of shares held in “street name,” in order to ensure your shares are voted in the way you would prefer, you must provide voting instructions to your broker, bank or other agent by the deadline provided in the materials you receive from such organization.*

**How are votes counted?**

Votes will be counted by the inspector of election appointed for the Annual Meeting, who will separately count, for the proposal to elect directors, votes “FOR,” “WITHHOLD” and broker non-votes; and, with respect to the proposal to ratify the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2020, votes “FOR,” “AGAINST” and abstentions.

**How many votes are needed to approve each proposal?**

| <u>Proposal</u>   | <u>Vote Required for Approval</u>   | <u>“Withhold”<br/>Vote</u> | <u>Abstentions</u> | <u>Broker<br/>Non-Votes</u> |
|---|---|----------------------------|--------------------|-----------------------------|
| 1. Election of directors  | The three nominees receiving the most “FOR” votes will be elected.  | No effect                  | Not applicable     | No effect                   |
| 2. Ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2020 | Must receive “FOR” votes from the holders of a majority of shares present by virtual attendance or represented by proxy and entitled to vote on the matter. | Not applicable             | Against            | Not applicable              |

**What is the quorum requirement?**

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if stockholders holding at least a majority of the voting power of the outstanding shares entitled to vote are present at the Annual Meeting by virtual attendance or represented by proxy. On the Record Date, there were 156,294,652 shares of our Class A common stock and 142,588,212 shares of our Class B common stock outstanding and entitled to vote.

Your shares will be counted towards the quorum only if you submit a valid proxy (or one is submitted on your behalf by your broker, bank or other agent) or if you vote online during the Annual Meeting. Abstentions and broker non-votes will be counted towards the quorum requirement. If there is no quorum, the holders of a majority of the voting power of the shares present at the Annual Meeting by virtual attendance or represented by proxy may adjourn the Annual Meeting to another date.

**How can I find out the results of the voting at the Annual Meeting?**

Preliminary voting results will be announced at the Annual Meeting. In addition, final voting results will be published in a current report on Form 8-K that we expect to file within four business days after the Annual

Meeting. If final voting results are not available to us in time to file a Form 8-K within four business days after the Annual Meeting, we intend to file a Form 8-K to publish preliminary results and, within four business days after the final results are known to us, file an additional Form 8-K to publish the final results.

**When are stockholder proposals due for next year's annual meeting?**

To be considered for inclusion in next year's proxy materials, your proposal must be submitted in writing by December 25, 2020, to our Secretary at 620 8th Avenue, 45th Floor, New York, New York 10018, Attention: Secretary.

Pursuant to our amended and restated bylaws, if you wish to submit a proposal (including a director nomination) at the 2021 annual meeting that is not to be included in next year's proxy materials, you must do so not later than the close of business on March 12, 2021 nor earlier than the close of business on February 11, 2021. However, if the date of our 2021 annual meeting is not held between May 12, 2021 and July 11, 2021, to be timely, notice by the stockholder must be received (A) not earlier than the close of business on the 120th day prior to the 2021 annual meeting and (B) not later than the close of business on the later of the 90th day prior to the 2021 annual meeting or, if later than the 90th day prior to the 2021 annual meeting, the 10th day following the day on which public announcement of the date of the 2021 annual meeting is first made. You are also advised to review our amended and restated bylaws, which contain additional requirements about advance notice of stockholder proposals and director nominations.

**Who is paying for this proxy solicitation?**

We will pay for the cost of soliciting proxies. In addition to these proxy materials, our directors and employees may also solicit proxies in person, by telephone or by other means of communication. Directors and employees will not be paid additional compensation for soliciting proxies. We may reimburse brokers, banks and other agents for the cost of forwarding proxy materials to beneficial owners.

## PROPOSAL 1

### ELECTION OF DIRECTORS

Our board of directors currently consists of seven members and is divided into three classes. Each class consists, as nearly as possible, of one-third of the total number of directors, and each class has a three-year term. At each annual meeting of stockholders, the successors to directors whose terms then expire will be elected to serve from the time of election until the third annual meeting following the election.

Our directors are divided into the three classes as follows:

- Class I directors: Olivier Pomel, Dev Ittycheria and Shardul Shah, whose terms will expire at the upcoming Annual Meeting;
- Class II directors: Alexis Lê-Quôc and Michael Callahan, whose terms will expire at the annual meeting of stockholders to be held in 2021; and
- Class III directors: Julie Richardson and Matthew Jacobson, whose terms will expire at the annual meeting of stockholders to be held in 2022.

Any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. Vacancies on the board of directors may be filled only by persons elected by a majority of the remaining directors. A director elected by the board of directors to fill a vacancy in a class, including vacancies created by an increase in the number of directors, shall serve for the remainder of the full term of that class and until the director's successor is duly elected and qualified. The division of our board of directors into three classes with staggered three-year terms may delay or prevent a change of our management or a change in control of Datadog.

Each of Mr. Pomel, Mr. Ittycheria and Mr. Shah is currently a member of our board of directors, was previously elected by the stockholders and has been nominated for reelection to serve as a Class I director. Each of these nominees has agreed to stand for reelection at the Annual Meeting. Our management has no reason to believe that any nominee will be unable to serve. If elected at the Annual Meeting, each of these nominees would serve until the annual meeting of stockholders to be held in 2023 and until his successor has been duly elected, or if sooner, until the director's death, resignation or removal.

Directors are elected by a plurality of the votes of the holders of shares present by virtual attendance or represented by proxy and entitled to vote on the election of directors. Accordingly, the three nominees receiving the highest number of "FOR" votes will be elected. Shares represented by executed proxies will be voted, if authority to do so is not withheld, for the election of the three nominees named above. If any nominee becomes unavailable for election as a result of an unexpected occurrence, shares that would have been voted for that nominee will instead be voted for the election of a substitute nominee proposed by us.

Our nominating and corporate governance committee seeks to assemble a board that, as a whole, possesses the appropriate balance of professional and industry knowledge, financial expertise, diversity and high-level management experience necessary to oversee and direct our business. To that end, the committee has identified and evaluated nominees in the broader context of the board's overall composition, with the goal of recruiting members who complement and strengthen the skills of other members and who also exhibit integrity, collegiality, sound business judgment and other qualities that the committee views as critical to effective functioning of the board. To provide a mix of experience and perspective on the board, the committee also takes into account geographic, gender, and ethnic diversity. The biographies below include information, as of the date of this proxy statement, regarding the specific and particular experience, qualifications, attributes or skills of each director or director nominee that led the committee to believe that that nominee should continue to serve on the board. However, each of the members of the committee may have a variety of reasons why a particular person would be an appropriate nominee for the board, and these views may differ from the views of other members.

**OUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH CLASS I DIRECTOR NOMINEE NAMED ABOVE.**

## INFORMATION REGARDING DIRECTOR NOMINEES AND CURRENT DIRECTORS

The following table sets forth, for the Class I nominees and our other directors who will continue in office after the Annual Meeting, their ages and position or office held with us as of the date of this proxy statement:

| <u>Name</u>   | <u>Age</u> | <u>Principal Occupation/Position</u>                         |
|---|------------|--|
| <i>Class I director nominees for election at the 2020 Annual Meeting of Stockholders</i>      |            |  |
| Olivier Pomel . . . . .   | 43         | Chief Executive Officer, Co-Founder and Director             |
| Dev Ittycheria . . . . .  | 53         | Director   |
| Shardul Shah . . . . .  | 37         | Director   |
| <i>Class II directors continuing in office until the 2021 Annual Meeting of Stockholders</i>  |            |  |
| Alexis Lê-Quôc . . . . .  | 45         | President, Chief Technology Officer, Co-Founder and Director |
| Michael Callahan . . . . .  | 50         | Director   |
| <i>Class III directors continuing in office until the 2022 Annual Meeting of Stockholders</i> |            |  |
| Matthew Jacobson . . . . .  | 36         | Director   |
| Julie Richardson . . . . .  | 57         | Director   |

Set forth below is biographical information for the director nominees and each person whose term of office as a director will continue after the Annual Meeting. This includes information regarding each director’s experience, qualifications, attributes or skills that led our board of directors to recommend them for board service.

### **Nominees for Election at the 2020 Annual Meeting of Stockholders**

*Olivier Pomel* is one of the co-founders of our company and has served as our Chief Executive Officer and a member of our board of directors since June 2010. Prior to co-founding Datadog, Mr. Pomel was Vice President of Technology at Wireless Generation, Inc., a SaaS technology company, from 2002 until its acquisition by News Corp. in 2010. Previously, Mr. Pomel held engineering positions at a number of technology and software companies, including IBM Research. Mr. Pomel received his M.S. in Computer Science from Ecole Centrale Paris. We believe Mr. Pomel is qualified to serve as a member of our board of directors because of his experience building and leading our business and his insight into corporate matters as our Chief Executive Officer.

*Dev Ittycheria* has served as a member of our board of directors since February 2014. Mr. Ittycheria has served as President and Chief Executive Officer of MongoDB, Inc. and as a member of its board of directors since September 2014. Prior to joining MongoDB, Mr. Ittycheria served as a Managing Director at OpenView Venture Partners, a venture capital firm, from October 2013 to September 2014. From February 2012 to June 2013, Mr. Ittycheria served as a Venture Partner at Greylock Partners, a venture capital firm. From April 2008 to February 2010, Mr. Ittycheria served as President-Enterprise Management at BMC Software, Inc., a computer software company, which he joined in connection with its acquisition of BladeLogic, Inc., a computer software company that Mr. Ittycheria co-founded and for which he served as Chief Executive Officer. Mr. Ittycheria previously served on the board of directors of athenahealth, Inc., a public cloud-based services company, from June 2010 to February 2019; Bazaarvoice, Inc., a public software company, from January 2010 to August 2014; and AppDynamics, Inc., a private software company, from March 2011 until its acquisition by Cisco Systems, Inc. in March 2017. Mr. Ittycheria received his B.S. in Electrical Engineering from Rutgers University. We believe that Mr. Ittycheria is qualified to serve as a member of our board of directors because of his experience in building and leading high-growth businesses and his service on the boards of multiple public companies.

*Shardul Shah* has served as a member of our board of directors since November 2012. He is a partner at Index Ventures, a venture capital firm, where he has worked since 2008. Mr. Shah’s investment focus is primarily centered around cloud infrastructure, security and enterprise software. Mr. Shah currently serves on the board of directors of multiple private technology companies, including AttackIQ, Inc., Brightback Inc., Castle

Intelligence, Inc., Expel Inc., Gatsby, Inc. and Iterable, Inc. Mr. Shah was previously a director of Adallom Ltd. (acquired by Microsoft), FutureSimple Inc. (previously Base CRM) (acquired by Zendesk) and Lagoon Mobile Security (acquired by Check Point) and an investor in Duo Security (acquired by Cisco). Prior to Index Ventures, Mr. Shah was an associate at Summit Partners. Mr. Shah received his B.A. in Economics and Biology from the University of Chicago. We believe that Mr. Shah is qualified to serve as a member of our board of directors because of his experience in the venture capital industry and his knowledge of infrastructure, security and software.

#### **Directors Continuing in Office Until the 2021 Annual Meeting of Stockholders**

*Alexis Lê-Quôc* is one of the co-founders of our company and has served as our President, Chief Technology Officer and a member of our board of directors since June 2010. Prior to co-founding Datadog, Mr. Lê-Quôc worked at Wireless Generation from March 2004 to December 2010, where he most recently served as Director of Live Operations. Previously, Mr. Lê-Quôc held engineering positions at a number of technology and software companies, including IBM Research and France Télécom S.A. Mr. Lê-Quôc received his M.S. in Computer Science from CentraleSupélec. We believe Mr. Lê-Quôc is qualified to serve as a member of our board of directors because of his experience building and leading the development of our technology and his insight into our business as our Chief Technology Officer.

*Michael Callahan* has served as a member of our board of directors since June 2011. Mr. Callahan served as Chief Executive Officer of Awake Security, Inc., a private cyber security company that he co-founded, from August 2014 to July 2018. From September 2011 to August 2014, Mr. Callahan was an Entrepreneur in Residence at Greylock Partners. Earlier in his career, Mr. Callahan was Chief Technologist for Enterprise NAS at Hewlett Packard from April 2007 to October 2009; Chief Technology Officer and co-founder of PolyServe, a software company, from May 2000 to April 2007; and Director of Advanced Development at Ask Jeeves, a search engine, from January 1999 to May 2000. Mr. Callahan received his A.B. in Social Studies from Harvard University and was a Rhodes Scholar and Junior Research Fellow in mathematics at the University of Oxford. We believe that Mr. Callahan is qualified to serve as a member of our board of directors because of his extensive experience in the technology industry.

#### **Directors Continuing in Office Until the 2022 Annual Meeting of Stockholders**

*Matthew Jacobson* has served as a member of our board of directors since July 2019, and previously served as a board observer from December 2015 through July 2019. He is a General Partner and a Managing Director at ICONIQ Capital, an investment and venture capital firm, where he has worked since September 2013 and sits on the firm's investment and management committees. Mr. Jacobson currently serves on the boards of a number of private technology companies, including GitLab Inc., Collibra NV, BambooHR LLC, Braze, Inc., Sprinklr Inc., Relativity ODA LLC, InVisionApp Inc. and Intercom Inc. Mr. Jacobson previously served on the board of directors of Twistlock Inc. from August 2018 to July 2019 and as a shareholder representative for Adyen NV from September 2015 to June 2018. Prior to ICONIQ Capital, Mr. Jacobson held operating roles at Groupon and investing roles at Battery Ventures and Technology Crossover Ventures. He began his career as an investment banker at Lehman Brothers. Mr. Jacobson received his B.S. in Economics with concentrations in Finance and Management from The Wharton School at the University of Pennsylvania. We believe that Mr. Jacobson is qualified to serve as a member of our board of directors because of his extensive experience in the venture capital and technology industries.

*Julie G. Richardson* has served as a member of our board of directors since May 2019. From November 2012 to October 2014, Ms. Richardson was a Senior Adviser to Providence Equity Partners LLC, a global asset management firm. From April 2003 to November 2012, Ms. Richardson was a Partner and Managing Director at Providence Equity, a private equity investment fund, and oversaw its New York office. Prior to Providence Equity, Ms. Richardson served as Global Head of JP Morgan's Telecom, Media and Technology Group, and was previously a Managing Director in Merrill Lynch & Co.'s investment banking group. Ms. Richardson has served

on the board of directors of VEREIT, Inc., a publicly held real estate investment operating property company, since April 2015, UBS Group AG, a publicly held financial services company, since May 2017, and Yext Inc., a technology and online brand management company, since May 2015. Ms. Richardson previously served on the boards of directors of Arconic, Inc. from 2016 to 2018 and The Hartford Financial Group from 2014 to 2020. Ms. Richardson holds a B.B.A from the University of Wisconsin-Madison. We believe that Ms. Richardson is qualified to serve as a member of our board of directors because of her investment management and financial services experience, and her extensive experience serving on public company boards.

## **INFORMATION REGARDING THE BOARD OF DIRECTORS AND CORPORATE GOVERNANCE**

### **Independence of The Board of Directors**

Our Class A common stock is listed on the Nasdaq Global Select Market (“Nasdaq”). Under the Nasdaq listing standards, a majority of the members of our board of directors must qualify as “independent,” as affirmatively determined by our board of directors. Our board of directors consults with our counsel to ensure that its determinations are consistent with relevant securities and other laws and regulations regarding the definition of “independent,” including those set forth in pertinent listing standards of Nasdaq, as in effect from time to time.

Consistent with these considerations, after review of all relevant identified transactions or relationships between each director, and any of his or her family members, and Datadog, our senior management and our independent auditors, our board of directors has affirmatively determined that the following five directors are independent directors within the meaning of the applicable Nasdaq listing standards: Ms. Richardson and Messrs. Callahan, Ittycheria, Jacobson and Shah. In making this determination, our board of directors found that none of these directors or nominees for director had a material or other disqualifying relationship with Datadog. Messrs. Pomel and Lê -Quốc are not independent due to their positions as executive officers of Datadog.

Accordingly, a majority of our directors are independent, as required under applicable Nasdaq rules. In making this determination, our board of directors considered the applicable Nasdaq rules and the current and prior relationships that each non-employee director has with our company and all other facts and circumstances our board of directors deemed relevant in determining their independence, including their beneficial ownership of our capital stock.

### **Board Leadership Structure**

Dev Ittycheria currently serves as lead independent director of our board of directors. The primary responsibilities of the lead independent director are to: work with the Chief Executive Officer to develop board meeting schedules and agendas; provide the Chief Executive Officer feedback on the quality, quantity and timeliness of the information provided to the board; develop the agenda for and moderate executive sessions of the independent members of the board; preside over board meetings; act as principal liaison between the independent members of the board and the Chief Executive Officer; and convene meetings of the independent directors as appropriate. Accordingly, the lead independent director has substantial ability to shape the work of the board. We believe that having a lead independent director supports the board in its oversight of the business and affairs of Datadog. In addition, we believe that having a lead independent director creates an environment that is conducive to objective evaluation and oversight of management’s performance, increasing management accountability and improving the ability of the Board to monitor whether management’s actions are in the best interests of Datadog and its stockholders. As a result, Datadog believes that having a lead independent director can enhance the effectiveness of the Board as a whole.

### **Role of the Board in Risk Oversight**

Our board of directors oversees an enterprise-wide approach to risk management, designed to support the achievement of organizational objectives, to improve long-term organizational performance, and to enhance stockholder value. A fundamental part of risk management is not only understanding the most significant risks a company faces and what steps management is taking to manage those risks but also understanding what level of risk is appropriate for a given company. The involvement of our full board of directors in reviewing our business is an integral aspect of its assessment of management’s tolerance for risk and also its determination of what constitutes an appropriate level of risk.

While our full board of directors has overall responsibility for risk oversight, it has delegated oversight of certain risks to its committees. Our audit committee monitors our major financial and security risk exposures and the



steps our management has taken to monitor and control these exposures, including guidelines and policies to govern the process by which risk assessment and management is undertaken. Our audit committee also monitors compliance with legal and regulatory requirements. Our compensation committee monitors whether any of our compensation policies and programs has the potential to encourage excessive risk-taking. Our nominating and corporate governance committee oversees our major corporate governance risks, including through monitoring the effectiveness of our Corporate Governance Guidelines.

In connection with its reviews of the operations of our business, our full board of directors addresses the primary risks associated with our business including, for example, strategic planning and cybersecurity. Our board of directors appreciates the evolving nature of our business and industry and is actively involved with monitoring new threats and risks as they emerge. In particular, our board of directors is committed to the prevention, timely detection, and mitigation of the effects of cybersecurity threats or incidents on Datadog. Further, our board of directors has been closely monitoring the rapidly evolving COVID-19 pandemic, its potential effects on our business, and risk mitigation strategies.

At periodic meetings of our board of directors and its committees, management reports to and seeks guidance from our board and its committees with respect to the most significant risks that could affect our business, such as legal risks, information security and privacy risks, and financial, tax and audit related risks. In addition, among other matters, management provides our audit committee periodic reports on our compliance programs and investment policy and practices.

#### Meetings of the Board of Directors and its Committees

Our board of directors is responsible for the oversight of management and the strategy of our company and for establishing corporate policies. Our board of directors meets periodically during the year to review significant developments affecting us and to act on matters requiring the approval of our board of directors. Our board of directors met six times during our last fiscal year. The audit committee met two times during our last fiscal year. The compensation committee met one time during our last fiscal year. The nominating and corporate governance committee did not meet during our last fiscal year. During our last fiscal year, each director attended 75% or more of the aggregate of the meetings of our board of directors and of the committees on which he or she served. We encourage our directors and nominees for director to attend our Annual Meeting of stockholders.

#### Information Regarding Committees of the Board of Directors

Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee. Our board of directors may establish other committees to facilitate the management of our business. Our board of directors has adopted a written charter for each of our committees, which are available to stockholders on our investor relations website at [investors.datadoghq.com](http://investors.datadoghq.com).

The following table provides membership information for fiscal 2019 for each of the committees of our board of directors:

| <u>Name</u>                | <u>Audit</u> | <u>Compensation</u> | <u>Nominating<br/>and Corporate<br/>Governance</u> |
|----------------------------|--------------|---------------------|--|
| Olivier Pomel . . . . .    |              |                     |  |
| Alexis Lê-Quôc . . . . .   |              |                     |  |
| Michael Callahan . . . . . |              | X*                  |  |
| Matthew Jacobson . . . . . | X            |                     | X*   |
| Dev Ittycheria . . . . .   |              | X                   | X  |
| Julie Richardson . . . . . | X*           | X                   |  |
| Shardul Shah . . . . .     | X            |                     | X  |

\* Committee Chairperson

Our board of directors has determined that each member of each committee meets the applicable Nasdaq rules and regulations regarding “independence” and each member is free of any relationship that would impair his or her individual exercise of independent judgment with regard to us.

Below is a description of each committee of our board of directors.

### ***Audit Committee***

The audit committee of our board of directors consists of Ms. Richardson and Messrs. Jacobson and Shah. Ms. Richardson is the chair of the audit committee.

Our board of directors reviews the Nasdaq listing standards definition of independence for audit committee members on an annual basis and has determined that each member of the audit committee satisfies the independence requirements under Nasdaq listing standards and Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Our board of directors has also determined that Ms. Richardson, the chair of the audit committee, is an “audit committee financial expert” within the meaning of SEC regulations. Each member of our audit committee can read and understand fundamental financial statements in accordance with applicable requirements. In arriving at these determinations, our board of directors has examined each audit committee member’s scope of experience and the nature of their employment in the corporate finance sector.

The principal duties and responsibilities of our audit committee include, among other things:

- selecting a qualified firm to serve as the independent registered public accounting firm to audit our financial statements;
- helping to ensure the independence and performance of the independent registered public accounting firm;
- helping to maintain and foster an open avenue of communication between management and the independent registered public accounting firm;
- discussing the scope and results of the audit with the independent registered public accounting firm, and reviewing, with management and the independent accountants, our interim and year-end operating results;
- developing procedures for employees to submit concerns anonymously about questionable accounting or audit matters;
- reviewing our policies on risk assessment and risk management;
- reviewing related party transactions;
- obtaining and reviewing a report by the independent registered public accounting firm at least annually, that describes its internal quality-control procedures, any material issues with such procedures, and any steps taken to deal with such issues when required by applicable law; and
- approving (or, as permitted, pre-approving) all audit and all permissible non-audit services to be performed by the independent registered public accounting firm.

### **Report of the Audit Committee of the Board of Directors**

The audit committee has reviewed and discussed the audited financial statements for the fiscal year ended December 31, 2019 with our management. The audit committee has also reviewed and discussed with Deloitte & Touche LLP, our independent registered public accounting firm, the matters required to be discussed by Auditing Standard No. 1301, *Communications with Audit Committees*, as adopted by the Public Company Accounting Oversight Board (“PCAOB”). The audit committee has also received the written disclosures and the letter from Deloitte & Touche LLP required by applicable requirements of the PCAOB regarding the independent accountants’ communications with the audit committee concerning independence, and has discussed with

Deloitte & Touche LLP the accounting firm's independence. Based on the foregoing, the audit committee has recommended to our board of directors that the audited financial statements be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and filed with the SEC.

*Members of the Audit Committee*

Julie Richardson, Chairperson  
Matthew Jacobson  
Shardul Shah

*The material in this report is not "soliciting material," is not deemed "filed" with the Commission and is not to be incorporated by reference in any filing of Datadog under the Securities Act of 1933, as amended (the "Securities Act"), or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.*

**Compensation Committee**

The compensation committee of our board of directors consists of Messrs. Callahan and Ittycheria and Ms. Richardson. Mr. Callahan is the chair of the compensation committee.

Our board of directors reviews the Nasdaq listing standards definition of independence for compensation committee members on an annual basis and has determined that each member of the compensation committee satisfies the independence requirements under Nasdaq listing standards and is a "non-employee director" as defined in Rule 16b-3 promulgated under the Exchange Act.

The compensation committee acts on behalf of our board of directors to review, oversee and approve (or make recommendations to our board of directors for approval of) our compensation strategy, policies, plans and programs, including:

- approving the retention of compensation consultants and outside service providers and advisors;
- reviewing and approving, or recommending that our board of directors approve, the compensation, individual and corporate performance goals and objectives and other terms of employment of our executive officers, including evaluating the performance of our chief executive officer and, with his assistance, that of our other executive officers;
- reviewing and recommending to our board of directors the compensation of our directors;
- administering any equity and non-equity incentive plans;
- reviewing our practices and policies of employee compensation as they relate to risk management and risk-taking incentives;
- reviewing and evaluating succession plans for the executive officers;
- reviewing and approving, or recommending that our board of directors approve, incentive compensation and equity plans; and
- reviewing and establishing general policies relating to compensation and benefits of our employees and reviewing our overall compensation philosophy.

*Compensation Committee Processes and Procedures*

The compensation committee generally meets quarterly and with greater frequency if necessary. The compensation committee also acts periodically by unanimous written consent in lieu of a formal meeting. The agenda for each meeting is usually developed by the chairperson of the compensation committee, in consultation

with management. The compensation committee meets regularly in executive session. However, from time to time, various members of management and other employees as well as outside advisors or consultants may be invited by the compensation committee to make presentations, to provide financial or other background information or advice or to otherwise participate in compensation committee meetings. Our Chief Executive Officer may not participate in, or be present during, any deliberations or determinations of the compensation committee regarding his compensation.

The charter of the compensation committee grants the compensation committee full access to all books, records, facilities and personnel of Datadog. In addition, under the charter, the compensation committee has the authority to obtain, at our expense, advice and assistance from compensation consultants and internal and external legal, accounting or other advisors and other external resources that the compensation committee considers necessary or appropriate in the performance of its duties. The compensation committee has direct responsibility for the oversight of the work of any consultants or advisers engaged for the purpose of advising the compensation committee. In particular, the compensation committee has the authority to retain compensation consultants to assist in its evaluation of executive and director compensation, including the authority to approve the consultant's reasonable fees and other retention terms. During the past fiscal year, after taking into consideration the six factors prescribed by the SEC and Nasdaq that bear upon the adviser's independence, the compensation committee engaged Compensia, Inc. ("Compensia") as compensation consultants. The compensation committee requested that Compensia:

- evaluate the efficacy of our existing compensation strategy and practices in supporting and reinforcing our long-term strategic goals; and
- assist in refining our compensation strategy and in developing and implementing an executive compensation program to execute that strategy.

As part of its engagement, Compensia was requested by the compensation committee to develop a comparative group of companies and to perform analyses of competitive performance and compensation levels for that group. Compensia ultimately developed recommendations that were presented to the compensation committee for its consideration.

Generally, the compensation committee's process for determining executive compensation comprises two related elements: the determination of compensation levels and the establishment of performance objectives for the current year. For executives other than our Chief Executive Officer, the compensation committee solicits and considers evaluations and recommendations submitted to the committee by our Chief Executive Officer. The evaluation of our Chief Executive Officer's performance is conducted by the compensation committee, which determines any adjustments to his compensation as well as awards to be granted. For all executives and directors, as part of its deliberations, the compensation committee may review and consider, as appropriate, materials such as financial reports and projections, operational data, executive and director stock ownership information, company stock performance data, analyses of historical executive compensation levels and current company-wide compensation levels and recommendations of the compensation committee's compensation consultant, including analyses of executive and director compensation paid at other companies identified by the consultant.

#### *Compensation Committee Interlocks and Insider Participation*

No member of our compensation committee is currently one of our officers or employees. None of our executive officers currently serves, or has served during the last year, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our board of directors or compensation committee.

#### *Nominating and Corporate Governance Committee*

The nominating and corporate governance committee of our board of directors consists of Messrs. Jacobson, Ittycheria and Shah. Mr. Shah is the chair of the nominating and corporate governance committee.

Our board of directors reviews the Nasdaq listing standards definition of independence on an annual basis and has determined that each member of the nominating and corporate governance committee satisfies the independence requirements under Nasdaq listing standards.

The principal duties and responsibilities of our nominating and corporate governance committee include, among other things:

- identifying, evaluating, and selecting, or recommending that our board of directors approve, nominees for election to our board of directors and its committees;
- approving the retention of director search firms;
- evaluating the performance of our board of directors and of individual directors;
- considering and making recommendations to our board of directors regarding the composition of our board of directors and its committees;
- evaluating the adequacy of our corporate governance practices and reporting; and
- overseeing periodic evaluations of the board's performance.

The nominating and corporate governance committee believes that candidates for director should have certain minimum qualifications, including the ability to read and understand basic financial statements and having the highest personal integrity and ethics. The nominating and corporate governance committee also intends to consider such factors as possessing relevant expertise upon which to be able to offer advice and guidance to management, having sufficient time to devote to our affairs, demonstrated excellence in his or her field, having the ability to exercise sound business judgment and having the commitment to rigorously represent the long-term interests of our stockholders. These qualifications may be modified from time to time. Candidates for director nominees are reviewed in the context of the current composition of the board of directors, the operating requirements of Datadog and the long-term interests of our stockholders. In conducting this assessment, the nominating and corporate governance committee typically considers diversity (including gender, racial and ethnic diversity), skills and such other factors as it deems appropriate, given the current needs of the board of directors and our business, to maintain a balance of knowledge, experience and capability.

In the case of incumbent directors whose terms of office are set to expire, the nominating and corporate governance committee reviews these directors' overall service to Datadog during their terms, including the number of meetings attended, level of participation, quality of performance and any other relationships and transactions that might impair the directors' independence. In the case of new director candidates, our nominating and corporate governance committee also evaluates whether the nominee is independent for Nasdaq purposes, based upon applicable Nasdaq listing standards, applicable SEC rules and regulations and the advice of counsel, if necessary. Our nominating and corporate governance committee conducts any appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of our board of directors. Our nominating and corporate governance committee meets to discuss and consider the candidates' qualifications and then selects a nominee for recommendation to our board of directors.

Our nominating and corporate governance committee will consider stockholder recommendations of director candidates, so long as they comply with applicable law and our amended and restated bylaws, which procedures are summarized below, and will review the qualifications of any such candidate in accordance with the criteria described in the two preceding paragraphs. Stockholders who wish to recommend individuals for consideration by our nominating and corporate governance committee to become nominees for election to our board of directors should do so by delivering a written recommendation to our nominating and corporate governance committee at 620 8th Avenue, 45th Floor, New York, New York 10018, Attention: Secretary, at least 120 days prior to the anniversary date of the mailing of our proxy statement for the last annual meeting of stockholders.

Each submission must include, among other things, the name, age, business address and residence address of the proposed candidate, the principal occupation or employment of the proposed candidate, details of the proposed

candidate's ownership of our capital stock, a description of the proposed candidate's business experience for at least the last five years, and a description of the proposed candidate's qualifications as a director. Any such submission must be accompanied by the written consent of the proposed candidate to be named as a nominee and to serve as a director if elected.

If, rather than submitting a candidate to the nominating and corporate governance committee for consideration, you wish to formally nominate a director pursuant to proxy materials that you will prepare and file with the SEC, please see the deadline described in "When are stockholder proposals due for next year's annual meeting?" above and refer to our amended and restated bylaws for a complete description of the required procedures for nominating a candidate to our board of directors.

### **Stockholder Communications With The Board Of Directors**

Our board of directors has adopted a formal process by which stockholders may communicate with the board or any of its directors. Stockholders and other interested parties wishing to communicate with the board or an individual director may send a written communication c/o Datadog, Inc., 620 8th Avenue, 45th Floor, New York, New York, 10018, Attn: Secretary. Written communications may be submitted anonymously or confidentially and may, at the discretion of the person submitting the communication, indicate whether the person is a stockholder or other interested party. Each communication will be reviewed by the Secretary to determine whether it is appropriate for presentation to the board or such director. Examples of inappropriate communications include product complaints, product inquiries, new product suggestions, resumes or job inquiries, surveys, solicitations or advertisements, or hostile communications.

Communications determined by the Secretary to be appropriate for presentation to the board or such director will be submitted to the board or such director on a periodic basis. Communications determined by the Secretary to be inappropriate for presentation will still be made available to any non-management director upon such director's request.

### **Code of Business Conduct and Ethics**

Our board of directors has adopted the Datadog, Inc. Code of Business Conduct and Ethics that applies to all officers, directors and employees. The Code of Business Conduct and Ethics is available on our website at [investors.datadoghq.com](http://investors.datadoghq.com). If we make any substantive amendments to the Code of Business Conduct and Ethics or grants any waiver from a provision of the Code of Business Conduct and Ethics to any executive officer or director, we will promptly disclose the nature of the amendment or waiver on our website.

### **Corporate Governance Guidelines**

Our board of directors has adopted the Datadog, Inc. Corporate Governance Guidelines for the conduct and operation of the board in order to give directors a flexible framework for effectively pursuing our objectives for the benefit of our stockholders. The Corporate Governance Guidelines set forth the practices the board of directors intends to follow with respect to board composition and selection, board meetings and involvement of senior management, Chief Executive Officer performance evaluation and management succession planning and board committees and compensation. The Corporate Governance Guidelines may be viewed on our website at [investors.datadoghq.com](http://investors.datadoghq.com).

### **Prohibition on Hedging, Short Sales and Pledging**

Our board of directors has adopted an insider trading policy, which prohibits hedging or monetization transactions with respect to our Class A common stock, including through the use of financial instruments such as prepaid variable forwards, equity swaps, collars, and exchange funds. In addition, our insider trading policy prohibits trading in derivative securities related to our Class A common stock, which include publicly traded call and put options, engaging in short selling of our Class A common stock, purchasing our Class A common stock on margin or holding it in a margin account and pledging our shares as collateral for a loan.

## PROPOSAL 2

### RATIFICATION OF DELOITTE & TOUCHE LLP AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The audit committee of our board of directors has selected Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2020 and has further directed that management submit the selection of its independent registered public accounting firm for ratification by the stockholders at the Annual Meeting. Deloitte & Touche LLP has audited our financial statements since 2016. Representatives of Deloitte & Touche LLP are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they so desire and will be available to respond to appropriate questions.

Neither our amended and restated bylaws nor other governing documents or law require stockholders ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm. However, the audit committee is submitting the selection of Deloitte & Touche LLP to the stockholders for ratification as a matter of good corporate practice. If the stockholders fail to ratify the selection, the audit committee will reconsider whether or not to retain that firm. Even if the selection is ratified, the audit committee in its discretion may direct the appointment of different independent auditors at any time during the year if they determine that such a change would be in the best interests of Datadog and our stockholders.

The affirmative vote of the holders of a majority of the shares present by virtual attendance or represented by proxy and entitled to vote on the matter at the Annual Meeting will be required to ratify the selection of Deloitte & Touche LLP.

#### Principal Accountant Fees and Services

The following table represents aggregate fees billed to us by Deloitte & Touche LLP for the periods set forth below.

|                                     | <u>Fiscal Year Ended</u> |              |
|-------------------------------------|--------------------------|--------------|
|                                     | <u>2019</u>              | <u>2018</u>  |
|                                     | <u>(in thousands)</u>    |              |
| Audit Fees <sup>(1)</sup> . . . . . | \$2,213                  | \$830        |
| Audit-related Fees . . . . .        | —                        | —            |
| Tax Fees . . . . .                  | —                        | —            |
| All Other Fees . . . . .            | —                        | —            |
| Total Fees . . . . .                | <u>\$2,213</u>           | <u>\$830</u> |

(1) Audit fees consist of fees for professional services provided in connection with the audit of our annual consolidated financial statements, the review of our quarterly consolidated financial statements, and audit services that are normally provided by independent registered public accounting firm in connection with statutory and regulatory filings or engagements for those fiscal years. The audit fees also include fees for professional services provided in connection with our initial public offering incurred during the fiscal year ended December 31, 2019, including comfort letters, consents, and review of documents filed with the SEC and with our Registration Statement on Form S-8 filed during the third fiscal quarter.

All fees described above were pre-approved by the audit committee.

#### Pre-Approval Policies and Procedures

The audit committee approves all audit and non-audit related services that our independent registered public accounting firm provides to us before the engagement begins. Pre-approval may be given as part of our audit

committee's approval of the scope of the engagement of the independent registered public accounting firm or on an individual, explicit, case-by-case basis before the independent registered public accounting firm is engaged to provide each service.

**OUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE RATIFICATION OF DELOITTE & TOUCHE LLP  
AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**



## EXECUTIVE OFFICERS

The following table sets forth, for our executive officers, their ages and position held with us as of the date of this proxy statement:

| <u>Name</u>                | <u>Age</u> | <u>Principal Position</u>                                    |
|----------------------------|------------|--|
| Olivier Pomel . . . . .    | 43         | Chief Executive Officer, Co-Founder and Director             |
| Alexis Lê-Quôc . . . . .   | 45         | President, Chief Technology Officer, Co-Founder and Director |
| Amit Agarwal . . . . .     | 46         | Chief Product Officer  |
| David Obstler . . . . .    | 60         | Chief Financial Officer                                      |
| Dan Fougere . . . . .      | 49         | Chief Revenue Officer  |
| Laszlo Kopits . . . . .    | 54         | General Counsel and Secretary                                |
| Armelle de Madre . . . . . | 49         | Chief People Officer   |

Biographical information for Olivier Pomel and Alexis Lê-Quôc is included above with the director biographies under the caption “Information Regarding Director Nominees and Current Directors.”

*Amit Agarwal* has served as our Chief Product Officer since April 2012. Prior to Datadog, Mr. Agarwal held senior product management and engineering positions at a number of software companies, including Quest Software and IBM. Mr. Agarwal received his M.B.A. in General Management from York University and his M.S. in Computer Science from Dalhousie University.

*David Obstler* has served as our Chief Financial Officer since November 2018. Prior to joining us, Mr. Obstler held Chief Financial Officer positions at a number of other companies including TravelClick, Inc., a hospitality technology company, where he served from September 2014 to October 2018, OpenLink Financial LLC, a financial services software provider, where he served from November 2012 to July 2014, MSCI Inc., a financial index and investment management software company, where he served from June 2010 to September 2012, and Risk Metrics Group, Inc., a risk management and corporate governance service provider, where he served from January 2005 to June 2010. Earlier in his career, Mr. Obstler held various investment banking positions at J.P. Morgan, Lehman Brothers and Goldman Sachs. Mr. Obstler received his M.B.A. from Harvard Business School and his B.A. from Yale University.

*Dan Fougere* has served as our Chief Revenue Officer since February 2017. Prior to joining us, Mr. Fougere held various roles at Medallia, Inc., a SaaS-based customer feedback company, including Head of Global Sales from September 2016 to January 2017 and Vice President of Sales from April 2012 to August 2016. From April 2008 to April 2012, Mr. Fougere was Area Director at BMC Software, Inc., an information technology and services company. Earlier in his career, Mr. Fougere held sales positions at various technology companies including Actuate Corporation, BladeLogic Server Automation and Parametric Technology Corp. Mr. Fougere received his B.S. in Mechanical Engineering from Rensselaer Polytechnic Institute.

*Laszlo Kopits* has served as our General Counsel since January 2018, and prior to that as our Deputy General Counsel from February 2017. Mr. Kopits served as a Director of Fluence Learning, LLC, an education technology company producing instructional assessment content and technology, from April 2016 to August 2017. Previously, Mr. Kopits worked at Wireless Generation and, after its acquisition by News Corp., Amplify Education, Inc., where he served as General Counsel from January 2006 to December 2015, and most recently as Executive Vice President. Earlier in his career, Mr. Kopits held legal positions at Thomson Reuters Corp. and Weil Gotshal & Manges LLP. Mr. Kopits received his J.D. from Stanford Law School and his M.A. in International Relations from Johns Hopkins University.

*Armelle de Madre* has served as our Chief People Officer since September 2019. Prior to joining us, Ms. de Madre held various roles at Arkadin Cloud Communications, a provider of cloud communication services, including Chief People Officer from April 2017 to August 2019, Vice President of Human Resources for Europe, the Middle East and Africa from January 2011 to November 2015 and Vice President of Marketing for Europe, the Middle East and Africa from December 2015 to March 2017. Prior to Arkadin, Ms. de Madre was a Strategy and Social Innovation Director at Schneider Electric France SAS, an electrical equipment company, from June 2010 to January 2011. Ms. de Madre began her career at Renault-Nissan Alliance, where she held multiple positions from 1993 through 2009. Ms. de Madre received her B.A. in Economics from the Columbia University and her Masters from HEC Paris.

## EXECUTIVE COMPENSATION

Our named executive officers, consisting of our principal executive officer and the next two most highly compensated executive officers, for the fiscal year ended December 31, 2019 were:

- Olivier Pomel, our Chief Executive Officer and Co-Founder;
- Alexis Lê-Quôc, our President, Chief Technology Officer and Co-Founder; and
- Amit Agarwal, our Chief Product Officer.

### 2019 Summary Compensation Table

The following table shows for the fiscal years ended 2019 and 2018, compensation awarded to or paid to, or earned by, our named executive officers.

| <u>Name and Principal Position</u>                        | <u>Year</u> | <u>Salary</u> | <u>Option Awards<sup>(1)</sup></u> | <u>Non-Equity Incentive Plan Compensation<sup>(2)</sup></u> | <u>All Other Compensation<sup>(3)</sup></u> | <u>Total</u> |
|---|-------------|---------------|------------------------------------|---|---|--------------|
| Olivier Pomel . . . . .                                   | 2019        | \$300,000     | \$18,125,700                       | \$151,873   | \$300                                       | \$18,577,873 |
| <i>Chief Executive Officer and Co-Founder</i>             | 2018        | 300,000       | —                                  | 147,791   | 240   | 448,031      |
| Alexis Lê-Quôc . . . . .                                  | 2019        | 300,000       | 10,875,420                         | 151,873   | 450   | 11,327,743   |
| <i>President, Chief Technology Officer and Co-Founder</i> | 2018        | 300,000       | —                                  | 147,791   | 245   | 448,036      |
| Amit Agarwal <sup>(4)</sup> . . . . .                     | 2019        | 350,000       | 10,841,400                         | 227,809   | 450   | 11,419,659   |
| <i>Chief Product Officer</i>                              |             |               |                                    |   |   |              |

- (1) Amounts reported represent the aggregate grant date fair value of stock options granted to our executive officers under our 2012 Equity Incentive Plan (the “2012 Plan”), computed in accordance with Financial Accounting Standard Board Accounting Standards Codification, Topic 718 (“ASC Topic 718”), excluding the effect of estimated forfeitures. The assumptions used in calculating the grant date fair value of the stock options reported in this column are set forth in the notes to our audited consolidated financial statements included in the Annual Report. This amount does not reflect the actual economic value that may be realized by the executive officer.
- (2) Amounts shown represent the executive officers’ total bonuses earned for 2019 and 2018, as applicable, based on the achievement of company performance goals as determined by our board of directors.
- (3) Amounts shown represent life insurance premiums paid by us on behalf of the executive officer.
- (4) Mr. Agarwal was not a named executive officer for 2018 and, as a result, his compensation information for that year has been omitted.

## Outstanding Equity Awards as of December 31, 2019

The following table shows sets forth certain information regarding outstanding equity awards granted to our named executive officers that remain outstanding as of December 31, 2019.

| Name           | Grant Date | Option Awards <sup>(1)</sup>                                    |   |                       |                        |
|----------------|------------|---|---|-----------------------|------------------------|
|                |            | Number of Securities Underlying Unexercised Options Exercisable | Number of Securities Underlying Unexercised Options Unexercisable | Option Exercise Price | Option Expiration Date |
| Olivier Pomel  | 10/27/2015 | 4,507,200   | —   | \$ 0.3067             | 10/26/2025             |
|                | 10/25/2017 | 891,000   | 405,000 <sup>(2)</sup>  | 0.9092                | 10/24/2027             |
|                | 7/19/2019  | 1,500,000   | — <sup>(3)</sup>  | 10.7400               | 7/18/2029              |
| Alexis Lê-Quốc | 10/27/2015 | 4,507,200   | —   | \$ 0.3067             | 10/26/2025             |
|                | 10/25/2017 | 891,000   | 405,000 <sup>(4)</sup>  | 0.9092                | 10/24/2027             |
|                | 7/19/2019  | 900,000   | — <sup>(5)</sup>  | 10.7400               | 7/18/2029              |
| Amit Agarwal   | 10/25/2017 | 540,000   | — <sup>(6)</sup>  | 0.9092                | 10/24/2027             |
|                | 7/19/2019  | 900,000   | — <sup>(7)</sup>  | 10.7400               | 7/18/2029              |

(1) All option awards listed in this table were granted pursuant to the 2012 Plan.

(2) 25% of the shares underlying this option vested on March 1, 2018, with the remaining shares vesting in equal monthly installments over the next three years, subject to the executive officer's continuous service through each such vesting date.

(3) 1/36th of the shares underlying this option vest on September 23, 2020. Thereafter, 1/36th of the shares underlying this option vest monthly on the 23rd day in each month. In addition, the grant agreement provides for an "early exercise" feature subject to our right to repurchase unvested shares upon Mr. Pomel's termination from employment or service relationship with Datadog for any reason.

(4) 25% of the shares underlying this option vested on March 1, 2018, with the remaining shares vesting in equal monthly installments over the next three years, subject to the executive officer's continuous service through each such vesting date.

(5) 1/36th of the shares underlying this option vest on September 23, 2020. Thereafter, 1/36th of the shares underlying this option vest monthly on the 23rd day in each month. In addition, the grant agreement provides for an "early exercise" feature subject to our right to repurchase unvested shares upon Mr. Lê-Quốc's termination from employment or service relationship with Datadog for any reason.

(6) 25% of the shares underlying this option vested on March 1, 2018, with the remaining shares vesting in equal monthly installments over the next three years, subject to the executive officer's continuous service through each such vesting date. In addition, the grant agreement provides for an "early exercise" feature subject to our right to repurchase unvested shares upon Mr. Agarwal's termination from employment or service relationship with Datadog for any reason.

(7) 15% of the shares underlying this option vest on September 23, 2020. Thereafter, the remaining 85% of the shares underlying this option vest monthly in 35 equal installments on the 23rd day in each month. In addition, the grant agreement provides for an "early exercise" feature subject to our right to repurchase unvested shares upon Mr. Agarwal's termination from employment or service relationship with Datadog for any reason.

## Employment Arrangements

We have entered into offer letters with each of our named executive officers, the terms of which are described below. Each of our named executive officers has also executed our standard form of proprietary information and inventions agreement.

**Olivier Pomel.** In 2011, we entered into an offer letter with Olivier Pomel, our Chief Executive Officer. The offer letter has no specific term and provides for at-will employment. Mr. Pomel's base salary for 2019 was \$300,000, which was increased to \$375,000 effective as of March 1, 2020.

**Alexis Lê-Quốc.** In 2011, we entered into an offer letter with Alexis Lê-Quốc, our Chief Technology Officer. The offer letter has no specific term and provides for at-will employment. Mr. Lê-Quốc's annual base salary for 2019 was \$300,000, which was increased to \$375,000 effective as of March 1, 2020.

**Amit Agarwal.** In 2012, we entered into an offer letter with Amit Agarwal, our Chief Product Officer. The offer letter has no specific term and provides for at-will employment. Mr. Agarwal's base salary for 2019 was \$350,000, which was increased to \$375,000 effective as of March 1, 2020.

## **Executive Severance Agreements**

We have entered into an executive severance agreement with each of our named executive officers. The agreements provide that upon a termination by us without “cause” or by the executive due to “good reason” (each as defined in the agreement), the executive will receive a lump sum payment equal to the sum of six months of base salary and 50% of the executive’s target bonus, as well as continued payment of COBRA premiums for six months (or, if earlier, until the date that the executive is eligible for substantially equivalent coverage under a subsequent employer’s plan). If such termination of employment occurs within three months prior to, or 12 months following, a “change in control” (as defined in the agreement), the executive will instead receive a lump sum payment equal to the sum of 12 months of base salary and 100% of the executive’s target bonus, as well as continued payment of COBRA premiums for 12 months (or, if earlier, when the executive is eligible for substantially equivalent coverage under a subsequent employer’s plan), and will also receive 100% vesting of equity awards. However, performance-based equity awards will not be subject to this acceleration, and awards granted prior to the completion of our initial public offering are subject to this acceleration only to the extent more favorable than the existing terms of such awards.

## **401(k) Plan**

We maintain a defined contribution retirement plan that provides eligible employees with an opportunity to save for retirement on a tax advantaged basis. Eligible employees may defer eligible compensation on a pre-tax basis, up to the statutorily prescribed annual limits on contributions under the Internal Revenue Code of 1986, as amended (the “Code”). We have the ability to make discretionary contributions to the 401(k) plan. Employee contributions are allocated to each participant’s individual account and are then invested in selected investment alternatives according to the participant’s directions. Employees are immediately and fully vested in their contributions. The 401(k) plan is intended to be qualified under Section 401(a) of the Code with the 401(k) plan’s related trust intended to be tax exempt under Section 501(a) of the Code. As a tax-qualified retirement plan, contributions to the 401(k) plan and earnings on those contributions are not taxable to the employees until distributed from the 401(k) plan.

## **Limitations of Liability and Indemnification Matters**

Our amended and restated certificate of incorporation contains provisions that limit the liability of our current and former directors for monetary damages to the fullest extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for any breach of fiduciary duties as directors, except liability for:

- any breach of the director’s duty of loyalty to the corporation or its stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions; or
- any transaction from which the director derived an improper personal benefit.

Such limitation of liability does not apply to liabilities arising under federal securities laws and does not affect the availability of equitable remedies such as injunctive relief or rescission.

Our amended and restated certificate of incorporation authorizes us to indemnify our directors, officers, employees and other agents to the fullest extent permitted by Delaware law. Our amended and restated bylaws require us to indemnify our directors and officers to the fullest extent permitted by Delaware law and provide that we may indemnify our other employees and agents. Our amended and restated bylaws also provide that, on satisfaction of certain conditions, we will advance expenses incurred by a director or officer in advance of the final disposition of any action or proceeding, and permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in that capacity regardless of whether we

would otherwise be permitted to indemnify him or her under the provisions of Delaware law. We have entered and expect to continue to enter into agreements to indemnify our directors, executive officers and other employees as determined by the board of directors. With certain exceptions, these agreements provide for indemnification for related expenses including attorneys' fees, judgments, fines and settlement amounts incurred by any of these individuals in any action or proceeding. We believe that these amended and restated certificate of incorporation and amended and restated bylaw provisions and indemnification agreements are necessary to attract and retain qualified persons as directors and officers. We also maintain customary directors' and officers' liability insurance.

The limitation of liability and indemnification provisions in our amended and restated certificate of incorporation and amended and restated bylaws may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty. They may also reduce the likelihood of derivative litigation against our directors and officers, even though an action, if successful, might benefit us and other stockholders. Further, a stockholder's investment may be adversely affected to the extent that we pay the costs of settlement and damage awards against directors and officers as required by these indemnification provisions.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted for directors, executive officers or persons controlling us, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

### Equity Compensation Plan Information

The following table summarizes our equity compensation plan information as of December 31, 2019. Information is included for equity compensation plans approved by our stockholders. We do not have any equity compensation plans not approved by our stockholders:

| <u>Plan Category</u>                                | <u>(a) Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights<sup>(1)</sup></u> | <u>(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights<sup>(2)</sup></u> | <u>(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))<sup>(3)</sup></u> |
|---|--|--|--|
| Equity plans approved by stockholders . . . . .     | 37,031,861   | \$2.96   | 38,454,237   |
| Equity plans not approved by stockholders . . . . . | —  | —  | —  |

- (1) Includes the 2012 Plan and the 2019 Equity Incentive Plan (the "2019 Plan"), but does not include future rights to purchase Class A common stock under our 2019 Employee Stock Purchase Plan ("2019 ESPP"), which depend on a number of factors described in our 2019 ESPP and will not be determined until the end of the applicable purchase period.
- (2) The weighted-average exercise price excludes any outstanding restricted stock unit awards, which have no exercise price.
- (3) Includes the 2012 Plan and 2019 ESPP. Stock options or other stock awards granted under the 2012 Plan that are forfeited, terminated, expired or repurchased become available for issuance under the 2019 Plan.

The 2019 Plan provides that the total number of shares of our Class A common stock reserved for issuance thereunder will automatically increase on January 1st of each year for a period of ten years commencing on January 1, 2020 and ending on (and including) January 1, 2029, in an amount equal to 5% of the total number of shares of capital stock outstanding on December 31<sup>st</sup> of the preceding year; or such lesser number of shares of Class A common stock as determined by our board of directors prior to January 1st of a given year. In addition, the 2019 ESPP provides that the total number of shares of our Class A common stock reserved for issuance thereunder will automatically increase on January 1st of each year for a period of up to ten years commencing on January 1, 2020 and ending on (and including) January 1, 2029, in an amount equal to the lesser of (i) 1% of the total number of shares of capital stock outstanding on December 31st of the preceding year, and (ii) 10,087,500 shares of Class A common stock; or such lesser number of shares of Class A common stock as determined by our board of directors prior to January 1st of a given year.

Accordingly, on January 1, 2020, the number of shares of Class A common stock available for issuance under the 2019 Plan and the 2019 ESPP increased by 14,819,347 shares and 2,963,869 shares, respectively, pursuant to these provisions. These increases are not reflected in the table above.

## NON-EMPLOYEE DIRECTOR COMPENSATION

The following table sets forth information regarding compensation earned by or paid to our non-employee directors for the year ended December 31, 2019:

| <u>Name</u>                              | <u>Fees Earned or<br/>Paid in Cash</u> | <u>Option<br/>Awards<sup>(1)(2)</sup></u> | <u>Total</u> |
|--|--|---|--------------|
| Michael Callahan .....                   | \$12,326                               | \$ —                                      | \$ 12,326    |
| Dev Ittycheria .....                     | 15,688                                 | —   | 15,688       |
| Matthew Jacobson <sup>(3)(4)</sup> ..... | —                                      | —   | —            |
| Julie Richardson <sup>(5)</sup> .....    | 15,968                                 | 678,135                                   | 694,103      |
| Shardul Shah <sup>(4)</sup> .....        | —                                      | —   | —            |
| Kirill Sheynkman <sup>(6)</sup> .....    | —                                      | —   | —            |

(1) Amounts reported represent the aggregate grant date fair value of stock options granted to our directors during 2019 under our 2012 Plan, computed in accordance with ASC Topic 718, excluding the effect of estimated forfeitures. The assumptions used in calculating the grant date fair value of the stock options reported in this column are set forth in the notes to our audited consolidated financial statements included in the Annual Report. This amount does not reflect the actual economic value that may be realized by the non-employee director.

(2) As of December 31, 2019, the aggregate number of shares underlying outstanding options and restricted stock unit awards held by each of our non-employee directors was as follows:

| <u>Name</u>            | <u>Number of Shares<br/>Underlying Options</u> | <u>Number of Restricted<br/>Stock Units</u> |
|------------------------|--|---|
| Michael Callahan ..... | 7,932  | 3,658                                       |
| Dev Ittycheria .....   | 240,000  | —   |
| Matthew Jacobson ..... | —  | —   |
| Julie Richardson ..... | 150,000  | —   |
| Shardul Shah .....     | —  | —   |
| Kirill Sheynkman ..... | —  | —   |

(3) Mr. Jacobson joined our board of directors in July 2019.

(4) Mr. Jacobson and Mr. Shah have waived any compensation payable under our non-employee director compensation policy described below.

(5) Ms. Richardson joined our board of directors in May 2019. We granted her an option to purchase 150,000 shares of Class B common stock on June 12, 2019 at an exercise price of \$7.9567. This option vests as to 25% on June 11, 2020 and in equal monthly installments thereafter over three years.

(6) Mr. Sheynkman resigned from our board of directors in July 2019.

Each of Mr. Pomel, our co-founder and Chief Executive Officer, and Mr. Lê-Quôc, our co-founder, President and Chief Technology Officer, is also a member of our board of directors but does not receive any additional compensation for his service as a director. See the section titled “Executive Compensation” for more information regarding the compensation earned by these executive officers.

### Non-Employee Director Compensation Policy

Under our Non-Employee Director Compensation Policy, each of our non-employee directors is eligible to receive compensation for service on our board of directors and committees of our board of directors as set forth below.

### ***Cash Compensation***

The Non-Employee Director Compensation Policy provides our non-employee directors with the following cash compensation for their services:

- \$30,000 per year for each non-employee director;
- \$45,000 per year for the lead non-employee director (if applicable) in lieu of the annual amount above;
- \$20,000 per year for chair of the audit committee or \$10,000 per year for each other member of the audit committee;
- \$14,000 per year for chair of the compensation committee or \$7,000 per year for each other member of the compensation committee; and
- \$7,500 per year for chair of the nominating and corporate governance committee or \$4,000 per year for each other member of the nominating and corporate governance committee.

The cash compensation above is payable to our eligible non-employee directors in equal quarterly installments in arrears, prorated for any partial quarter of service.

### ***Equity Compensation***

In addition to the cash compensation structure described above, the Non-Employee Director Compensation Policy provides for the following equity incentive compensation program for non-employee directors. All such equity compensation will be granted under the 2019 Plan or any successor equity plan.

*Retainer Grant.* Each non-employee director may elect to convert his or her cash compensation under the Policy into an award of restricted stock units (the “retainer grant”). If a non-employee director timely makes this election, each such retainer grant will be automatically granted on the first business day following the date the corresponding cash compensation otherwise would be paid under the policy. Each retainer grant will cover a number of shares of our Class A common stock equal to (A) the aggregate amount of the corresponding cash compensation otherwise payable to the non-employee director divided by (B) the closing sales price per share of our Class A common stock on the date the corresponding cash compensation otherwise would be paid (or, if such date is not a business day, on the first business day thereafter), rounded down to the nearest whole share. In addition, each retainer grant will be fully vested on the grant date.

*Initial Grant.* Each non-employee director who joins our board of directors will automatically, upon the date of his or her initial election or appointment to be a non-employee director (or, if such date is not a business day, on the first business day thereafter), be granted a one-time, initial restricted stock unit award (the “initial grant”), covering a number of shares of our Class A common stock equal to (A) \$350,000 divided by (B) the closing sales price per share of our Class A common stock on the applicable grant date, rounded down to the nearest whole share. Each initial grant will vest in three equal annual installments over the three-year period following the grant date, subject to continued service through each applicable vesting date.

*Delayed Incumbent Director Grant.* Each person who served as a non-employee director through the six-month period ending on the date of the execution of the underwriting agreement related to our initial public offering and held one or more outstanding and unvested equity awards on the last day of such period (an “existing equity award”) was automatically granted a restricted stock unit award (the “delayed incumbent director grant”) on the date immediately following the date that all of the existing equity awards held by the applicable non-employee director became fully vested (or, if such date was not a business day, the first business day thereafter). Each delayed incumbent director grant covered a number of shares of our Class A common stock equal to (A) \$175,000 multiplied by the fraction obtained by dividing (1) the total number of days following the date that all of the existing equity awards held by the applicable non-employee director had become fully vested through and including May 31, 2020 by (2) 365 days, divided by (B) the initial per share price to the public of our Class A



common stock, rounded down to the nearest whole share. Each delayed incumbent director grant will vest on the earlier of May 31, 2020 or the date of our next annual stockholder meeting following the grant date, subject to continued service through the vesting date.

*Annual Grant.* On the date of each annual meeting of our stockholders, each person who is then a non-employee director of ours will automatically be granted an annual restricted stock unit award (the “annual grant”), covering a number of shares of our Class A common stock equal to (A) \$175,000 divided by (B) the closing sales price per share of our Class A common stock on the date of the applicable annual stockholder meeting (or, if such date is not a business day, the first business day thereafter). Each annual grant will vest on the earlier of the one-year anniversary of the award’s grant date or the date of our next annual stockholder meeting following the award’s grant date, subject to continued service through the vesting date.

Each non-employee director’s then-outstanding equity awards granted under the policy (and any other then-outstanding equity awards held by the non-employee director that were outstanding and unvested immediately prior to the date of the execution of the underwriting agreement related to our initial public offering) will become fully vested upon a change in control (as defined in our 2019 Plan), subject to the non-employee director remaining in continuous service until immediately prior to the closing of the change in control.

**SECURITY OWNERSHIP OF  
CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth certain information regarding the ownership of our common stock as of March 31, 2020 by:

- each person or entity known by us to be beneficial owners of more than five percent of our Class A common stock or Class B common stock;
- each of our named executive officers;
- each of our directors; and
- all of our executive officers and directors as a group.

We have determined beneficial ownership in accordance with the rules and regulations of the SEC, and the information is not necessarily indicative of beneficial ownership for any other purpose. Except as indicated by the footnotes below, we believe, based on information furnished to us, that the persons and entities named in the table below have sole voting and sole investment power with respect to all shares that they beneficially own, subject to applicable community property laws.

Applicable percentage ownership is based on 153,495,803 shares of Class A common stock and 145,238,917 shares of Class B common stock outstanding as of March 31, 2020. In computing the number of shares beneficially owned by a person and the percentage ownership of such person, we deemed to be outstanding all shares subject to options held by the person that are currently exercisable, or exercisable or would vest based on service-based vesting conditions within 60 days of March 31, 2020. However, except as described above, we did not deem such shares outstanding for the purpose of computing the percentage ownership of any other person.

Unless otherwise indicated, the address for each beneficial owner listed in the table below is c/o Datadog, Inc., 620 8th Avenue, 45th Floor, New York, New York 10018.

| <u>Beneficial Owner</u>  | <u>Beneficial Ownership</u>     |          |                                 |          |   |
|--|---------------------------------|----------|---------------------------------|----------|---|
|  | <u>Class A<br/>Common Stock</u> |          | <u>Class B<br/>Common Stock</u> |          | <u>% of<br/>Total<br/>Voting<br/>Power†</u> |
|  | <u>Number of<br/>Shares</u>     | <u>%</u> | <u>Number of<br/>Shares</u>     | <u>%</u> |   |
| <b>5% Stockholders:</b>  |                                 |          |                                 |          |   |
| Entities associated with Index Ventures <sup>(1)</sup> . . . . .                   | 1                               | *%       | 40,793,809                      | 28.1%    | 25.4%                                       |
| Entities associated with ICONIQ Strategic Partners <sup>(2)</sup> . . . . .        | 2,124,305                       | 1.4      | 27,078,868                      | 18.6     | 17.0  |
| Enfield Investments Holdings Corp. <sup>(3)</sup> . . . . .                        | 10,872,260                      | 7.1      | 7,370,681                       | 5.1      | 5.3   |
| Entities associated with T. Rowe Price Associates <sup>(4)</sup> . . . . .         | 18,127,784                      | 11.8     | —                               | —        | 1.1   |
| <b>Directors and Named Executive Officers:</b>                                     |                                 |          |                                 |          |   |
| Olivier Pomel <sup>(5)</sup> . . . . .   | —                               | —        | 39,192,054                      | 25.7     | 23.4  |
| Alexis Lê-Quôc <sup>(6)</sup> . . . . .  | —                               | —        | 24,645,864                      | 16.2     | 14.8  |
| Amit Agarwal <sup>(7)</sup> . . . . .  | 25,000                          | *        | 7,589,340                       | 5.2      | 4.7   |
| Michael Callahan <sup>(8)</sup> . . . . .  | 47,521                          | *        | 878,017                         | *        | *   |
| Dev Ittycheria <sup>(9)</sup> . . . . .  | 1,826,920                       | 1.2      | 111,951                         | *        | *   |
| Matthew Jacobson <sup>(10)</sup> . . . . .   | 2,191                           | *        | —                               | —        | *   |
| Julie Richardson . . . . .   | —                               | —        | —                               | —        | —   |
| Shardul Shah . . . . .   | 92,819                          | *        | —                               | —        | *   |
| All executive officers and directors as a group (12 persons) <sup>(11)</sup> . . . | 2,219,700                       | 1.4      | 75,638,754                      | 46.4     | 42.6  |

\* Less than one percent.

† Percentage of total voting power represents voting power with respect to all shares of our Class A and Class B common stock, as a single class. The holders of our Class B common stock are entitled to ten votes per share, and holders of our Class A common stock are entitled to one vote per share.

- (1) Based solely on Schedule 13G filed on February 14, 2020 and Form 4s filed subsequent to that date, in each case, by entities associated with Index Ventures. Consists of (a) 1 share of Class A common stock and 29,673,249 shares of Class B common stock held by Index Ventures VI (Jersey), L.P., (b) 9,986,351 shares of Class B common stock held by Index Ventures Growth III (Jersey), L.P., (c) 598,959 shares of Class B common stock held by Index Ventures VI Parallel Entrepreneur Fund (Jersey), L.P., and (d) 535,250 shares of Class B common stock held by Yucca (Jersey) SLP. Index Venture Associates VI Limited is the managing general partner of Index Ventures VI (Jersey), L.P. and Index Ventures VI Parallel Entrepreneur Fund (Jersey), L.P., Index Venture Growth Associates III Limited is the managing general partner of Index Ventures Growth III (Jersey) L.P. which limited partnerships (“the Funds”) together with Yucca (Jersey) SLP are the Index Venture Entities. Yucca (Jersey) SLP is the administrator of the Index co-investment vehicles that are contractually required to mirror the relevant Funds’ investment. The address of each of these entities is 5th Floor, 44 Esplanade, St Helier, Jersey JE1 3FG, Channel Islands, except for Yucca (Jersey) SLP (Index Ventures co-investment scheme), the address of which is 44 Esplanade, St. Helier, Jersey JE4 9WG.
- (2) Based solely on Schedule 13G filed on February 14, 2020 and Form 4s filed subsequent to that date, in each case, by entities associated with ICONIQ Strategic Partners. Consists of (a) 732,237 shares of Class A common stock and 9,902,325 shares of Class B common stock held by ICONIQ Strategic Partners II, L.P. (“ICONIQ II”), (b) 573,192 shares of Class A common stock and 7,751,509 shares of Class B common stock held by ICONIQ Strategic Partners II-B, L.P. (“ICONIQ II-B”), (c) 261,668 shares of Class A common stock and 3,604,521 shares of Class B common stock held by ICONIQ Strategic Partners II Co-Invest, L.P., DD Series (“ICONIQ DD”), (d) 408,849 shares of Class B common stock held by ICONIQ Strategic Partners III, L.P. (“ICONIQ III”), (e) 436,857 shares of Class B common stock held by ICONIQ Strategic Partners III-B, L.P. (“ICONIQ III-B”), (f) 199,500 shares of Class A common stock and 1,890,426 shares of Class B common stock held by ICONIQ Strategic Partners IV, L.P. (“ICONIQ IV”), (g) 325,500 shares of Class A common stock and 3,084,381 shares of Class B common stock held by ICONIQ Strategic Partners IV-B, L.P. (“ICONIQ IV-B”), (h) 16,104 shares of Class A common stock held by Divesh Makan through various family trust(s) he controls and (i) 16,104 shares of Class A common stock held by William Griffith through various family trust(s) he controls. ICONIQ II, ICONIQ II-B, ICONIQ DD, ICONIQ III, ICONIQ III-B, ICONIQ IV and ICONIQ IV-B are the ICONIQ Entities. ICONIQ Strategic Partners II GP, L.P., or ICONIQ GP II, is the general partner of ICONIQ II, ICONIQ II-B and ICONIQ DD. ICONIQ Strategic Partners II TT GP, Ltd., or ICONIQ Parent GP II, is the general partner of ICONIQ GP II. ICONIQ Strategic Partners III GP, L.P., or ICONIQ GP III, is the general partner of ICONIQ III and ICONIQ III-B. ICONIQ Strategic Partners III TT GP, Ltd., or ICONIQ Parent GP III, is the general partner of ICONIQ GP III. ICONIQ Strategic Partners IV GP, L.P., or ICONIQ GP IV, is the general partner of ICONIQ IV and ICONIQ IV-B. ICONIQ Strategic Partners IV TT GP, Ltd., or ICONIQ Parent GP IV, is the general partner of ICONIQ GP IV. Divesh Makan and William Griffith are the sole equity holders and directors of ICONIQ Parent GP II, ICONIQ Parent GP III and ICONIQ Parent GP IV and may be deemed to have shared voting, investment and dispositive power with respect to the shares held by the ICONIQ Entities. The address of each of these entities is 394 Pacific Avenue, 2nd Floor, San Francisco, CA 94111.
- (3) Based solely on Schedule 13G filed by Enfield Investments Holdings Corp. (“Enfield”) on March 23, 2020. Enfield is a wholly-owned subsidiary of LBB Foundation, whose sole beneficiary is Leonid Boguslavskiy. As a result, each of LBB Foundation and Mr. Boguslavskiy may be deemed to beneficially own the shares held directly by Enfield. The address of Enfield is 3 Afentrikas, Office 101, 6018 Larnaca, Cyprus.
- (4) Based solely on Schedule 13G/A filed by T. Rowe Price Associates, Inc. (“T. Rowe Price”) and T. Rowe Price New Horizons Fund, Inc. (“T. Rowe New Horizons”) on March 10, 2020, which reported that (a) T. Rowe Price had sole voting power over 5,404,184 shares of Class A common stock and sole dispositive power over 14,486,866 shares of Class A common stock, and (b) T. Rowe New Horizons had sole voting power over 3,640,918 shares of Class A common stock. The address of each of these entities is 100 E. Pratt Street, Baltimore, MD 21202.
- (5) Consists of (a) 12,835,164 shares of Class B common stock held by Mr. Pomel, (b) 4,387,500 shares of Class B common stock held by the Olivier Pomel 2018 GRAT, (c) 525,000 shares of Class B common stock held by the Pomel Descendants’ 2018 Trust, (d) 525,000 shares of Class B common stock held by each of the Offbeat Polymath Trust and the Endearing Viceroy Trust, in each case, for which Mr. Pomel acts as trustee, (e) 7,033,200 shares of Class B common stock issuable upon the exercise of options within 60 days of March 31, 2020, and (f) 13,361,190 shares of Class B common stock over which Mr. Pomel has voting power pursuant to an irrevocable proxy granted by certain of the investors who purchased shares in the third-party tender offer conducted in March 2019. See “Transactions with Related Persons—Third-Party Tender Offer.”
- (6) Consists of (a) 13,219,695 shares of Class B common stock held by the Alexis Lê-Quôc Revocable Trust, (b) 3,417,969 shares of Class B common stock held by the Alexis Lê-Quôc 2016 GRAT, (c) 525,000 shares of Class B common stock held by each of the Offbeat Polymath Trust and the Endearing Viceroy Trust, (d) 525,000 shares of Class B common stock held by the Pomel Descendants’ 2018 Trust, for which Mr. Lê-Quôc acts as trustee, and (e) 6,433,200 shares of Class B common stock issuable upon the exercise of options within 60 days of March 31, 2020.
- (7) Consists of (a) 25,000 shares of Class A common stock and 1,816,015 shares of Class B common stock held by Mr. Agarwal, (b) 1,936,000 shares of Class B common stock held by the Amit Agarwal 2019 GRAT, (c) 1,873,491 shares of Class B common stock held by the Amit Agarwal 2018 GRAT, (d) 523,834 shares of Class B common stock held by Mr. Agarwal’s spouse and (e) 1,440,000 shares of Class B common stock issuable upon the exercise of options within 60 days of March 31, 2020.
- (8) Consists of (a) 27,521 shares of Class A common stock and 690,085 shares of Class B common stock held by Mr. Callahan, (b) 20,000 shares of Class A common stock and 80,000 shares of Class B common stock held by The Michael Callahan Grantor Retained Annuity Trust, (c) 100,000 shares of Class B common stock held by The Melanie Thernstrom Grantor Retained Annuity Trust, and (d) 7,932 shares of Class B common stock issuable upon the exercise of options within 60 days of March 31, 2020.

- (9) Consists of (a) 696,031 shares of Class A common stock held by Mr. Ittycheria, (b) 1,130,889 shares of Class A common stock held by The Ittycheria Family Trust and (c) 111,951 shares of Class B common stock issuable upon the exercise of options within 60 days of March 31, 2020.
- (10) Consists of shares held through family trust(s) that Mr. Jacobson controls.
- (11) Consists of (a) 2,219,700 shares of Class A common stock and 57,975,690 shares of Class B common stock and (b) 17,663,064 shares of Class B common stock issuable upon the exercise of options within 60 days of March 31, 2020.

## TRANSACTIONS WITH RELATED PERSONS

The following is a summary of transactions since January 1, 2019 to which we were a party or will be a party, in which:

- the amounts involved exceeded or will exceed \$120,000; and
- any of our directors, executive officers or holders of more than 5% of Class A common stock or Class B common stock, or any member of the immediate family of, or person sharing the household with, the foregoing persons, had or will have a direct or indirect material interest.

### Employment Arrangements and Equity Grants

We have entered into employment agreements with certain of our executive officers. For more information regarding these arrangements, see the section titled “Executive Compensation.”

We have granted equity awards to our executive officers and certain members of our board of directors. For a description of these equity awards, see the sections titled “Executive Compensation” and “Board of Directors and Corporate Governance—Director Compensation.”

### Third-Party Tender Offer

In March 2019, we entered into an agreement with certain investors, including entities associated with T. Rowe Price Associates, Dragoneer Investment Group, Index Ventures, ICONIQ Capital Management and Institutional Venture Partners, pursuant to which we agreed to waive certain transfer restrictions in connection with, and assist in the administration of, a tender offer that such investors proposed to commence. In March 2019, these investors commenced a tender offer to purchase shares of our capital stock from certain of our stockholders at a price of \$15.92 per share, pursuant to an offer to purchase to which we were not a party. In connection with the tender offer, and to the extent not already bound by such agreements, the investors signed a joinder to our investors’ rights agreement and our voting agreement. These investors did not receive any rights or privileges beyond those afforded to all holders of Class B common stock.

Olivier Pomel and Alexis Lê-Quôc, each of whom is a member of our board of directors, an executive officer and a beneficial holder of more than 5% of our outstanding capital stock, Kirill Sheynkman, who was a member of our board of directors at the time of the transaction, Michael Callahan, who is currently a member of our board of directors, and Laszlo Kopits, Amit Agarwal and Dan Fougere, each of whom is one of our executive officers, as well as certain of our employees, sold shares of our capital stock in the tender offer.

An aggregate of 14,366,871 shares of our capital stock were successfully tendered pursuant to the tender offer, of which Index Ventures and its affiliates collectively purchased 628,272 shares for an aggregate purchase price of approximately \$10.0 million, ICONIQ Capital Management and its affiliates collectively purchased 4,974,807 shares for an aggregate purchase price of approximately \$79.2 million and T. Rowe Price Associates and its affiliates collectively purchased 1,005,681 shares for an aggregate purchase price of approximately \$16.0 million. Index Ventures and its affiliates are beneficial holders of more than 5% of our outstanding capital stock and Shardul Shah, a partner at Index Ventures, is a member of our board of directors. ICONIQ Capital Management and its affiliates are beneficial holders of more than 5% of our outstanding capital stock and Matthew Jacobson, a general partner and managing director at ICONIQ Capital Management, is a member of our board of directors. T. Rowe Price Associates and its affiliates are beneficial holders of more than 5% of our outstanding Class A common stock.

### Directed Share Program

We closed our initial public offering in September 2019. At our request, the underwriters reserved for sale at the initial public offering price per share a certain number of shares for sale to certain of our directors, employees

and other early supporters of Datadog identified by management through a directed share program. Certain of our directors and executive officers participated in the directed share program as follows:

| <u>Participant</u>         | <u>Number of Shares Purchased</u> | <u>Aggregate Purchase Price</u> |
|----------------------------|-----------------------------------|---------------------------------|
| Amit Agarwal . . . . .     | 25,000                            | \$ 675,000                      |
| David Obstler . . . . .    | 15,000                            | 405,000                         |
| Dan Fougere . . . . .      | 15,000                            | 405,000                         |
| Armelle de Madre . . . . . | 5,000                             | 135,000                         |
| Dev Ittycheria . . . . .   | 25,000                            | 675,000                         |

**Indemnification Agreements**

Our amended and restated certificate of incorporation authorizes us to indemnify our directors, officers, employees and other agents to the fullest extent permitted by Delaware law. Our amended and restated bylaws require us to indemnify our directors and officers to the fullest extent permitted by Delaware law and provide that we may indemnify our other employees and agents. Our amended and restated bylaws also provide that, on satisfaction of certain conditions, we will advance expenses incurred by a director or officer in advance of the final disposition of any action or proceeding, and permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in that capacity regardless of whether we would otherwise be permitted to indemnify him or her under the provisions of Delaware law. In addition, we have entered into an indemnification agreement with each of our directors and executive officers, which requires us to indemnify them.

**Policies and Procedures for Transactions with Related Persons**

We have adopted a policy that our executive officers, directors, nominees for election as a director, beneficial owners of more than 5% of any class of our common stock and any members of the immediate family of any of the foregoing persons are not permitted to enter into a related person transaction with us without the approval or ratification of our board of directors or our audit committee. Any request for us to enter into a transaction with an executive officer, director, nominee for election as a director, beneficial owner of more than 5% of any class of our common stock or any member of the immediate family of any of the foregoing persons, in which the amount involved exceeds \$120,000 and such person would have a direct or indirect interest, must be presented to our board of directors or our audit committee for review, consideration and approval. In approving or rejecting any such proposal, our board of directors or our audit committee is to consider the material facts of the transaction, including whether the transaction is on terms no less favorable than terms generally available to an unaffiliated third party under the same or similar circumstances and the extent of the related person’s interest in the transaction.

## HOUSEHOLDING OF PROXY MATERIALS

The SEC has adopted rules that permit companies and intermediaries (e.g., brokers) to satisfy the delivery requirements for Notices of Internet Availability of Proxy Materials or other Annual Meeting materials with respect to two or more stockholders sharing the same address by delivering a single Notice of Internet Availability of Proxy Materials or other Annual Meeting materials addressed to those stockholders. This process, which is commonly referred to as “householding,” potentially means extra convenience for stockholders and cost savings for companies.

This year, a number of brokers with account holders who are our stockholders will likely be “householding” our proxy materials. A single Notice of Internet Availability of Proxy Materials will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the affected stockholders. Once you have received notice from your broker that they will be “householding” communications to your address, “householding” will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in “householding” and would prefer to receive a separate Notice of Internet Availability of Proxy Materials, please notify your broker or us. Direct your written request to us via email at [IR@datadoghq.com](mailto:IR@datadoghq.com). Stockholders who currently receive multiple copies of the Notices of Internet Availability of Proxy Materials at their addresses and would like to request “householding” of their communications should contact their brokers.

## OTHER MATTERS

The Board of Directors knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the Annual Meeting, it is the intention of the persons named in the accompanying proxy to vote on such matters in accordance with their best judgment.

By Order of the Board of Directors

A handwritten signature in blue ink, appearing to read 'L. Kopits', is positioned above the printed name.

Laszlo Kopits  
General Counsel and Secretary

April 24, 2020

*We have filed our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 with the SEC. It is available free of charge at the SEC's web site at [www.sec.gov](http://www.sec.gov). Stockholders can also access this proxy statement and our Annual Report on Form 10-K at [investors.datadoghq.com](http://investors.datadoghq.com). A copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 is also available without charge upon written request to us via email at [IR@datadoghq.com](mailto:IR@datadoghq.com).*



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549**

**FORM 10-K**

(Mark One)

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

**For the fiscal year ended December 31, 2019**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 001-39051**

**Datadog, Inc.**

(Exact Name of Registrant as Specified in its Charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**620 8th Avenue, 45th Floor**

**New York, NY**  
(Address of principal executive offices)

**27-2825503**  
(I.R.S. Employer  
Identification No.)

**10018**  
(Zip Code)

**Registrant's telephone number, including area code: (866) 329-4466**

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

| Title of each class                                 | Trading Symbol(s) | Name of each exchange on which registered                    |
|---|-------------------|--|
| Class A common stock, par value \$0.00001 per share | DDOG              | The Nasdaq Stock Market LLC<br>(Nasdaq Global Select Market) |

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

|                         |                                     |                           |                                     |
|-------------------------|-------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/>            | Accelerated filer         | <input type="checkbox"/>            |
| Non-accelerated filer   | <input checked="" type="checkbox"/> | Smaller reporting company | <input type="checkbox"/>            |
|                         |                                     | Emerging growth company   | <input checked="" type="checkbox"/> |

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing price of the registrant's shares of Class A common stock as reported by The Nasdaq Global Select Market on December 31, 2019, was approximately \$2.4 billion. The registrant has elected to use December 31, 2019 as the calculation date, which was the last trading date of the registrant's most recently completed fiscal year, because on June 30, 2019 (the last business day of the registrant's second fiscal quarter), the registrant was a privately-held company.

As of February 14, 2020, there were 65,045,636 shares of the registrant's Class A common stock and 232,027,598 shares of the registrant's Class B common stock, each with a par value of \$0.00001 per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement for its 2020 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent stated herein. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2019.

**DATADOG, INC.**  
**2019 ANNUAL REPORT ON FORM 10-K**  
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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements about us and our industry that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this Annual Report on Form 10-K including statements regarding our future results of operations or financial condition, business strategy and plans and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as “anticipate,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “will” or “would” or the negative of these words or other similar terms or expressions. These forward-looking statements include, but are not limited to, statements concerning the following:

- our expectations regarding our revenue, expenses and other operating results;
- our ability to acquire new customers and successfully retain existing customers;
- our ability to increase usage of our platform and upsell and cross sell additional products;
- our ability to achieve or sustain our profitability;
- future investments in our business, our anticipated capital expenditures and our estimates regarding our capital requirements;
- the costs and success of our sales and marketing efforts, and our ability to promote our brand;
- our reliance on key personnel and our ability to identify, recruit and retain skilled personnel;
- our ability to effectively manage our growth, including any international expansion;
- our ability to protect our intellectual property rights and any costs associated therewith;
- our ability to compete effectively with existing competitors and new market entrants; and
- the growth rates of the markets in which we compete.

You should not rely on forward-looking statements as predictions of future events. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described in under the header “Risk Factors” and elsewhere in this Annual Report on Form 10-K. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained herein. The results, events and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Annual Report on Form 10-K relate only to events as of the date on which the statements are made, and we undertake no obligation to update them to reflect events or circumstances after the date of this Annual Report on Form 10-K or to reflect new information or the occurrence of unanticipated events, except as required by law.

Unless the context otherwise indicates, references in this report to the terms “Datadog”, “the Company,” “we,” “our” and “us” refer to Datadog, Inc. and its subsidiaries.

“Datadog” and other trade names and trademarks of ours appearing in this report are our property. This report contains trade names and trademarks of other companies, which are the property of their respective owners. We do not intend our use or display of other companies’ trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.

We may announce material business and financial information to our investors using our investor relations website ([www.investors.datadoghq.com](http://www.investors.datadoghq.com)). We therefore encourage investors and others interested in Datadog to review the information that we make available on our website, in addition to following our filings with the Securities and Exchange Commission, or the SEC, webcasts, press releases and conference calls.

## PART I

### Item 1. Business

#### Overview

Datadog is the monitoring and analytics platform for developers, IT operations teams and business users in the cloud age.

Our SaaS platform integrates and automates infrastructure monitoring, application performance monitoring and log management to provide unified, real-time observability of our customers' entire technology stack. Datadog is used by organizations of all sizes and across a wide range of industries to enable digital transformation and cloud migration, drive collaboration among development, operations and business teams, accelerate time to market for applications, reduce time to problem resolution, understand user behavior and track key business metrics.

Software applications are transforming how organizations engage with customers and operate their businesses. Companies across all industries are re-platforming their businesses to cloud infrastructures to enable this digital transformation. Historically, engineering teams have been siloed, making the development of next generation applications on dynamic cloud environments challenging. We started Datadog to break this model and facilitate collaboration among development and operations teams, enabling the adoption of DevOps practices. Since then we have continuously pushed to unify separate tools into an integrated monitoring and analytics platform, readily available to everyone who cares about applications and their impact on business.

From our founding goal of breaking down silos between Dev and Ops, we set out in 2010 to build a real-time data integration platform to turn chaos from disparate sources into digestible and actionable insights. In 2012, we launched our first use case with infrastructure monitoring, purpose-built to handle increasingly ephemeral cloud-native architectures. This enabled us to be deployed on our customers' entire cloud IT environments and gave our product broad usage across Dev, Ops and business teams, in turn allowing us to address a bigger set of challenges through our platform. In 2017 we launched our Application Performance Monitoring, or APM, product, designed to be broadly deployed in very distributed, micro-services architectures. In 2018, we were the first to combine the "three pillars of observability" with the introduction of our log management product. To allow for full-stack observability, in 2019, we launched user experience monitoring and network performance monitoring, and announced the addition of security monitoring to our platform. Today, we offer end-to-end monitoring and analytics, powered by a common data model that is extensible for potential new use cases.

Our proprietary platform combines the power of metrics, traces and logs to provide a unified view of infrastructure and application performance and the real-time events impacting this performance. Datadog is designed to be cloud agnostic and easy to deploy, with hundreds of out-of-the-box integrations, a built-in understanding of modern technology stacks and endless customizability. Customers can deploy our platform across their entire infrastructure, making it ubiquitous and a daily part of the lives of developers, operations engineers and business leaders.

We believe that our platform currently addresses a significant portion of the IT Operations Management market. According to Gartner, the IT Operations Management market represents a \$37 billion opportunity in 2023. We believe a large portion of this spend is for legacy on-premise and private cloud environments but does not fully include the opportunity in modern multi-cloud and hybrid cloud environments. Our platform is designed to address both legacy and modern environments.

We employ a land-and-expand business model centered around offering products that are easy to adopt and have a very short time to value. Our customers can expand their footprint with us on a self-service basis. Our customers often significantly increase their usage of the products they initially buy from us and expand their usage to other products we offer on our platform. We grow with our customers as they expand their workloads in the public and private cloud.

## Our Solution and Key Strengths

Datadog was founded on the premise that the old model of siloed developers and IT operations engineers is broken, and that legacy tools used for monitoring static on-premise architectures do not work in modern cloud or hybrid environments. Datadog's cloud-native platform enables development and operations teams to collaborate, quickly build and improve applications, and drive business performance. Empowered by our out-of-the box functionality and simple, self-service installation, our customers are able to rapidly deploy our platform to provide application- and infrastructure-wide visibility, often within minutes.

- ***Built for dynamic cloud infrastructures.*** Our innovative platform was born in the cloud and was built to work with ephemeral cloud technologies such as microservices, containers and serverless computing. Our data model was built to work at cloud scale with highly dynamic data sets and processes more than 10 trillion events a day.
- ***Simple but not simplistic.*** Our platform is easy-to-use with out-of-the-box integrations, customizable drag-and-drop dashboards, real-time visualization and prioritized alerting. The platform is deployed in a self-service installation process within minutes, allowing new users to quickly derive value without any specialized training or heavy implementation or customization. It is highly extensible across a wide array of use cases to a broad set of developers, operations engineers and business users. As a result, our platform is integral to business operations and used every day, and our users find increasing value in the solution over time.
- ***Integrated data platform.*** We were the first to combine the “three pillars of observability” - metrics, traces, and logs - with the introduction of our log management solution in 2018. Today, our platform combines infrastructure monitoring, application performance monitoring, log management, user experience monitoring, and network performance monitoring in one integrated data platform. This approach increases efficiency by reducing both the expense and friction of attempting to glean insights from disparate systems. We are able to provide a unified view across the IT stack, including infrastructure and application performance, as well as the real-time events impacting performance. Each of our products is integrated and taken together provide the ability to view metrics, traces and logs side-by-side and perform correlation analysis.
- ***Built for collaboration.*** Our platform was built to break down the silos between developers and operations teams in order to help organizations adopt DevOps practices and improve overall business performance. We provide development and operations teams with a common set of tools to develop a joint understanding of application performance and shared insights into the infrastructure supporting the applications. Additionally, our customizable and interactive dashboards can be shared with business teams to provide them with real-time actionable insights.
- ***Cloud agnostic.*** Our platform is designed to be deployable across all environments, including public cloud, private cloud, on-premise and multi-cloud hybrid environments, allowing organizations to diversify their infrastructure and reduce single vendor dependence.
- ***Ubiquitous.*** Datadog is frequently deployed across a customer's entire infrastructure, making it ubiquitous. Compared to legacy systems that are often used only by a few users in an organization's IT operations team, Datadog is a daily part of the lives of developers, operations engineers and business leaders. For example, a leading communications software technology provider has over 1,000 Datadog users, representing about half of the company's total employee count and greater than the total number of the company's engineers. Further, a Fortune 500 financial services firm has over 6,000 Datadog users.
- ***Integrates with our customers' complex environments.*** We enable development and operations teams to harness the full spectrum of SaaS and open source tools. We have over 400 out-of-the-box integrations with technologies to provide significant value to our customers without the need for professional services. Our integrations provide for comprehensive data point aggregation and consistent, up-to-date, high-quality customer experiences across heterogeneous IT environments as they are fully maintained by Datadog.
- ***Powered by robust analytics and machine-learning.*** Our platform ingests massive amounts of data into our unified data warehouse. We develop actionable insights using our advanced analytics capabilities. Our platform features machine learning that can cross-correlate metrics, traces and logs to identify outliers and notify users of potential anomalies before they impact the business.
- ***Scalable.*** Our SaaS platform is highly scalable and is delivered through the cloud. Our platform is massively scalable currently monitoring more than 10 trillion events a day and millions of servers and containers at any point in time. We offer secure, easily accessible data retention at full granularity for extensive periods of time, which can provide customers with a complete view of their historical data.

## Key Benefits to Our Customers

Organizations of all sizes, in all industries, both private and public, purchase our products for a variety of use cases. As of December 31, 2019, we had approximately 10,500 customers in over 100 countries. Our platform provides the following key benefits to our customers:

- **Accelerate digital transformation.** We enable customers to take full advantage of the cloud to develop and maintain mission-critical applications with agility and with confidence in the face of increasing business and time pressure and complexity of underlying infrastructure. As a result, our platform helps accelerate innovation cycles, deliver exceptional digital experiences and optimize business performance.
- **Reduce time to problem detection and resolution.** Using infrastructure, APM and log data in our unified platform, our customers are able to quickly isolate the root cause of application issues in one place where they otherwise would be required to spend hours trying to investigate using multiple tools. The reduction in mean time to detection and mean time to resolution helps our customers avoid lost revenues and enhance customer experience.
- **Improve agility of development, operations and business teams.** We eliminate the historical silos of development and operations teams and provide a platform that enables efficient and agile development through the adoption of DevOps. Our platform enables development and operations teams to collaborate closely with a shared understanding of data and analytics. This helps them develop a joint understanding of application performance and shared insights into the infrastructure supporting the applications.
- **Enable operational efficiency.** Our solution is easy to install, which eliminates the need for heavy implementation costs and professional services. We have hundreds of integrations with key technologies, from which our customers can derive significant value, avoiding internal development costs and professional services required to create those integrations. Our customer-centric pricing model is tailored to customers' desired usage needs. For example, our log management solution has differentiated pricing for logs indexed versus logs ingested. Our platform empowers customers to better understand the operational needs of their applications and IT environments, enabling greater efficiency in resource allocation and spend on cloud infrastructure.

## Our Growth Strategies

We intend to pursue the following growth strategies:

- **Expand our customer base by acquiring new customers.** Our market penetration is low. We believe there is a substantial opportunity to continue to grow our customer base. We intend to drive new customer additions by expanding our sales and marketing efforts in the markets we serve.
- **Expand within our existing customer base through broader deployments, new use cases and new product adoption.** Our base of approximately 10,500 customers as of December 31, 2019 represents a significant opportunity for further sales expansion. We plan to continue to increase sales within our existing customer base through increased usage of our platform and the cross selling of additional products.
- **Expand our technology leadership through continued investment and new products.** We intend to invest in expanding the functionality of our current platform and adding capabilities that address new market opportunities. We have a history of continued innovation. For example, in 2017 we launched APM, in 2018 we launched log management, and in 2019 we launched user experience monitoring and network performance monitoring, and announced the addition of security monitoring to our platform.
- **Expand our customer base internationally.** We believe there is a significant opportunity to continue to expand usage of our platform outside of the United States, as international markets have increased the shift of their IT spend to the cloud.

## Our Platform

Our proprietary platform provides real-time insights into software applications and IT infrastructure performance to enable better user experiences, faster problem detection and resolution and smarter, more impactful business decisions. Our platform is also modular and includes infrastructure monitoring, application performance monitoring, log management, user experience monitoring and network performance monitoring, as well as a range of shared features such as sophisticated dashboards, advanced analytics, collaboration tools and alerting capabilities. Each of our products is fully capable stand-alone so clients can choose to use different capabilities incrementally or deploy many at once. When deployed together, our products automatically enable cross-correlation, which in turn allows customers to gain greater levels of visibility across their infrastructure and applications to more rapidly troubleshoot problems.

Our platform is supported by hundreds of integrations to seamlessly aggregate metrics and events across all of the systems and services that power digital businesses. Our easy-to-use platform is deployed through a self-service installation process. Users can derive value from our platform within minutes without any specialized training or heavy implementation or customization. Customers can easily expand their usage of our platform on a self-serve basis, adding hosts or volumes of data monitored. Our platform is massively scalable currently monitoring more than 10 trillion events a day and millions of servers and containers.

The key elements that can be leveraged across our platform:

- **Single Pane of Glass.** Our ability to provide a unified source of data enables users to access information from a single platform and easily explore multiple data sources. Through a single dashboard and with a common data framework, users are able to access and explore all of the relevant performance data. Users are able to more quickly assess and resolve their issues without having to toggle between multiple products.
- **Robust, Deep Data Set.** Our client-side collection technology relies on installation of a single agent for metrics, traces, and logs, allowing for a simple, seamless deployment experience for the customers. We ingest massive amounts of complex data and normalize it. The volume of data associated with combining infrastructure, APM and log management provides for a dramatically more robust data set than any of the individual data sources would provide on their own.
- **SaaS Platform.** Our cloud based multi-tenant SaaS platform allows for real-time ingestion, and analysis of massive amounts of data, without our customers needing to worry about the provisioning, sizing and capacity of their monitoring platform.
- **One Data Model.** Every piece of data that is ingested by our platform is consistently tagged with metadata regardless of its type. This allows for different kinds of performance data, such as a log event and an application trace, to be queried together, correlated, alerted on, and visualized in a common user interface.
- **Cross-Correlation.** All of our solutions are integrated and work cohesively to provide a deep level of context and insight into what is occurring in a customer's IT environment and power faster trouble-shooting.
- **Out-Of-The-Box, Actionable Insights.** From the moment of installation, our platform provides actionable insights through customizable dashboards, predictive analytics, automated correlations, visualizations and alerting.
- **High Accuracy Machine-Learning Capabilities and Predictive Capabilities Powered by the Network Effect.** Our multi-tenant cloud platform analyzes massive data sets ingested across our customers and their IT environments. It uses machine learning to predict and identify sources of performance or availability issues that customers share due to dependencies on common service providers or third-party services.
- **400+ Fully Supported Integrations.** We offer more than 400 out-of-the-box integrations including public cloud, private cloud, on-premise hardware, databases and third-party software.
- **Automated Alerts.** We offer sophisticated real time alerting capabilities in the platform that detects issues, alerts users, and integrates with their service management systems.

Our platform consists of seven products that can be used individually or as a unified solution, including:

- **Infrastructure Monitoring.** Our infrastructure monitoring platform provides real-time monitoring of IT infrastructure across public cloud, private cloud and hybrid environments, as well as in containers and serverless architectures, ensuring performance and availability of applications. All infrastructure data is located in one repository with automatic correlation, regardless of environment size or rate of change, to provide a fulsome view of everything that is occurring across the IT ecosystem.
- **Application Performance Monitoring (APM).** APM provides full visibility into the health and functioning of applications regardless of the deployment environment. Distributed tracing across microservices, hosts, containers and serverless computing functions allows our customers to gain deep insights into application performance. In-context correlation of APM traces to logs and infrastructure metrics provides for faster troubleshooting allowing issues to be resolved in minimal time.
- **Log Management.** Log management for applications, systems and cloud platforms ingests data, creates indexes and enables querying of logs with visualizations and alerting to ensure immediate insight into any performance issues. Logging Without Limits™ decouples the cost of log ingestion from processing, allowing customers to cost effectively collect a massive volume of logs and selectively process those they need to monitor.

- **User Experience Monitoring.** User experience monitoring brings visibility up the stack to monitor the digital experience of the customer, and is comprised of two products – Synthetics and Real User Monitoring, or RUM. Synthetics provides user-experience monitoring of applications and API endpoints via simulated AI-powered user requests to track application performance and ensure uptime. RUM provides analysis and visualization of the performance of front-end applications as experienced by all actual users.
- **Network Performance Monitoring.** Network Performance Monitoring, or NPM, enables the analysis and visualization of the flow of network traffic in cloud-based or hybrid environments. It allows the mapping of full-stack dependencies, and is fully integrated with the Datadog platform. It is very lightweight, allowing customers to monitor the flow of network traffic without sacrificing performance.
- **Security Monitoring.** Currently available in beta, security monitoring allows customers to detect threats in real time and investigate security signals across metrics, traces, and logs. It provides the full engineering organization, including Dev, Ops, and security teams, visibility into common data sources, in order to better operationalize IT security.

## Sales and Marketing

Our sales team is segmented into four revenue-generating areas: an enterprise sales team that sells to large businesses; a high velocity inside-sales team that is focused on acquiring new customers; a customer success team that handles new customer onboarding and expansions in existing customers; and a partner team that works with resellers, system integrators, referral partners and managed service providers. Each of these teams is further split regionally for geographic coverage across Americas, APAC and EMEA. The sales teams work with marketing to actively pursue leads generated from marketing programs and help take prospective customers through an evaluation and purchase process.

We focus our multi-touch marketing efforts on the strength of our product innovation, the value we provide and our domain expertise. We target the development and IT operations community through our marketing activities, using diverse tactics to connect with prospective customers, such as content marketing, email marketing, events, digital advertising, social media, public relations, partner marketing and community initiatives. We offer prospective customers free trials to help them understand the power of our platform. We also host and present at regional, national and global events to engage both customers and prospects, deliver product training, share best practices and foster community.

As of December 31, 2019, we had 581 employees in our sales and marketing organization, including sales development, field sales, sales engineering, business development, sales operations, sales strategy, customer success and marketing personnel. We intend to continue to invest in our sales and marketing capabilities to capitalize on our market opportunity.

## Research and Development

Our research and development organization is responsible for the design, development, testing and delivery of new technologies, features and integrations of our platform, as well as the continued improvement and iteration of our existing products. It is also responsible for operating and scaling our platform including the underlying cloud infrastructure. Our research and development investments seek to drive core technology innovation and bring new products to market. Research and development employees are located primarily in our New York and Paris offices, as well as remotely distributed.

Our research and development team consists of our software engineering, product management, development and site reliability engineering teams. As of December 31, 2019, we had 566 employees in our research and development organization. We intend to continue to invest in our research and development capabilities to extend our platform and products.

## Our Competition

The worldwide monitoring and analytics market is and has been highly competitive for decades and is rapidly evolving. We compete on the basis of a number of factors, including:

- ability to provide unified, real-time observability of IT environments;
- ability to operate in dynamic and elastic environments;
- extensibility across the enterprise, including development, operations and business users;
- propensity to enable collaboration between development, operations and business users;
- ability to monitor any combination of public clouds, private clouds, on-premise and multi-cloud hybrids;



- ability to provide advanced analytics and machine learning;
- ease of deployment, implementation and use;
- breadth of offering and key technology integrations;
- performance, security, scalability and reliability;
- quality of service and customer satisfaction;
- total cost of ownership; and
- brand recognition and reputation.

Our unified platform combines functionality from numerous traditional product categories, and hence we compete in each of these categories with different vendors:

- With respect to on-premise infrastructure monitoring, we compete with diversified technology companies and systems management vendors including IBM, Microsoft Corporation, Micro Focus International plc, BMC Software, Inc. and Broadcom.
- With respect to APM, we compete with Cisco Systems, Inc., New Relic, Inc. and Dynatrace Software Inc.
- With respect to Log management, we compete with Splunk Inc. and Elastic N.V.
- With respect to Cloud monitoring, we compete with native solutions from cloud providers such as Amazon Web Services, or AWS, Google Cloud Platform, or GCP, and Microsoft Azure.

Additionally, we compete with home-grown and open-source technologies across the categories described above. We believe that we compete favorably with respect to the factors listed above. However, many of our competitors have greater financial, technical and other resources, greater brand recognition, larger sales forces and marketing budgets, broader distribution networks, more diverse product and services offerings and larger and more mature intellectual property portfolios. They may be able to leverage these resources to gain business in a manner that discourages customers from purchasing our offerings. Furthermore, we expect that our industry will continue to attract new companies, including smaller emerging companies, which could introduce new offerings. We may also expand into new markets and encounter additional competitors in such markets.

## **Our Employees**

As of December 31, 2019, we had 1,403 employees operating across 27 countries. None of our employees are represented by a labor union with respect to his or her employment. In certain countries in which we operate, such as France, we are subject to, and comply with, local labor law requirements, which may automatically make our employees subject to industry-wide collective bargaining agreements. We have not experienced any work stoppages and we consider our relations with our employees to be good.

## **Intellectual Property**

Intellectual property rights are important to the success of our business. We rely on a combination of patent, copyright, trademark and trade secret laws in the United States and other jurisdictions, as well as license agreements, confidentiality procedures, non-disclosure agreements with third parties, and other contractual protections, to protect our intellectual property rights, including our proprietary technology, software, know-how and brand. We use open source software in our services. Our proprietary API and the agent used by customers to upload data to our platform are licensed by us on an open source basis.

As of December 31, 2019, we own five patent applications pending for examination in the United States and no non-U.S. patents or patent applications. The pending U.S. patent applications, if issued, would be scheduled to expire in 2038 and 2039. Despite our pending U.S. patent applications, there can be no assurance that our patent applications will result in issued patents. As of December 31, 2019, we own two registered trademarks in the United States and six registered trademarks in various non-U.S. jurisdictions. However, as we have expanded internationally, we have been unable to register or obtain the right to use the Datadog trademark in certain jurisdictions, and as we continue to expand may face similar issues in other jurisdictions.

Although we rely on intellectual property rights, including patents, copyrights, trademarks and trade secrets, as well as contractual protections to establish and protect our proprietary rights, we believe that factors such as the technological and creative skills of our personnel, creation of new services, features and functionality, and frequent enhancements to our platform are more essential to establishing and maintaining our technology leadership position.

We control access to and use of our proprietary technology and other confidential information through the use of internal and external controls, including contractual protections with employees, contractors, customers and partners. We require our employees, consultants and other third parties to enter into confidentiality and proprietary rights agreements and we control and monitor access to our software, documentation, proprietary technology and other confidential information. Our policy is to require all employees and independent contractors to sign agreements assigning to us any inventions, trade secrets, works of authorship, developments, processes and other intellectual property generated by them on our behalf and under which they agree to protect our confidential information. In addition, we generally enter into confidentiality agreements with our customers and partners. See the section titled “Risk Factors” for a more comprehensive description of risks related to our intellectual property.

### **Corporate Information**

We were incorporated in Delaware in June 2010. Our principal executive offices are located at 620 8th Avenue, 45th Floor, New York, New York 10018, and our telephone number is (866) 329-4466. Our website address is [www.datadog.com](http://www.datadog.com). Information contained on, or that can be accessed through, our website is not incorporated by reference into this Annual Report on Form 10-K, and you should not consider information on our website to be part of this Annual Report on Form 10-K.

### **Available Information**

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, are filed with the SEC. Such reports and other information filed by us with the SEC are available free of charge on our website at [www.investors.datadoghq.com](http://www.investors.datadoghq.com) when such reports are available on the SEC’s website. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov). The information contained on the websites referenced in this Annual Report on Form 10-K is not incorporated by reference into this filing. Further, our references to website URLs are intended to be inactive textual references only.

## Item 1A. Risk Factors

*Our operations and financial results are subject to various risks and uncertainties including those described below. You should consider carefully the risks and uncertainties described below, in addition to other information contained in this Annual Report on Form 10-K, including our consolidated financial statements and related notes. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. If any of the following risks or others not specified below materialize, our business, financial condition and results of operations could be materially and adversely affected. In that case, the trading price of our Class A common stock could decline.*

### Risks Related to Our Business and Industry

***Our recent rapid growth may not be indicative of our future growth. Our rapid growth also makes it difficult to evaluate our future prospects and may increase the risk that we will not be successful.***

Our revenue was \$362.8 million, \$198.1 million and \$100.8 million for the years ended December 31, 2019, 2018 and 2017, respectively. You should not rely on the revenue growth of any prior quarterly or annual period as an indication of our future performance. Even if our revenue continues to increase, we expect that our revenue growth rate will decline in the future as a result of a variety of factors, including the maturation of our business. Overall growth of our revenue depends on a number of factors, including our ability to:

- price our products effectively so that we are able to attract new customers and expand sales to our existing customers;
- expand the functionality and use cases for the products we offer on our platform;
- maintain and expand the rates at which customers purchase and renew subscriptions to our platform;
- provide our customers with support that meets their needs;
- continue to introduce our products to new markets outside of the United States;
- successfully identify and acquire or invest in businesses, products or technologies that we believe could complement or expand our platform; and
- increase awareness of our brand on a global basis and successfully compete with other companies.

We may not successfully accomplish any of these objectives, and as a result, it is difficult for us to forecast our future results of operations. If the assumptions that we use to plan our business are incorrect or change in reaction to changes in our market, or if we are unable to maintain consistent revenue or revenue growth, our stock price could be volatile, and it may be difficult to achieve and maintain profitability. You should not rely on our revenue for any prior quarterly or annual periods as any indication of our future revenue or revenue growth.

In addition, we expect to continue to expend substantial financial and other resources on:

- our technology infrastructure, including systems architecture, scalability, availability, performance and security;
- our sales and marketing organization to engage our existing and prospective customers, increase brand awareness and drive adoption of our products;
- product development, including investments in our product development team and the development of new products and new functionality for our platform as well as investments in further optimizing our existing products and infrastructure;
- acquisitions or strategic investments;
- international expansion; and
- general administration, including increased legal and accounting expenses associated with being a public company.

These investments may not result in increased revenue growth in our business. If we are unable to maintain or increase our revenue at a rate sufficient to offset the expected increase in our costs, our business, financial position, and results of operations will be harmed, and we may not be able to achieve or maintain profitability over the long term. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays, and other unknown factors that may result in losses in future periods. If our revenue growth does not meet our expectations in future periods, our business, financial position and results of operations may be harmed, and we may not achieve or maintain profitability in the future.

***We have a history of operating losses and may not achieve or sustain profitability in the future.***

We have experienced net losses in each period since inception. We generated net losses of \$(16.7) million, \$(10.8) million and \$(2.6) million for the years ended December 31, 2019, 2018 and 2017, respectively. As of December 31, 2019, we had an accumulated deficit of \$123.6 million. While we have experienced significant revenue growth in recent periods, we are not certain whether or when we will obtain a high enough volume of sales to sustain or increase our growth or achieve or maintain profitability in the future. We also expect our costs and expenses to increase in future periods, which could negatively affect our future results of operations if our revenue does not increase. In particular, we intend to continue to expend significant funds to further develop our platform, including by introducing new products and functionality, and to expand our inside and field sales teams and customer success team to drive new customer adoption, expand use cases and integrations, and support international expansion. We will also face increased compliance costs associated with growth, the expansion of our customer base, and being a public company. Our efforts to grow our business may be costlier than we expect, or the rate of our growth in revenue may be slower than we expect, and we may not be able to increase our revenue enough to offset our increased operating expenses. We may incur significant losses in the future for a number of reasons, including the other risks described herein, and unforeseen expenses, difficulties, complications or delays, and other unknown events. If we are unable to achieve and sustain profitability, the value of our business and Class A common stock may significantly decrease.

***We have a limited operating history, which makes it difficult to forecast our future results of operations.***

We were founded in June 2010. As a result of our limited operating history, our ability to accurately forecast our future results of operations is limited and subject to a number of uncertainties, including our ability to plan for and model future growth. Our historical revenue growth should not be considered indicative of our future performance. Further, in future periods, our revenue growth could slow or our revenue could decline for a number of reasons, including slowing demand for our products, increasing competition, changes to technology, a decrease in the growth of our overall market, or our failure, for any reason, to continue to take advantage of growth opportunities. We have also encountered, and will continue to encounter, risks and uncertainties frequently experienced by growing companies in rapidly changing industries, such as the risks and uncertainties described herein. If our assumptions regarding these risks and uncertainties and our future revenue growth are incorrect or change, or if we do not address these risks successfully, our operating and financial results could differ materially from our expectations, and our business could suffer.

***Our business depends on our existing customers purchasing additional subscriptions and products from us and renewing their subscriptions. If our customers do not renew or expand their subscriptions with us, our future operating results would be harmed.***

Our future success depends in part on our ability to sell additional subscriptions and products to our existing customers, and our customers renewing their subscriptions when the contract term expires. The terms of our subscription agreements are primarily monthly or annual, with some quarterly, semi-annual and multi-year. Our customers have no obligation to renew their subscriptions for our products after the expiration of their subscription period. In order for us to maintain or improve our results of operations, it is important that our customers renew or expand their subscriptions with us. Whether our customers renew or expand their subscriptions with us may be impacted by a number of factors, including business strength or weakness of our customers, customer usage, customer satisfaction with our products and platform capabilities and customer support, our prices, the capabilities and prices of competing products, mergers and acquisitions affecting our customer base, consolidation of affiliates' multiple paid business accounts into a single paid business account, the effects of global economic conditions, or reductions in our customers' spending on IT solutions or their spending levels generally. These factors may also be exacerbated if, consistent with our growth strategy, our customer base continues to grow to encompass larger enterprises, which may also require more sophisticated and costly sales efforts. If our customers do not purchase additional subscriptions and products from us or our customers fail to renew their subscriptions, our revenue may decline and our business, financial condition and results of operations may be harmed.

***If we are unable to attract new customers, our business, financial condition and results of operations will be adversely affected.***

To increase our revenue, we must continue to attract new customers. Our success will depend to a substantial extent on the widespread adoption of our platform and products as an alternative to existing solutions. Many enterprises have invested substantial personnel and financial resources to integrate traditional on-premise architectures into their businesses and, therefore, may be reluctant or unwilling to migrate to cloud computing. Further, the adoption of SaaS business software may be slower in industries with heightened data security interests or business practices requiring highly-customizable application software. In addition, as our market matures, our products evolve, and competitors introduce lower cost or differentiated products that are perceived to compete with our platform and products, our ability to sell subscriptions for our products could be impaired. Similarly, our subscription sales could be adversely affected if customers or users within these organizations perceive that features incorporated into competitive products reduce the need for our products or if they prefer to purchase other products that are bundled with solutions offered by other companies that operate in adjacent markets and compete with our products. As a result of these and other factors, we may be unable to attract new customers, which may have an adverse effect on our business, financial condition and results of operations.

***Failure to effectively develop and expand our sales and marketing capabilities could harm our ability to increase our customer base and achieve broader market acceptance of our products.***

Our ability to increase our customer base and achieve broader market acceptance of our products and platform capabilities will depend to a significant extent on our ability to expand our sales and marketing organization. We plan to continue expanding our direct sales force, both domestically and internationally. We also plan to dedicate significant resources to sales and marketing programs. All of these efforts will require us to invest significant financial and other resources, including in channels in which we have limited or no experience to date. Our business and results of operations will be harmed if our sales and marketing efforts do not generate significant increases in revenue or increases in revenue that are smaller than anticipated. We may not achieve anticipated revenue growth from expanding our sales force if we are unable to hire, develop, integrate and retain talented and effective sales personnel, if our new and existing sales personnel, on the whole, are unable to achieve desired productivity levels in a reasonable period of time, or if our sales and marketing programs are not effective.

***If we or our third-party service providers experience a security breach or unauthorized parties otherwise obtain access to our customers' data, our data or our platform, our solution may be perceived as not being secure, our reputation may be harmed, demand for our platform and products may be reduced, and we may incur significant liabilities.***

Our platform and products involve the storage and transmission of data, including personally identifiable information, and security breaches or unauthorized access to our platform and products could result in the loss of our or our customers' data, litigation, indemnity obligations, fines, penalties, disputes, investigations and other liabilities. We have previously and may in the future become the target of cyber-attacks by third parties seeking unauthorized access to our or our customers' data or to disrupt our ability to provide our services. For example, in July 2016 an unidentified third party gained unauthorized access to, and exfiltrated data from, certain of our infrastructure resources, including a database that stored our customers' credentials for our platform and for third-party integrations. Some of the customer credentials accessed and exfiltrated included confidential and personal information. As a precautionary measure, we reset customer passwords and instructed customers to revoke credentials that had been shared with us. While we have taken steps to protect the confidential and personal information that we have access to, our security measures or those of our third-party service providers that store or otherwise process certain of our and our customers' data on our behalf could be breached or we could suffer a loss of our or our customers' data. Our ability to monitor our third-party service providers' data security is limited. Cyber-attacks, computer malware, viruses, social engineering (including spear phishing and ransomware attacks), and general hacking have become more prevalent in our industry, particularly against cloud services. In addition, we do not directly control content that our customers store in our products. If our customers use our products for the transmission or storage of personally identifiable information and our security measures are or are believed to have been breached as a result of third-party action, employee error, malfeasance or otherwise, our reputation could be damaged, our business may suffer, and we could incur significant liability. In addition, our remediation efforts may not be successful.

We also process, store and transmit our own data as part of our business and operations. This data may include personally identifiable, confidential or proprietary information. There can be no assurance that any security measures that we or our third-party service providers have implemented will be effective against current or future security threats. While we have developed systems and processes to protect the integrity, confidentiality and security of our and our customers' data, our security measures or those of our third-party service providers could fail and result in unauthorized access to or disclosure, modification, misuse, loss or destruction of such data.

Because there are many different security breach techniques and such techniques continue to evolve, we may be unable to anticipate attempted security breaches, react in a timely manner or implement adequate preventative measures. Third parties may also conduct attacks designed to temporarily deny customers access to our cloud services. Any security breach or other security incident, or the perception that one has occurred, could result in a loss of customer confidence in the security of our platform and damage to our brand, reduce the demand for our products, disrupt normal business operations, require us to spend material resources to investigate or correct the breach and to prevent future security breaches and incidents, expose us to legal liabilities, including litigation, regulatory enforcement, and indemnity obligations, and adversely affect our business, financial condition and results of operations. These risks are likely to increase as we continue to grow and process, store, and transmit increasingly large amounts of data.

We use third-party technology and systems in a variety of contexts, including, without limitation, encryption and authentication technology, employee email, content delivery to customers, back-office support, credit card processing and other functions. Although we have developed systems and processes that are designed to protect customer data and prevent data loss and other security breaches, including systems and processes designed to reduce the impact of a security breach at a third-party service provider, such measures cannot provide absolute security.

Additionally, we cannot be certain that our insurance coverage will be adequate for data security liabilities actually incurred, will cover any indemnification claims against us relating to any incident, will continue to be available to us on economically reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could adversely affect our reputation, business, financial condition and results of operations.

***Interruptions or performance problems associated with our products and platform capabilities may adversely affect our business, financial condition and results of operations.***

Our continued growth depends in part on the ability of our existing and potential customers to access our products and platform capabilities at any time and within an acceptable amount of time. We have experienced, and may in the future experience, disruptions, outages, and other performance problems due to a variety of factors, including infrastructure changes, introductions of new functionality, human or software errors, capacity constraints due to an overwhelming number of users accessing our products and platform capabilities simultaneously, denial of service attacks, or other security-related incidents.

It may become increasingly difficult to maintain and improve our performance, especially during peak usage times and as our products and platform capabilities become more complex and our user traffic increases. If our products and platform capabilities are unavailable or if our users are unable to access our products and platform capabilities within a reasonable amount of time or at all, we may experience a loss of customers, lost or delayed market acceptance of our platform and products, delays in payment to us by customers, injury to our reputation and brand, legal claims against us, and the diversion of our resources. In addition, to the extent that we do not effectively address capacity constraints, upgrade our systems as needed and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business, financial condition and results of operations may be adversely affected.

***If we fail to adapt and respond effectively to rapidly changing technology, evolving industry standards, changing regulations, or to changing customer needs, requirements or preferences, our platform and products may become less competitive.***

Our ability to attract new users and customers and increase revenue from existing customers depends in large part on our ability to enhance and improve our existing products, increase adoption and usage of our products, and introduce new products and capabilities. The market in which we compete is relatively new and subject to rapid technological change, evolving industry standards, and changing regulations, as well as changing customer needs, requirements and preferences. The success of our business will depend, in part, on our ability to adapt and respond effectively to these changes on a timely basis. If we were unable to enhance our products and platform capabilities that keep pace with rapid technological and regulatory change, or if new technologies emerge that are able to deliver competitive products at lower prices, more efficiently, more conveniently, or more securely than our products, our business, financial condition and results of operations could be adversely affected.

The success of our platform depends, in part, on its ability to be deployed in a self-service installation process. We currently offer more than 400 out-of-the-box integrations to assist customers in deploying Datadog, and we need to continuously modify and enhance our products to adapt to changes and innovation in existing and new technologies to maintain and grow our integrations. We expect that the number of integrations we will need to support will continue to expand as developers adopt new software platforms, and we will have to develop new versions of our products to work with those new platforms. This development effort may require significant engineering, sales and marketing resources, all of which would adversely affect our business. Any failure of our products to operate effectively with future infrastructure platforms and technologies could reduce the demand for our products. If we are unable to respond to these changes in a cost-effective manner, our products may become less marketable and less competitive or obsolete, and our business, financial condition and results of operations could be adversely affected.

***The markets in which we participate are competitive, and if we do not compete effectively, our business, financial condition and results of operations could be harmed.***

Our unified platform combines functionality from numerous traditional product categories, and hence we compete in each of these categories with home-grown and open-source technologies, as well as a number of different vendors. With respect to on-premise infrastructure monitoring, we compete with diversified technology companies and systems management vendors including IBM, Microsoft Corporation, Micro Focus International plc, BMC Software, Inc. and Computer Associates International, Inc. With respect to APM, we compete with Cisco Systems, Inc., New Relic, Inc. and Dynatrace Software Inc. With respect to log management, we compete with Splunk Inc. and Elastic N.V. With respect to cloud monitoring, we compete with native solutions from cloud providers such as AWS, GCP and Microsoft Azure. In addition, we may increasingly choose to allow these third-party hosting providers to offer our solutions directly through their customer marketplaces. An increasing number of sales through cloud provider marketplaces could reduce both the number of customers with whom we have direct commercial relationships as well as our profit margins on sales made through such marketplaces.

With the introduction of new technologies and market entrants, we expect that the competitive environment will remain intense going forward. Some of our actual and potential competitors have been acquired by other larger enterprises and have made or may make acquisitions or may enter into partnerships or other strategic relationships that may provide more comprehensive offerings than they individually had offered or achieve greater economies of scale than us. In addition, new entrants not currently considered to be competitors may enter the market through acquisitions, partnerships or strategic relationships. As we look to market and sell our products and platform capabilities to potential customers with existing internal solutions, we must convince their internal stakeholders that our products and platform capabilities are superior to their current solutions.

We compete on the basis of a number of factors, including:

- ability to provide unified, real-time observability of IT environments;
- ability to operate in dynamic and elastic environments;
- extensibility across the enterprise, including development, operations and business users;
- propensity to enable collaboration between development, operations and business users;
- ability to monitor any combination of public clouds, private clouds, on-premise and multi-cloud hybrids;
- ability to provide advanced analytics and machine learning;
- ease of deployment, implementation and use;
- breadth of offering and key technology integrations;
- performance, security, scalability and reliability;
- quality of service and customer satisfaction;
- total cost of ownership; and
- brand recognition and reputation.

Our competitors vary in size and in the breadth and scope of the products offered. Many of our competitors and potential competitors have greater name recognition, longer operating histories, more established customer relationships and installed customer bases, larger marketing budgets and greater resources than we do. Further, other potential competitors not currently offering competitive solutions may expand their product or service offerings to compete with our products and platform capabilities, or our current and potential competitors may establish cooperative relationships among themselves or with third parties that may further enhance their resources and product offerings in our addressable market. Our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, and customer requirements. An existing competitor or new entrant could introduce new technology that reduces demand for our products and platform capabilities. In addition to product and technology competition, we face pricing competition. Some of our competitors offer their solutions at a lower price, which has resulted in, and may continue to result in, pricing pressures.

For all of these reasons, we may not be able to compete successfully against our current or future competitors, and this competition could result in the failure of our platform to continue to achieve or maintain market acceptance, any of which would harm our business, results of operations, and financial condition.

***We may not be able to successfully manage our growth, and if we are not able to grow efficiently, our business, financial condition and results of operations could be harmed.***

As usage of our platform capabilities grow, we will need to devote additional resources to improving and maintaining our infrastructure and integrating with third-party applications. In addition, we will need to appropriately scale our internal business systems and our services organization, including customer support and professional services, to serve our growing customer base. Any failure of or delay in these efforts could result in impaired system performance and reduced customer satisfaction, resulting in decreased sales to new customers, lower dollar-based net retention rates or, the issuance of service credits or requested refunds, which would hurt our revenue growth and our reputation. Further, any failure in optimizing our spend on third-party cloud services as we scale could negatively impact our gross margins. Even if we are successful in our expansion efforts, they will be expensive and complex, and require the dedication of significant management time and attention. We could also face inefficiencies or service disruptions as a result of our efforts to scale our internal infrastructure. We cannot be sure that the expansion of and improvements to our internal infrastructure will be effectively implemented on a timely basis, if at all, and such failures could harm our business, financial condition and results of operations.

***We rely upon third-party providers of cloud-based infrastructure to host our products. Any disruption in the operations of these third-party providers, limitations on capacity or interference with our use could adversely affect our business, financial condition and results of operations.***

We outsource substantially all of the infrastructure relating to our cloud solution to third-party hosting services. Customers of our cloud-based products need to be able to access our platform at any time, without interruption or degradation of performance, and we provide them with service-level commitments with respect to uptime. Our cloud-based products depend on protecting the virtual cloud infrastructure hosted by third-party hosting services by maintaining its configuration, architecture, features and interconnection specifications, as well as the information stored in these virtual data centers, which is transmitted by third-party internet service providers. Any limitation on the capacity of our third-party hosting services could impede our ability to onboard new customers or expand the usage of our existing customers, which could adversely affect our business, financial condition and results of operations. In addition, any incident affecting our third-party hosting services' infrastructure that may be caused by cyber-attacks, natural disasters, fire, flood, severe storm, earthquake, power loss, telecommunications failures, outbreaks of contagious diseases, terrorist or other attacks, and other similar events beyond our control could negatively affect our cloud-based products. A prolonged service disruption affecting our cloud-based solution for any of the foregoing reasons would negatively impact our ability to serve our customers and could damage our reputation with current and potential customers, expose us to liability, cause us to lose customers or otherwise harm our business. We may also incur significant costs for using alternative equipment or taking other actions in preparation for, or in reaction to, events that damage the third-party hosting services we use.

In the event that our service agreements with our third-party hosting services are terminated, or there is a lapse of service, elimination of services or features that we utilize, interruption of internet service provider connectivity or damage to such facilities, we could experience interruptions in access to our platform as well as significant delays and additional expense in arranging or creating new facilities and services and/or re-architecting our cloud solution for deployment on a different cloud infrastructure service provider, which could adversely affect our business, financial condition and results of operations.

***We offer free trials and a free tier of our platform to drive developer awareness of our products, and encourage usage and adoption. If these marketing strategies fail to lead to customers purchasing paid subscriptions, our ability to grow our revenue will be adversely affected.***

To encourage awareness, usage, familiarity and adoption of our platform and products, we offer free trials and a free tier of our platform. These strategies may not be successful in leading customers to purchase our products. Many users of our free tier may not lead to others within their organization purchasing and deploying our platform and products. To the extent that users do not become, or we are unable to successfully attract paying customers, we will not realize the intended benefits of these marketing strategies and our ability to grow our revenue will be adversely affected.

***We expect fluctuations in our financial results, making it difficult to project future results, and if we fail to meet the expectations of securities analysts or investors with respect to our results of operations, our stock price could decline.***

Our results of operations have fluctuated in the past and are expected to fluctuate in the future due to a variety of factors, many of which are outside of our control. As a result, our past results may not be indicative of our future performance. In addition to the other risks described herein, factors that may affect our results of operations include the following:

- fluctuations in demand for or pricing of our platform and products;
- fluctuations in usage of our platform and products;
- our ability to attract new customers;
- our ability to retain our existing customers;
- customer expansion rates and the pricing and quantity of subscriptions renewed;
- the pricing of subscriptions from customers in our cloud-provider marketplaces;
- timing and amount of our investments to expand the capacity of our third-party cloud infrastructure providers;
- seasonality driven by industry conferences;
- the investment in new products and features relative to investments in our existing infrastructure and products;
- the timing of our customer purchases;
- fluctuations or delays in purchasing decisions in anticipation of new products or enhancements by us or our competitors;



- changes in customers' budgets and in the timing of their budget cycles and purchasing decisions;
- our ability to control costs, including our operating expenses;
- the amount and timing of payment for operating expenses, particularly research and development and sales and marketing expenses, including commissions;
- the amount and timing of non-cash expenses, including stock-based compensation, goodwill impairments and other non-cash charges;
- the amount and timing of costs associated with recruiting, training and integrating new employees and retaining and motivating existing employees;
- the effects of acquisitions and their integration;
- general economic conditions, both domestically and internationally, as well as economic conditions specifically affecting industries in which our customers participate;
- the impact of new accounting pronouncements;
- changes in regulatory or legal environments that may cause us to incur, among other elements, expenses associated with compliance;
- changes in the competitive dynamics of our market, including consolidation among competitors or customers; and
- significant security breaches of, technical difficulties with, or interruptions to, the delivery and use of our products and platform capabilities.

Any of these and other factors, or the cumulative effect of some of these factors, may cause our results of operations to vary significantly. If our quarterly results of operations fall below the expectations of investors and securities analysts who follow our stock, the price of our Class A common stock could decline substantially, and we could face costly lawsuits, including securities class action suits.

***Seasonality may cause fluctuations in our sales and results of operations.***

Historically, we have experienced seasonality in new customer bookings, as we typically we enter into a higher percentage of subscription agreements with new customers and renewals with existing customers in the fourth quarter of the year. We believe that this results from the procurement, budgeting, and deployment cycles of many of our customers, particularly our enterprise customers. We expect that this seasonality will continue to affect our bookings and our results of operations in the future, and might become more pronounced as we continue to target larger enterprise customers.

***Downturns or upturns in our sales may not be immediately reflected in our financial position and results of operations.***

Because we recognize the majority of our revenue ratably over the term of the subscription agreement, any decreases in new subscriptions or renewals in any one period may not be immediately reflected as a decrease in revenue for that period, but could negatively affect our revenue in future quarters. This also makes it difficult for us to rapidly increase our revenue through the sale of additional subscriptions in any period, as revenue is recognized over the term of the subscription agreement. In addition, fluctuations in monthly subscriptions based on usage could affect our revenue on a period-over-period basis. If our quarterly results of operations fall below the expectations of investors and securities analysts who follow our stock, the price of our Class A common stock would decline substantially, and we could face costly lawsuits, including securities class actions.

***We target enterprise customers, and sales to these customers involve risks that may not be present or that are present to a lesser extent with sales to smaller entities.***

We have a field sales team that targets enterprise customers. Sales to large customers involve risks that may not be present or that are present to a lesser extent with sales to smaller entities, such as longer sales cycles, more complex customer requirements, substantial upfront sales costs, and less predictability in completing some of our sales. For example, enterprise customers may require considerable time to evaluate and test our solutions and those of our competitors prior to making a purchase decision and placing an order. A number of factors influence the length and variability of our sales cycle, including the need to educate potential customers about the uses and benefits of our solutions, the discretionary nature of purchasing and budget cycles, and the competitive nature of evaluation and purchasing approval processes. As a result, the length of our sales cycle, from identification of the opportunity to deal closure, may vary significantly from customer to customer, with sales to large enterprises typically taking longer to complete. Moreover, large enterprise customers often begin to deploy our products on a limited basis, but nevertheless demand configuration, integration services and pricing negotiations, which increase our upfront investment in the sales effort with no guarantee that these customers will deploy our products widely enough across their organization to justify our substantial upfront investment.

***If we fail to retain and motivate members of our management team or other key employees, or fail to attract additional qualified personnel to support our operations, our business and future growth prospects would be harmed.***

Our success and future growth depend largely upon the continued services of our executive officers, particularly Olivier Pomel, our co-founder and Chief Executive Officer, Alexis Lê-Quôc, our co-founder, President and Chief Technology Officer, and David Obstler, our Chief Financial Officer, as well as our other key employees in the areas of research and development and sales and marketing functions. From time to time, there may be changes in our executive management team or other key employees resulting from the hiring or departure of these personnel. Our executive officers and other key employees are employed on an at-will basis, which means that these personnel could terminate their employment with us at any time. The loss of one or more of our executive officers, or the failure by our executive team to effectively work with our employees and lead our company, could harm our business. We also are dependent on the continued service of our existing software engineers because of the complexity of our products and platform capabilities.

In addition, to execute our growth plan, we must attract and retain highly qualified personnel. Competition for these personnel is intense, especially for engineers experienced in designing and developing SaaS applications and experienced sales professionals. If we are unable to attract such personnel in cities where we are located, we may need to hire in other locations which may add to the complexity and costs of our business operations. From time to time, we have experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications. Many of the companies with which we compete for experienced personnel have greater resources than we have. If we hire employees from competitors or other companies, their former employers may attempt to assert that these employees or we have breached their legal obligations, resulting in a diversion of our time and resources. In addition, prospective and existing employees often consider the value of the equity awards they receive in connection with their employment. If the perceived value of our equity awards declines, experiences significant volatility, or increases such that prospective employees believe there is limited upside to the value of our equity awards, it may adversely affect our ability to recruit and retain key employees. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects would be harmed.

***If we fail to maintain and enhance our brand, our ability to expand our customer base will be impaired and our business, financial condition and results of operations may suffer.***

We believe that maintaining and enhancing the Datadog brand is important to support the marketing and sale of our existing and future products to new customers and expand sales of our platform and products to existing customers. We also believe that the importance of brand recognition will increase as competition in our market increases. Successfully maintaining and enhancing our brand will depend largely on the effectiveness of our marketing efforts, our ability to provide reliable products that continue to meet the needs of our customers at competitive prices, our ability to maintain our customers' trust, our ability to continue to develop new functionality and use cases, and our ability to successfully differentiate our products and platform capabilities from competitive products. Our brand promotion activities may not generate customer awareness or yield increased revenue, and even if they do, any increased revenue may not offset the expenses we incur in building our brand. If we fail to successfully promote and maintain our brand, our business, financial condition and results of operations may suffer.

***If we cannot maintain our company culture as we grow, our success and our business and competitive position may be harmed.***

We believe our culture has been a key contributor to our success to date and that the critical nature of the platform that we provide promotes a sense of greater purpose and fulfillment in our employees. Any failure to preserve our culture could negatively affect our ability to retain and recruit personnel, which is critical to our growth, and to effectively focus on and pursue our corporate objectives. As we grow and develop the infrastructure of a public company, we may find it difficult to maintain these important aspects of our culture. If we fail to maintain our company culture, our business and competitive position may be harmed.

***The market for our solutions may develop more slowly or differently than we expect.***

It is difficult to predict customer adoption rates and demand for our products, the entry of competitive products or the future growth rate and size of the cloud-based software and SaaS business software markets. The expansion of these markets depends on a number of factors, including: the cost, performance, and perceived value associated with cloud-based and SaaS business software as an alternative to legacy systems, as well as the ability of cloud-based software and SaaS providers to address heightened data security and privacy concerns. If we have a security incident or other cloud-based software and SaaS providers experience security incidents, loss of customer data, disruptions in delivery or other similar problems, which is an increasing focus of the public and investors in recent years, the market for these applications as a whole, including our platform and products, may be negatively affected. If cloud-based and SaaS business software does not continue to achieve market acceptance, or there is a reduction in demand caused by a lack of customer acceptance, technological challenges, weakening economic conditions, data security or privacy concerns, governmental regulation, competing technologies and products, or decreases in information technology spending or otherwise, the market for our platform and products might not continue to develop or might develop more slowly than we expect, which would adversely affect our business, financial condition and results of operations.

***We typically provide service-level commitments under our subscription agreements. If we fail to meet these contractual commitments, we could be obligated to provide credits for future service or face subscription termination with refunds of prepaid amounts, which would lower our revenue and harm our business, financial condition and results of operations.***

Our subscription agreements typically contain service-level commitments. If we are unable to meet the stated service-level commitments, including failure to meet the uptime and response time requirements under our customer subscription agreements, we may be contractually obligated to provide these customers with service credits which could significantly affect our revenue in the periods in which the failure occurs and the credits are applied. We could also face subscription terminations and a reduction in renewals, which could significantly affect both our current and future revenue. Any service-level failures could also damage our reputation, which could also adversely affect our business, financial condition and results of operations.

***Indemnity provisions in various agreements to which we are party potentially expose us to substantial liability for infringement, misappropriation or other violation of intellectual property rights, data protection and other losses.***

Our agreements with our customers and other third parties may include indemnification provisions under which we agree to indemnify or otherwise be liable to them for losses suffered or incurred as a result of claims of infringement, misappropriation or other violation of intellectual property rights, data protection, damages caused by us to property or persons, or other liabilities relating to or arising from our software, services, platform, our acts or omissions under such agreements or other contractual obligations. Some of these indemnity agreements provide for uncapped liability and some indemnity provisions survive termination or expiration of the applicable agreement. Large indemnity payments could harm our business, financial condition and results of operations. Although we attempt to contractually limit our liability with respect to such indemnity obligations, we are not always successful and may still incur substantial liability related to them, and we may be required to cease use of certain functions of our platform or products as a result of any such claims. Any dispute with a customer or other third party with respect to such obligations could have adverse effects on our relationship with such customer or other third party and other existing or prospective customers, reduce demand for our products and services and adversely affect our business, financial conditions and results of operations. In addition, although we carry general liability insurance, our insurance may not be adequate to indemnify us for all liability that may be imposed or otherwise protect us from liabilities or damages with respect to claims alleging compromises of customer data, and any such coverage may not continue to be available to us on acceptable terms or at all.

***If we fail to offer high-quality support, our reputation could suffer.***

Our customers rely on our customer support personnel to resolve issues and realize the full benefits that our platform provides. High-quality support is also important for the renewal and expansion of our subscriptions with existing customers. The importance of our support function will increase as we expand our business and pursue new customers. If we do not help our customers quickly resolve issues and provide effective ongoing support, our ability to maintain and expand our subscriptions to existing and new customers could suffer, and our reputation with existing or potential customers could suffer.

***Acquisitions, strategic investments, partnerships, or alliances could be difficult to identify, pose integration challenges, divert the attention of management, disrupt our business, dilute stockholder value, and adversely affect our business, financial condition and results of operations.***

We have in the past and may in the future seek to acquire or invest in businesses, joint ventures, products and platform capabilities, or technologies that we believe could complement or expand our services and platform capabilities, enhance our technical capabilities, or otherwise offer growth opportunities. Any such acquisition or investment may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable opportunities, whether or not the transactions are completed, and may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products and platform capabilities, personnel or operations of any acquired companies, particularly if the key personnel of an acquired company choose not to work for us, their software is not easily adapted to work with our platform, or we have difficulty retaining the customers of any acquired business due to changes in ownership, management or otherwise. These transactions may also disrupt our business, divert our resources, and require significant management attention that would otherwise be available for development of our existing business. Any such transactions that we are able to complete may not result in any synergies or other benefits we had expected to achieve, which could result in impairment charges that could be substantial. In addition, we may not be able to find and identify desirable acquisition targets or business opportunities or be successful in entering into an agreement with any particular strategic partner. These transactions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our results of operations. In addition, if the resulting business from such a transaction fails to meet our expectations, our business, financial condition and results of operations may be adversely affected or we may be exposed to unknown risks or liabilities.

***We are subject to stringent and changing privacy laws, regulations and standards, information security policies and contractual obligations related to data privacy and security. Our actual or perceived failure to comply with such obligations could harm our business.***

We have legal and contractual obligations regarding the protection of confidentiality and appropriate use of personally identifiable and other proprietary information. We are subject to a variety of federal, state, local and international laws, directives and regulations relating to the collection, use, retention, security, disclosure, transfer and other processing of personally identifiable information. The regulatory framework for privacy and security issues worldwide is rapidly evolving and as a result implementation standards and enforcement practices are likely to remain uncertain for the foreseeable future. We publicly post documentation regarding our practices concerning the collection, processing, use and disclosure of data. Although we endeavor to comply with our published policies and documentation, we may at times fail to do so or be alleged to have failed to do so. The publication of our privacy policy and other documentation that provide promises and assurances about privacy and security can subject us to potential state and federal action if they are found to be deceptive, unfair, or misrepresentative of our actual practices. Any failure by us, our suppliers or other parties with whom we do business to comply with this documentation or with federal, state, local or international regulations could result in proceedings against us by governmental entities, private parties or others. In many jurisdictions, enforcement actions and consequences for noncompliance are rising. In the United States, these include enforcement actions in response to rules and regulations promulgated under the authority of federal agencies and state attorneys general and legislatures and consumer protection agencies. In addition, privacy advocates and industry groups have regularly proposed, and may propose in the future, self-regulatory standards with which we must legally comply or that contractually apply to us. If we fail to follow these security standards even if no customer information is compromised, we may incur significant fines or experience a significant increase in costs.

Internationally, virtually every jurisdiction in which we operate has established its own data security and privacy legal framework with which we or our customers must comply, including but not limited to the European Union, or EU. The EU's data protection landscape is currently unstable, resulting in possible significant operational costs for internal compliance and risk to our business. The EU has adopted the General Data Protection Regulation, or GDPR, which went into effect in May 2018 and contains numerous requirements and changes from previously existing EU law, including more robust obligations on data processors and heavier documentation requirements for data protection compliance programs by companies. Among other requirements, the GDPR regulates transfers of personal data subject to the GDPR to third countries that have not been found to provide adequate protection to such personal data, including the United States. While we have taken steps to mitigate the impact on us with respect to transfers of data, such as implementing standard contractual clauses and self-certifying under the EU-US Privacy Shield, the efficacy and longevity of these transfer mechanisms remains uncertain. The GDPR also introduced numerous privacy-related changes for companies operating in the EU, including greater control for data subjects (including, for example, the "right to be forgotten"), increased data portability for EU consumers, data breach notification requirements and increased fines. In particular, under the GDPR, fines of up to 20 million euros or up to 4% of the annual global revenue of the noncompliant company, whichever is greater, could be imposed for violations of certain of the GDPR's requirements. Such penalties are in addition to any civil litigation claims by customers and data subjects. The GDPR requirements apply not only to third-party transactions, but also to transfers of information between us and our subsidiaries, including employee information.

In addition to the GDPR, the European Commission has another draft regulation in the approval process that focuses on a person's right to conduct a private life (in contrast to the GDPR, which focuses on protection of personal data). The proposed legislation, known as the Regulation on Privacy and Electronic Communications, or ePrivacy Regulation, would replace the current ePrivacy Directive. Originally planned to be adopted and implemented at the same time as the GDPR, the ePrivacy Regulation continues to be delayed but could be enacted in 2020. While the new legislation contains protections for those using communications services (for example, protections against online tracking technologies), the timing of its proposed enactment following the GDPR means that additional time and effort may need to be spent addressing differences between the ePrivacy Regulation and the GDPR. New rules related to the ePrivacy Regulation are likely to include enhanced consent requirements in order to use communications content and communications metadata, which may negatively impact our platform and products and our relationships with our customers.

Complying with the GDPR and the ePrivacy Regulation, when it becomes effective, may cause us to incur substantial operational costs or require us to change our business practices. Despite our efforts to bring practices into compliance before the effective date of the GDPR and ePrivacy Regulation, we may not be successful in our efforts to achieve compliance either due to internal or external factors such as resource allocation limitations or a lack of vendor cooperation. Non-compliance could result in proceedings against us by governmental entities, customers, data subjects or others. We may also experience difficulty retaining or obtaining new European or multi-national customers due to the legal requirements, compliance cost, potential risk exposure, and uncertainty for these entities, and we may experience significantly increased liability with respect to these customers pursuant to the terms set forth in our engagements with them. While we utilize a data center in the European Economic Area to maintain certain customer data (which may include personal data) originating from the EU in the European Economic Area, we may find it necessary to establish additional systems and processes to maintain such data in the European Economic Area, which may involve substantial expense and distraction from other aspects of our business.

Domestic laws in this area are also complex and developing rapidly. Many state legislatures have adopted legislation that regulates how businesses operate online, including measures relating to privacy, data security and data breaches. Laws in all 50 states require businesses to provide notice to customers whose personally identifiable information has been disclosed as a result of a data breach. The laws are not consistent, and compliance in the event of a widespread data breach is costly. States are also constantly amending existing laws, requiring attention to frequently changing regulatory requirements. Further, California recently enacted the California Consumer Privacy Act, or CCPA, which became effective on January 1, 2020. The CCPA gives California residents expanded rights to access and delete their personal information, opt out of certain personal information sharing, and receive detailed information about how their personal information is used. The CCPA provides for civil penalties for violations, as well as a private right of action for data breaches that is expected to increase data breach litigation. The CCPA may increase our compliance costs and potential liability. Some observers have noted that the CCPA could mark the beginning of a trend toward more stringent privacy legislation in the United States, which could increase our potential liability and adversely affect our business.

Because the interpretation and application of many privacy and data protection laws along with contractually imposed industry standards are uncertain, it is possible that these laws may be interpreted and applied in a manner that is inconsistent with our existing data management practices or the features of our products and platform capabilities. If so, in addition to the possibility of fines, lawsuits, regulatory investigations, imprisonment of company officials and public censure, other claims and penalties, significant costs for remediation and damage to our reputation, we could be required to fundamentally change our business activities and practices or modify our products and platform capabilities, any of which could have an adverse effect on our business. Any inability to adequately address privacy and security concerns, even if unfounded, or comply with applicable privacy and data security laws, regulations, and policies, could result in additional cost and liability to us, damage our reputation, inhibit sales and adversely affect our business. Furthermore, the costs of compliance with, and other burdens imposed by, the laws, regulations, and policies that are applicable to the businesses of our customers may limit the use and adoption of, and reduce the overall demand for, our products. Privacy and data security concerns, whether valid or not valid, may inhibit market adoption of our products, particularly in certain industries and foreign countries. If we are not able to adjust to changing laws, regulations, and standards related to the internet, our business may be harmed.

***We are subject to anti-corruption, anti-bribery, anti-money laundering, and similar laws, and non-compliance with such laws can subject us to criminal or civil liability and harm our business, financial condition and results of operations.***

We are subject to the U.S. Foreign Corrupt Practices Act, or FCPA, U.S. domestic bribery laws, the UK Bribery Act, and other anti-corruption and anti-money laundering laws in the countries in which we conduct activities. Anti-corruption and anti-bribery laws have been enforced aggressively in recent years and are interpreted broadly to generally prohibit companies, their employees and their third-party intermediaries from authorizing, offering, or providing, directly or indirectly, improper payments or benefits to recipients in the public or private sector. As we increase our international sales and business and sales to the public sector, we may engage with business partners and third-party intermediaries to market our products and to obtain necessary permits, licenses, and other regulatory approvals. In addition, 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. 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.

While we have policies and procedures to address compliance with such laws, we cannot assure you that all of our employees and agents will not take actions in violation of our policies and applicable law, for which we may be ultimately held responsible. As we increase our international sales and business, our risks under these laws may increase.

Detecting, investigating, and resolving actual or alleged violations of anti-corruption laws can require a significant diversion of time, resources, and attention from senior management. In addition, noncompliance with anti-corruption, anti-bribery, or anti-money laundering laws could subject us to whistleblower complaints, investigations, sanctions, settlements, prosecution, enforcement actions, fines, damages, other civil or criminal penalties or injunctions, suspension or debarment from contracting with certain persons, reputational harm, adverse media coverage, and other collateral consequences. If any subpoenas or investigations are launched, or governmental or other sanctions are imposed, or if we do not prevail in any possible civil or criminal proceeding, our business, financial condition and results of operations could be harmed. In addition, responding to any action will likely result in a materially significant diversion of management's attention and resources and significant defense costs and other professional fees.

***Sales to government entities and highly regulated organizations are subject to a number of challenges and risks.***

We may sell to U.S. federal, state, and local, as well as foreign, governmental agency customers, as well as to customers in highly regulated industries such as financial services, telecommunications and healthcare. Sales to such entities are subject to a number of challenges and risks. Selling to such entities can be highly competitive, expensive, and time-consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. Government contracting requirements may change and in doing so restrict our ability to sell into the government sector until we have attained the revised certification. Government demand and payment for our products are affected by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our products.

Further, governmental and highly regulated entities may demand contract terms that differ from our standard arrangements and are less favorable than terms agreed with private sector customers. Such entities may have statutory, contractual, or other legal rights to terminate contracts with us or our partners for convenience or for other reasons. Any such termination may adversely affect our ability to contract with other government customers as well as our reputation, business, financial condition and results of operations.

***We are subject to governmental export and import controls that could impair our ability to compete in international markets or subject us to liability if we violate the controls.***

Our platform and products are subject to U.S. export controls, including the Export Administration Regulations, and we incorporate encryption technology into certain of our products. These encryption products and the underlying technology may be exported outside of the United States only with the required export authorizations, including by license, a license exception, or other appropriate government authorizations, including the filing of an encryption classification request or self-classification report.

Furthermore, our activities are subject to U.S. economic sanctions laws and regulations administered by the Office of Foreign Assets Control that prohibit the shipment of most products and services to embargoed jurisdictions or sanctioned parties without the required export authorizations. Additionally, the Trump administration has been critical of existing trade agreements and may impose more stringent export controls. Obtaining the necessary export license or other authorization for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities. Violations of U.S. sanctions or export control regulations can result in significant fines or penalties and possible incarceration for responsible employees and managers.

If our channel partners fail to obtain appropriate import, export, or re-export licenses or permits, we may also be adversely affected through reputational harm, as well as other negative consequences, including government investigations and penalties.

Also, various countries, in addition to the United States, regulate the import and export of certain encryption and other technology, including import and export licensing requirements, and have enacted laws that could limit our ability to distribute our products or could limit our end-customers' ability to implement our products in those countries. Changes in our products or future changes in export and import regulations may create delays in the introduction of our platform in international markets, prevent our end-customers with international operations from deploying our platform globally or, in some cases, prevent the export or import of our products to certain countries, governments, or persons altogether. From time to time, various governmental agencies have proposed additional regulation of encryption technology. Any change in export or import regulations, economic sanctions or related legislation, increased export and import controls, or change in the countries, governments, persons, or technologies targeted by such regulations, could result in decreased use of our platform by, or in our decreased ability to export or sell our products to, existing or potential end-customers with international operations. Any decreased use of our platform or limitation on our ability to export or sell our products would adversely affect our business, results of operations, and growth prospects.

***Any failure to obtain, maintain, protect or enforce our intellectual property and proprietary rights could impair our ability to protect our proprietary technology and our brand.***

Our success depends to a significant degree on our ability to obtain, maintain, protect and enforce our intellectual property rights, including our proprietary technology, know-how and our brand. We rely on a combination of trademarks, trade secret laws, patents, copyrights, service marks, contractual restrictions, and other intellectual property laws and confidentiality procedures to establish and protect our proprietary rights. However, the steps we take to obtain, maintain, protect and enforce our intellectual property rights may be inadequate. We will not be able to protect our intellectual property rights if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property rights. If we fail to protect our intellectual property rights adequately, our competitors may gain access to our proprietary technology and develop and commercialize substantially identical products, services or technologies, our business, financial condition, results of operations or prospects may be harmed. In addition, defending our intellectual property rights might entail significant expense. Any patents, trademarks, or other intellectual property

rights that we have or may obtain may be challenged or circumvented by others or invalidated or held unenforceable through administrative process, including re-examination, *inter partes* review, interference and derivation proceedings and equivalent proceedings in foreign jurisdictions (e.g., opposition proceedings) or litigation. Despite our pending U.S. patent applications, there can be no assurance that our patent applications will result in issued patents. Even if we continue to seek patent protection in the future, we may be unable to obtain or maintain patent protection for our technology. In addition, any patents issued from pending or future patent applications or licensed to us in the future may not provide us with competitive advantages, or may be successfully challenged by third parties. There may be issued patents of which we are not aware, held by third parties that, if found to be valid and enforceable, could be alleged to be infringed by our current or future technologies or products. There also may be pending patent applications of which we are not aware that may result in issued patents, which could be alleged to be infringed by our current or future technologies or products. Furthermore, legal standards relating to the validity, enforceability, and scope of protection of intellectual property rights are uncertain. Despite our precautions, it may be possible for unauthorized third parties to copy our products and platform capabilities and use information that we regard as proprietary to create products that compete with ours. Patent, trademark, copyright, and trade secret protection may not be available to us in every country in which our products are available. For example, as we have expanded internationally, we have been unable to register and obtain the right to use the Datadog trademark in certain jurisdictions, including in the EU, and as we continue to expand, we may face similar issues in other jurisdictions. The value of our intellectual property could diminish if others assert rights in or ownership of our trademarks and other intellectual property rights, or trademarks that are similar to our trademarks. We may be unable to successfully resolve these types of conflicts to our satisfaction. In some cases, litigation or other actions may be necessary to protect or enforce our trademarks and other intellectual property rights. Furthermore, third parties may assert intellectual property claims against us, and we may be subject to liability, required to enter into costly license agreements, or required to rebrand our products and/or prevented from selling some of our products if third parties successfully oppose or challenge our trademarks or successfully claim that we infringe, misappropriate or otherwise violate their trademarks or other intellectual property rights. In addition, the laws of some foreign countries may not be as protective of intellectual property rights as those in the United States, and mechanisms for enforcement of intellectual property rights may be inadequate. As we expand our international activities, our exposure to unauthorized copying and use of our products and platform capabilities and proprietary information will likely increase. Moreover, policing unauthorized use of our technologies, trade secrets, and intellectual property may be difficult, expensive, and time-consuming, particularly in foreign countries where the laws may not be as protective of intellectual property rights as those in the United States and where mechanisms for enforcement of intellectual property rights may be weak. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon, misappropriating or otherwise violating our intellectual property rights.

We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with other third parties, including suppliers and other partners. However, we cannot guarantee that we have entered into such agreements with each party that has or may have had access to our proprietary information, know-how and trade secrets. Moreover, no assurance can be given that these agreements will be effective in controlling access to, distribution, use, misuse, misappropriation, reverse engineering or disclosure of our proprietary information, know-how and trade secrets. Further, these agreements may not prevent our competitors from independently developing technologies that are substantially equivalent or superior to our products and platform capabilities. These agreements may be breached, and we may not have adequate remedies for any such breach.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect our intellectual property rights. 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, and countersuits attacking the validity and enforceability of our intellectual property rights, and if such defenses, counterclaims or countersuits are successful, we could lose valuable intellectual property rights. Our inability to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation or diversion of our management's attention and resources, could delay further sales or the implementation of our products and platform capabilities, impair the functionality of our products and platform capabilities, delay introductions of new solutions, result in our substituting inferior or more costly technologies into our products, or injure our reputation.

***We may become subject to intellectual property disputes, which are costly and may subject us to significant liability and increased costs of doing business.***

We may become subject to intellectual property disputes. Our success depends, in part, on our ability to develop and commercialize our products and services without infringing, misappropriating or otherwise violating the intellectual property rights of third parties. However, we may not be aware that our products or services are infringing, misappropriating or otherwise violating third-party intellectual property rights and such third parties may bring claims alleging such infringement, misappropriation or violation. Lawsuits are time-consuming and expensive to resolve and they divert management's time and attention. The software industry is characterized by the existence of a large number of patents, copyrights, trademarks, trade secrets, and other intellectual and

proprietary rights. Companies in the software industry are often required to defend against litigation claims based on allegations of infringement, misappropriation or other violations of intellectual property rights. Our technologies may not be able to withstand any third-party claims against their use. In addition, many companies have the capability to dedicate substantially greater resources to enforce their intellectual property rights and to defend claims that may be brought against them. We do not currently have a large 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. Any litigation may also involve patent holding companies or other adverse patent owners that have no relevant product revenue, and therefore, our patent applications may provide little or no deterrence as we would not be able to assert them against such entities or individuals. If a third party is able to obtain an injunction preventing us from accessing such third-party intellectual property rights, or if we cannot license or develop alternative technology for any infringing aspect of our business, we would be forced to limit or stop sales of our products and platform capabilities or cease business activities related to such intellectual property. Although we carry general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed. We cannot predict the outcome of lawsuits and cannot ensure that the results of any such actions will not have an adverse effect on our business, financial condition or results of operations. Any intellectual property litigation to which we might become a party, or for which we are required to provide indemnification, may require us to do one or more of the following:

- cease selling or using products or services that incorporate the intellectual property rights that we allegedly infringe, misappropriate or violate;
- make substantial payments for legal fees, settlement payments or other costs or damages;
- obtain a license, which may not be available on reasonable terms or at all, to sell or use the relevant technology; or
- redesign the allegedly infringing products to avoid infringement, misappropriation or violation, which could be costly, time-consuming or impossible.

Even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business and operating results. Moreover, there could be public announcements of the results of hearings, motions or other interim proceedings or developments and if securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock. We expect that the occurrence of infringement claims is likely to grow as the market for our platform and products grows. Accordingly, our exposure to damages resulting from infringement claims could increase and this could further exhaust our financial and management resources.

***Any future litigation against us could be costly and time-consuming to defend.***

We may become subject to legal proceedings and claims that arise in the ordinary course of business, such as claims brought by our customers in connection with commercial disputes or employment claims made by our current or former employees. Litigation might result in substantial costs and may divert management's attention and resources, which might seriously harm our business, financial condition and results of operations. Insurance might not cover such claims, might not provide sufficient payments to cover all the costs to resolve one or more such claims, and might not continue to be available on terms acceptable to us. A claim brought against us that is uninsured or underinsured could result in unanticipated costs, potentially harming our business, financial position and results of operations.

***We use open source software in our products, which could negatively affect our ability to sell our services or subject us to litigation or other actions.***

We use open source software in our products and we expect to continue to incorporate open source software in our services in the future. Few of the licenses applicable to open source software have been interpreted by courts, and there is a risk that these licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. Moreover, we cannot ensure that we have not incorporated additional open source software in our software in a manner that is inconsistent with the terms of the applicable license or our current policies and procedures. If we fail to comply with these licenses, we may be subject to certain requirements, including requirements that we offer our solutions that incorporate the open source software for no cost, that we make available source code for modifications or derivative works we create based upon, incorporating or using the open source software and that we license such modifications or derivative works under the terms of applicable open source licenses. If an author or other third party that distributes such open source software were to allege that we had not complied with the conditions of one or more of these licenses, we could be required to incur significant legal expenses defending against such allegations and could be subject to significant damages, enjoined from the sale of our products that contained the open source software and required to comply with onerous conditions or restrictions on these products, which could disrupt the distribution and sale of these products. From time to time, there have been claims challenging the ownership rights in open source software against companies that incorporate it into their products and the licensors of such open source software provide no warranties or indemnities with respect to



such claims. As a result, we and our customers could be subject to lawsuits by parties claiming ownership of what we believe to be open source software. Litigation could be costly for us to defend, have a negative effect on our business, financial condition and results of operations, or require us to devote additional research and development resources to change our products. In addition, although we employ open source software license screening measures, if we were to combine our proprietary software products with open source software in a certain manner we could, under certain open source licenses, be required to release the source code of our proprietary software products. Some open source projects have known vulnerabilities and architectural instabilities and are provided on an “as-is” basis which, if not properly addressed, could negatively affect the performance of our product. If we inappropriately use or incorporate open source software subject to certain types of open source licenses that challenge the proprietary nature of our products, we may be required to re-engineer such products, discontinue the sale of such products or take other remedial actions.

***Unfavorable conditions in our industry or the global economy, or reductions in information technology spending, could limit our ability to grow our business and negatively affect our results of operations.***

Our results of operations may vary based on the impact of unfavorable changes in our industry or the global economy on us or our customers and potential customers. Unfavorable conditions in the economy both in the United States and abroad, including conditions resulting from changes in gross domestic product growth in the United States or abroad, financial and credit market fluctuations, international trade relations, political turmoil, natural catastrophes, outbreaks of contagious diseases, warfare and terrorist attacks on the United States, Europe, the Asia Pacific region, Japan or elsewhere, could cause a decrease in business investments, including spending on information technology, disrupt the timing and cadence of key industry events, and negatively affect the growth of our business and our results of operations. For example, these types of unfavorable conditions could disrupt the timing of and attendance at key industry events, which we rely upon in part to generate sales of our products. If those events are disrupted, our marketing investments, sales pipeline and ability to generate new customers and sales of our products could be negatively and adversely affected. In addition, our competitors, many of whom are larger and have greater financial resources than we do, may respond to challenging market conditions by lowering prices in an attempt to attract our customers and may be less dependent on key industry events to generate sales for their products. In addition, the increased pace of consolidation in certain industries may result in reduced overall spending on our products and solutions. We cannot predict the timing, strength, or duration of any economic slowdown, instability, or recovery, generally or how any such event may impact our business.

***Our current operations are international in scope, and we plan further geographic expansion, creating a variety of operational challenges.***

A component of our growth strategy involves the further expansion of our operations and customer base internationally. Revenue, as determined based on the billing address of our customers, from regions outside of North America was 25% for the year ended December 31, 2019. Beyond North America, we now have sales presence internationally, including in Dublin, Paris, London, Singapore, Tokyo, Seoul and Sydney. We are continuing to adapt to and develop strategies to address international markets, but there is no guarantee that such efforts will have the desired effect. For example, we anticipate that we will need to establish relationships with new partners in order to expand into certain countries, and if we fail to identify, establish and maintain such relationships, we may be unable to execute on our expansion plans. As of December 31, 2019, approximately 34% of our full-time employees were located outside of the United States, 48% of whom were located in France. We expect that our international activities will continue to grow for the foreseeable future as we continue to pursue opportunities in existing and new international markets, which will require significant dedication of management attention and financial resources.

Our current and future international business and operations involve a variety of risks, including:

- slower than anticipated availability and adoption of cloud and hybrid IT infrastructures by international businesses;
- changes in a specific country’s or region’s political or economic conditions, including in the United Kingdom as a result of the United Kingdom exiting the EU, or Brexit;
- the need to adapt and localize our products for specific countries;
- greater difficulty collecting accounts receivable and longer payment cycles;
- potential changes in trade relations, regulations, or laws;
- unexpected changes in laws, regulatory requirements, or tax laws;
- more stringent regulations relating to privacy and data security and the unauthorized use of, or access to, commercial and personal information, particularly in Europe;

- differing and potentially more onerous labor regulations, especially in Europe, where labor laws are generally more advantageous to employees as compared to the United States, including deemed hourly wage and overtime regulations in these locations;
- challenges inherent in efficiently managing, and the increased costs associated with, an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits, and compliance programs that are specific to each jurisdiction;
- potential changes in laws, regulations and costs affecting our U.K. operations and local employees due to Brexit;
- difficulties in managing a business in new markets with diverse cultures, languages, customs, legal systems, alternative dispute systems, and regulatory systems;
- increased travel, real estate, infrastructure, and legal compliance costs associated with international operations;
- currency exchange rate fluctuations and the resulting effect on our revenue and expenses, and the cost and risk of entering into hedging transactions if we chose to do so in the future;
- limitations on our ability to reinvest earnings from operations in one country to fund the capital needs of our operations in other countries;
- laws and business practices favoring local competitors or general market preferences for local vendors;
- limited or insufficient intellectual property protection or difficulties obtaining, maintaining, protecting or enforcing our intellectual property rights, including our trademarks and patents;
- political instability or terrorist activities;
- an outbreak of a contagious disease, which may cause us or our third-party providers and/or customers to temporarily suspend our or their respective operations in the affected city or country;
- exposure to liabilities under anti-corruption and anti-money laundering laws, including the FCPA, U.S. bribery laws, the UK Bribery Act, and similar laws and regulations in other jurisdictions; and
- adverse tax burdens and foreign exchange controls that could make it difficult to repatriate earnings and cash.

If we invest substantial time and resources to further expand our international operations and are unable to do so successfully and in a timely manner, our business and results of operations will suffer.

***Legal, political and economic uncertainty surrounding the exit of the United Kingdom from the EU may be a source of instability in international markets, create significant currency fluctuations, adversely affect our operations in the United Kingdom and pose additional risks to our business, financial condition and results of operations.***

The United Kingdom formally left the EU on January 31, 2020, commonly referred to as Brexit. Under the terms of the withdrawal agreement agreed to between the United Kingdom and the EU, the United Kingdom will be subject to a transition period through December 31, 2020, during which EU rules will continue to apply. Negotiations between the United Kingdom and the EU are expected to continue in relation to their customs and trading relationship following this transition period.

The uncertainty concerning the United Kingdom's legal, political and economic relationships with the EU after the transition period may be a source of instability in the international markets, create significant currency fluctuations, and otherwise adversely affect trading agreements or similar cross-border co-operation arrangements (whether economic, tax, fiscal, legal, regulatory or otherwise). Further, if the United Kingdom and the EU are unable to negotiate acceptable trading and customs terms or if other EU Member States pursue withdrawal, barrier-free access between the United Kingdom and other EU Member States or among the European Economic Area overall could be diminished or eliminated. The long-term effects of Brexit will depend on any agreements (or lack thereof) between the United Kingdom and the EU and, in particular, any arrangements for the United Kingdom to retain access to EU markets after the transition period.

Such a withdrawal from the EU is unprecedented, and it is unclear how the United Kingdom's access to the European single market for goods, capital, services and labor within the EU, or the European single market, and the wider commercial, legal and regulatory environment, will impact our U.K. operations, including our customers in the United Kingdom. We may also face new regulatory costs and challenges that could have an adverse effect on our operations. Brexit has already created economic uncertainty, and its consequences could adversely impact our business, financial condition and results of operations.

***We are exposed to fluctuations in currency exchange rates, which could negatively affect our results of operations.***

Our sales contracts are denominated in U.S. dollars, and therefore, our revenue is not subject to foreign currency risk. However, a strengthening of the U.S. dollar could increase the real cost of our products and platform capabilities to our customers outside of the United States, which could adversely affect our results of operations. In addition, an increasing portion of our operating expenses are incurred outside the United States. These operating expenses are denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates. If we are not able to successfully hedge against the risks associated with currency fluctuations, our results of operations could be adversely affected.

***Our international operations may subject us to potential adverse tax consequences.***

We are expanding our international operations to better support our growth into international markets. Our corporate structure and associated transfer pricing policies contemplate future growth in international markets, and consider the functions, risks, and assets of the various entities involved in intercompany transactions. The amount of taxes we pay in different jurisdictions may depend on the application of the tax laws of the various jurisdictions, including the United States, to our international business activities, changes in tax rates, new or revised tax laws or interpretations of existing tax laws and policies, and our ability to operate our business in a manner consistent with our corporate structure and intercompany arrangements. The taxing authorities of the jurisdictions in which we operate may challenge our methodologies for pricing intercompany transactions pursuant to our intercompany arrangements or disagree with our determinations as to the income and expenses attributable to specific jurisdictions. If such a challenge or disagreement were to occur, and our position was not sustained, we could be required to pay additional taxes, interest, and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows and lower overall profitability of our operations. Our financial statements could fail to reflect adequate reserves to cover such a contingency.

The Tax Cuts and Jobs Act, or the Tax Act, makes broad and complex changes to the U.S. tax code including, among other things, changes to U.S. federal tax rates, imposes additional limitations on the deductibility of interest, has both positive and negative changes to the utilization of future net operating loss, or NOL, carryforwards, allows for the expensing of certain capital expenditures, and puts into effect the migration from a “worldwide” system of taxation to a territorial system.

***We could be required to collect additional sales taxes or be subject to other tax liabilities that may increase the costs our clients would have to pay for our products and adversely affect our results of operations.***

An increasing number of states have considered or adopted laws that attempt to impose tax collection obligations on out-of-state companies. Additionally, the Supreme Court of the United States recently ruled in *South Dakota v. Wayfair, Inc. et al*, or Wayfair, that online sellers can be required to collect sales and use tax despite not having a physical presence in the buyer’s state. In response to Wayfair, or otherwise, states or local governments may adopt, or begin to enforce, laws requiring us to calculate, collect, and remit taxes on sales in their jurisdictions. A successful assertion by one or more states requiring us to collect taxes where we presently do not do so, or to collect more taxes in a jurisdiction in which we currently do collect some taxes, could result in substantial tax liabilities, including taxes on past sales, as well as penalties and interest. The imposition by state governments or local governments of sales tax collection obligations on out-of-state sellers could also create additional administrative burdens for us, put us at a competitive disadvantage if they do not impose similar obligations on our competitors, and decrease our future sales, which could have a material adverse effect on our business and results of operations.

***Our ability to use our net operating losses to offset future taxable income may be subject to certain limitations.***

As of December 31, 2019, we had NOL carryforwards for federal and state income tax purposes of approximately \$56.6 million and \$42.0 million, respectively, which may be available to offset taxable income in the future, and which expire in various years beginning in 2031 for federal purposes and 2029 for state purposes if not utilized. A lack of future taxable income would adversely affect our ability to utilize these NOLs before they expire. In general, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an “ownership change” (as defined under Section 382 of the Code and applicable Treasury Regulations) is subject to limitations on its ability to utilize its pre-change NOLs to offset future taxable income. We may experience a future ownership change under Section 382 of the Code that could affect our ability to utilize the NOLs to offset our income. Furthermore, our ability to utilize NOLs of companies that we have acquired or may acquire in the future may be subject to limitations. There is also a risk that due to regulatory changes, such as suspensions on the use of NOLs or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to reduce future income tax liabilities, including for state tax purposes. For these reasons, we may not be able to utilize a material portion of the NOLs reflected on our balance sheets, even if we attain profitability, which could potentially result in increased future tax liability to us and could adversely affect our operating results and financial condition.

***Changes in our effective tax rate or tax liability may have an adverse effect on our results of operations.***

Our effective tax rate could increase due to several factors, including:

- changes in the relative amounts of income before taxes in the various jurisdictions in which we operate that have differing statutory tax rates;
- changes in tax laws, tax treaties, and regulations or the interpretation of them, including the Tax Act;
- changes to our assessment about our ability to realize our deferred tax assets that are based on estimates of our future results, the prudence and feasibility of possible tax planning strategies, and the economic and political environments in which we do business;
- the outcome of current and future tax audits, examinations, or administrative appeals; and
- limitations or adverse findings regarding our ability to do business in some jurisdictions.

Any of these developments could adversely affect our results of operations.

***Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.***

U.S. generally accepted accounting principles, or GAAP, are subject to interpretation by the Financial Accounting Standards Board, 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 results of operations and could affect the reporting of transactions already completed before the announcement of a change.

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

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as described in Note 2 in the Notes to Consolidated Financial Statements included in “Part II, Item 8. Financial Statements” of this Annual Report on Form 10-K. The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Significant estimates and judgments involve revenue recognition, deferred contract costs, and the valuation of our stock-based compensation awards, among others. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of securities analysts and investors, resulting in a decline in the market price of our Class A common stock.

***We may require additional capital to support the growth of our business, and this capital might not be available on acceptable terms, if at all.***

We have funded our operations since inception primarily through equity financings and sales of our products. We cannot be certain when or if our operations will generate sufficient cash to fully fund our ongoing operations or the growth of our business. We intend to continue to make investments to support our business, which may require us to engage in equity or debt financings to secure additional funds. Additional financing may not be available on terms favorable to us, if at all. If adequate funds are not available on acceptable terms, we may be unable to invest in future growth opportunities, which could harm our business, operating results, and financial condition. If we incur additional debt, the debt holders would have rights senior to holders of common stock to make claims on our assets, and the terms of any debt could restrict our operations, including our ability to pay dividends on our common stock. Furthermore, if we issue additional equity securities, stockholders will experience dilution, and the new equity securities could have rights senior to those of our common stock. Because our decision to issue securities in the future will depend on numerous considerations, including factors beyond our control, we cannot predict or estimate the amount, timing, or nature of any future issuances of debt or equity securities. As a result, our stockholders bear the risk of future issuances of debt or equity securities reducing the value of our common stock and diluting their interests.

## **Risks Related to Ownership of Our Class A Common Stock**

### ***Our stock price may be volatile, and the value of our Class A common stock may decline.***

The market price of our Class A common stock may be highly volatile and may fluctuate or decline substantially as a result of a variety of factors, some of which are beyond our control, including:

- actual or anticipated fluctuations in our financial condition or results of operations;
- variance in our financial performance from expectations of securities analysts;
- changes in the pricing of subscriptions to our products;
- changes in our projected operating and financial results;
- changes in laws or regulations applicable to our platform and products;
- announcements by us or our competitors of significant business developments, acquisitions, or new offerings;
- significant data breaches, disruptions to or other incidents involving our software;
- our involvement in litigation;
- future sales of our Class A common stock by us or our stockholders, as well as the anticipation of lock-up releases;
- changes in senior management or key personnel;
- the trading volume of our Class A common stock;
- changes in the anticipated future size and growth rate of our market; and
- general economic and market conditions.

Broad market and industry fluctuations, as well as general economic, political, regulatory, and market conditions, may also negatively impact the market price of our Class A common stock. In addition, technology stocks have historically experienced high levels of volatility. In the past, companies that have experienced volatility in the market price of their securities have been subject to securities class action litigation. We may be the target of this type of litigation in the future, which could result in substantial expenses and divert our management's attention.

### ***The dual class structure of our common stock has the effect of concentrating voting control with our executive officers, directors and significant holders of our capital stock prior to the completion of our IPO, which will limit the ability of holders of our Class A common stock to influence the outcome of important transactions.***

Our Class B common stock has ten votes per share and our Class A common stock has one vote per share. As a result, as of December 31, 2019, holders of our Class B common stock collectively beneficially owned shares representing approximately 97% of the voting power of our outstanding capital stock and our executive officers, directors and holders of 5% or more of our Class B common stock collectively beneficially owned, in the aggregate, shares representing approximately 85% of the voting power of our outstanding capital stock. As a result, the holders of our Class B common stock will be able to exercise considerable influence over matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as a merger or other sale of our company or our assets, even if their stock holdings represent less than 50% of the outstanding shares of our capital stock. This concentration of ownership will limit the ability of other stockholders to influence corporate matters and may cause us to make strategic decisions that could involve risks to holders of our Class A common stock or that may not be aligned with the interests of holders of our Class A common stock. This control may adversely affect the market price of our Class A common stock.

Further, future transfers by holders of our Class B common stock will generally result in those shares converting into shares of our Class A common stock, subject to limited exceptions, such as certain transfers effected for tax or estate planning purposes. The conversion of shares of our Class B common stock into shares of our Class A common stock will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term.

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

We cannot predict whether our dual class structure, combined with the concentrated control of our stockholders who held our capital stock prior to the completion of our initial public offering, or IPO, including our executive officers, employees and directors and their affiliates, will result in a lower or more volatile market price of our Class A common stock or in adverse publicity or other adverse consequences. For example, certain index providers have announced restrictions on including companies with multiple class

share structures in certain of their indexes. For example, in July 2017, FTSE Russell and Standard & Poor's announced that they would cease to allow most newly public companies utilizing dual or multi-class capital structures to be included in their indices. Under the announced policies, our dual class capital structure would make us ineligible for inclusion in any of these indices. Given the sustained flow of investment funds into passive strategies that seek to track certain indexes, exclusion from stock indexes would likely preclude investment by many of these funds and could make our Class A common stock less attractive to other investors. As a result, the market price of our Class A common stock could be adversely affected.

***An active public trading market for our Class A common stock may not develop or be sustained.***

Prior to the closing of our IPO in September 2019, no public market for our Class A common stock existed. An active public trading market for our Class A common stock may not continue to develop or, if further developed, it may not be sustained. The lack of an active market may impair the ability of holders of our Class A common stock to sell their shares at the time they wish to sell them or at a price that the holders of our Class A common stock consider reasonable. The lack of an active market may also reduce the fair value of shares of our Class A common stock. An inactive market may also impair our ability to raise capital to continue to fund operations by selling shares and may impair our ability to acquire other companies or technologies by using our shares as consideration.

***Future sales of our Class A common stock in the public market could cause the market price of our Class A common stock to decline.***

Sales of a substantial number of shares of our Class A common stock in the public market, or the perception that these sales might occur, could depress the market price of our Class A common stock and could impair our ability to raise capital through the sale of additional equity securities. Many of our stockholders who held our capital stock prior to the completion of our IPO have substantial unrecognized gains on the value of the equity they hold based upon the price at which shares were sold in our IPO, and therefore they may take steps to sell their shares or otherwise secure the unrecognized gains on those shares. We are unable to predict the timing of or the effect that such sales may have on the prevailing market price of our Class A common stock.

In connection with our IPO, all of our directors and officers and the holders of a substantial majority all of our capital stock and securities convertible into our capital stock entered into lock-up agreements that restricted their ability to transfer shares of our capital stock. On December 10, 2019, 20% of the shares subject to these lock-up agreements became eligible for sale in the public market, and the remaining shares (excluding shares purchased by certain investors in our March 2019 tender offer) are expected to be released from the lock-up agreements and become eligible for immediate sale in the public market at the open of trading on March 9, 2020, in each case subject to trading limitations on shares held by our affiliates, continued vesting of any unvested equity awards as of such date, and our insider trading policies. As a result, a substantial number of shares of our Class A common stock will become eligible for sale in the public market in March 2020. The shares purchased by entities affiliated with Dragoneer Investment Group, Index Ventures, ICONIQ Capital Management and Institutional Venture Partners in our March 2019 tender offer will remain subject to lock-up agreements that restrict their ability to transfer such shares for 18 months from September 18, 2019, the date of the Final Prospectus for our IPO.

In addition, we have registered all of the shares of Class A common stock and Class B common stock issuable upon exercise of outstanding options or other equity incentives we may grant in the future, for public resale under the Securities Act. The shares of Class A common stock and Class B common stock will become eligible for sale in the public market to the extent such options are exercised, subject to the lock-up agreements described above and compliance with applicable securities laws.

Further, as of December 31, 2019, holders of a substantial number of shares had rights, subject to certain conditions, to require us to file registration statements covering the sale of their shares or to include their shares in registration statements that we may file for ourselves or other stockholders.

***Our issuance of additional capital stock in connection with financings, acquisitions, investments, our equity incentive plans or otherwise will dilute all other stockholders.***

We expect to issue additional capital stock in the future that will result in dilution to all other stockholders. We expect to grant equity awards to employees, directors and consultants under our equity incentive plans. We may also raise capital through equity financings in the future. As part of our business strategy, we may acquire or make investments in companies, products or technologies and issue equity securities to pay for any such acquisition or investment. Any such issuances of additional capital stock may cause stockholders to experience significant dilution of their ownership interests and the per share value of our Class A common stock to decline.

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

The market price and trading volume of our Class A common stock will be heavily influenced by the way analysts interpret our financial information and other disclosures. We do not have control over these analysts. If few securities analysts commence coverage of us, or if industry analysts cease coverage of us, our stock price would be negatively affected. If securities or industry analysts do not publish research or reports about our business, downgrade our Class A common stock, or publish negative reports about our business, our stock price 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 Class A common stock could decrease, which might cause our stock price to decline and could decrease the trading volume of our Class 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 capital stock, and we do not intend to pay any cash dividends in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors. Accordingly, holders of our Class A common stock may need to rely on sales of their holdings of Class A common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment.

***We are an “emerging growth company,” and we cannot be certain if the reduced reporting and disclosure requirements applicable to emerging growth companies will make our Class A common stock less attractive to investors.***

We are an “emerging growth company”, as defined in the Jumpstart Our Business Startups Act of 2012, or JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies,” including the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, or Section 404, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. Pursuant to Section 107 of the JOBS Act, as an emerging growth company, we have elected to use the extended transition period for complying with new or revised accounting standards until those standards would otherwise apply to private companies. As a result, our consolidated financial statements may not be comparable to the financial statements of issuers who are required to comply with the effective dates for new or revised accounting standards that are applicable to public companies, which may make our Class A common stock less attractive to investors. In addition, if we cease to be an emerging growth company, we will no longer be able to use the extended transition period for complying with new or revised accounting standards.

We will remain an emerging growth company until the earliest of: (1) December 31, 2024; (2) the last day of the first fiscal year in which our annual gross revenue is \$1.07 billion or more; (3) the date on which we have, during the previous rolling three-year period, issued more than \$1 billion in non-convertible debt securities; and (4) the last day of the fiscal year in which the market value of our Class A common stock held by non-affiliates exceeded \$700 million as of June 30 of such fiscal year.

We cannot predict if investors will find our Class A common stock less attractive if we choose to rely on these exemptions. For example, if we do not adopt a new or revised accounting standard, our future results of operations may not be as comparable to the results of operations of certain other companies in our industry that adopted such standards. If some investors find our Class A common stock less attractive as a result, there may be a less active trading market for our Class A common stock, and our stock price may be more volatile.

***We will incur increased costs as a result of operating as a public company, and our management will be required to devote substantial time to compliance with our public company responsibilities and corporate governance practices.***

As a public company, we will incur significant legal, accounting, and other expenses that we did not incur as a private company, which we expect to further increase after we are no longer an “emerging growth company.” The Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of the Nasdaq Global Select Market and other applicable securities rules and regulations impose various requirements on public companies. Our management and other personnel devote a substantial amount of time to compliance with these requirements. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. We cannot predict or estimate the amount of additional costs we will incur as a public company or the specific timing of such costs.

***As a result of being a public company, we are obligated to develop and maintain proper and effective internal controls over financial reporting, and any failure to maintain the adequacy of these internal controls may adversely affect investor confidence in our company and, as a result, the value of our Class A common stock.***

We are required, pursuant to Section 404 to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting for the fiscal year ending December 31, 2020. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. In addition, our independent registered public accounting firm will be required to attest to the effectiveness of our internal control over financial reporting in our first annual report required to be filed with the SEC following the date we are no longer an “emerging growth company.” We have recently commenced the costly and challenging process of compiling the system and processing documentation necessary to perform the evaluation needed to comply with Section 404, but we may not be able to complete our evaluation, testing and any required remediation in a timely fashion once initiated. Our compliance with Section 404 will require that we incur substantial expenses and expend significant management efforts. We will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge and compile the system and process documentation necessary to perform the evaluation needed to comply with Section 404.

During the evaluation and testing process of our internal controls, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to certify that our internal control over financial reporting is effective. We cannot assure you that there will not be material weaknesses or significant deficiencies in our internal control over financial reporting in the future. Any failure to maintain internal control over financial reporting could severely inhibit our ability to accurately report our financial condition or results of operations. If we are unable to conclude that our internal control over financial reporting is effective, or if our independent registered public accounting firm determines we have a material weakness or significant deficiency in our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of our Class A common stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.

***Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our Class A common stock.***

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

- authorize our board of directors to issue, without further action by the stockholders, shares of undesignated preferred stock with terms, rights, and preferences determined by our board of directors that may be senior to our Class A common stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders can be called only by our board of directors, the chairperson of our board of directors, or our chief executive officer;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;
- establish that our board of directors is divided into three classes, with each class serving three-year staggered terms;
- prohibit cumulative voting in the election of directors;
- provide that our directors may be removed for cause only upon the vote of at least 66 2/3% of our outstanding shares of voting stock;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum; and
- require the approval of our board of directors or the holders of at least 66 2/3% of our outstanding shares of voting stock to amend our bylaws and certain provisions of our certificate of incorporation.



These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally, subject to certain exceptions, prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any “interested” stockholder for a period of three years following the date on which the stockholder became an “interested” stockholder. Any of the foregoing provisions could limit the price that investors might be willing to pay in the future for shares of our Class A common stock, and they could deter potential acquirers of our company, thereby reducing the likelihood that holders of our Class A common stock would receive a premium for their shares of our Class A common stock in an acquisition.

***Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware and, to the extent enforceable, the federal district courts of the United States of America as the exclusive forums for substantially all disputes between us and our stockholders, which could restrict our stockholders’ ability to choose the judicial forum for disputes with us or our directors, officers, or employees.***

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for the following types of actions or proceedings under Delaware statutory or common law: any derivative action or proceeding brought on our behalf; any action asserting a breach of a fiduciary duty; any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our amended and 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. The provisions would not apply to suits brought to enforce a duty or liability created by the Exchange Act. In addition, our amended and restated certificate of incorporation provides that the federal district courts of the United States of America will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act, subject to and contingent upon a final adjudication in the State of Delaware of the enforceability of such exclusive forum provision.

These choice of forum provisions may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees. If a court were to find either choice of forum provision contained in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions. For example, the Court of Chancery of the State of Delaware recently determined that the exclusive forum provision of federal district courts of the United States of America for resolving any complaint asserting a cause of action arising under the Securities Act is not enforceable. The Court of Chancery’s decision has been appealed to the Delaware Supreme Court. If the Delaware Supreme Court reverses the Court of Chancery’s decision and holds that such a provision is cognizable under Delaware law, we will enforce the federal district court exclusive forum provision. Until such time as the Delaware courts declare the federal district court exclusive forum provision legally cognizable, we do not intend to enforce that provision of our amended and restated certificate of incorporation.

#### **Item 1B. Unresolved Staff Comments**

None.

#### **Item 2. Properties**

Our headquarters is located in New York City, where we lease approximately 97,000 square feet pursuant to three separate subleases. One of these subleases, for approximately 33,000 square feet, will expire in December 2022. The other two subleases, together for approximately 64,000 square feet, will both expire in December 2023. We have other offices including Boston, Dublin and Paris. These offices are leased and we do not own any real property. We believe that our current facilities are adequate to meet our current needs.

#### **Item 3. Legal Proceedings**

From time to time we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, cash flows or financial condition. Defending such proceedings is costly and can impose a significant burden on management and employees. The results of any current or future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

**Item 4. Mine Safety Disclosures**

Not applicable.

## PART II

### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

#### Market Information for Common Stock

Our Class A common stock began trading on The Nasdaq Global Select Market, or Nasdaq, under the symbol “DDOG” on September 19, 2019. Prior to that date, there was no public trading market for our Class A common stock. Our Class B common stock is not listed or traded on any exchange, but each share of Class B common stock is convertible at any time at the option of the holder into one share of Class A common stock, and is automatically converted upon sale or transfer into one share of Class A common stock.

#### Holders of Record

As of February 14, 2020, there were 43 stockholders of record of our Class A common stock, and the closing price of our Class A common stock was \$47.03 per share as reported on Nasdaq. Because many of our shares of Class A common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders. As of February 14, 2020, there were 771 stockholders of record of our Class B common stock.

#### Dividend Policy

We have never declared or paid any dividends on our common stock. We currently intend to retain all available funds and any future earnings for the operation and expansion of our business. Accordingly, we do not anticipate declaring or paying dividends in the foreseeable future. The payment of any future dividends will be at the discretion of our Board of Directors and will depend on our results of operations, capital requirements, financial condition, prospects, contractual arrangements, any limitations on payment of dividends present in any debt agreements, and other factors that our Board of Directors may deem relevant.

#### Recent Sales of Unregistered Securities

On November 6, 2019, we issued 244,445 shares of Class A common stock as consideration in an acquisition. The issuance was deemed exempt from registration under the Securities Act pursuant to the exemption provided by Section 4(a)(2) of the Securities Act as a transaction by an issuer not involving a public offering.

#### Use of Proceeds

In September 2019, we closed our IPO of 27,600,000 shares of our Class A common stock at an offering price of \$27.00 per share, including 3,600,000 shares pursuant to the underwriters' option to purchase additional shares of our Class A common stock, resulting in aggregate net proceeds to us of \$705.9 million after deducting underwriting discounts and commissions of \$37.3 million and net offering expenses of \$2.0 million. All of the shares issued and sold in our IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333-233428), which was declared effective by the SEC on September 18, 2019.

There has been no material change in the planned use of proceeds from our IPO from those disclosed in the Final Prospectus for our IPO dated as of September 18, 2019 and filed with the SEC pursuant to Rule 424(b)(4) on September 19, 2019.

#### Issuer Purchases of Equity Securities

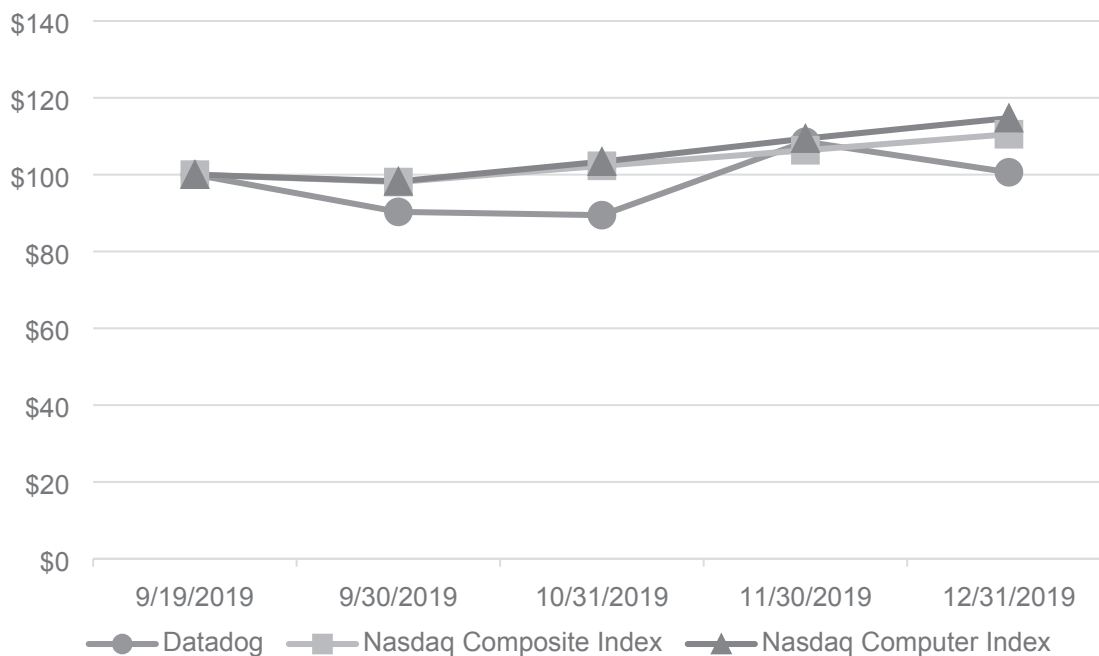
None.

#### Stock Performance Graph

The graph below shows a comparison, from September 19, 2019 (the date our Class A common stock commenced trading on Nasdaq) through December 31, 2019, of the cumulative total return to stockholders of our Class A common stock relative to the Nasdaq Composite Index, or the Nasdaq Composite, and the Nasdaq Computer Index, or the Nasdaq Computer.

The graph assumes that \$100 was invested in each of our Class A common stock, the Nasdaq Composite and the Nasdaq Computer at their respective closing prices on September 19, 2019 and assumes reinvestment of gross dividends. The stock price performance shown in the graph represents past performance and should not be considered an indication of future stock price performance.

Comparison of Cumulative Total Return



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

**Item 6. Selected Financial Data**

The following selected consolidated financial data should be read in conjunction with “Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes included in “Part II, Item 8. Financial Statements” of this Annual Report on Form 10-K. The consolidated statements of operations data for the fiscal years ended December 31, 2019, 2018, and 2017, and the consolidated balance sheet data as of December 31, 2019 and 2018 are derived from our audited consolidated financial statements and related notes included elsewhere in this Form 10-K. The selected consolidated financial data in this section are not intended to replace our consolidated financial statements and the related notes, and are qualified in their entirety by the consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of our results in any future period.

The summary consolidated financial data for the year ended December 31, 2019 reflects the adoption of ASU 2016-02, *Leases (ASC 842)*. See Note 2 to our consolidated financial statements elsewhere in this Annual Report on Form 10-K for a summary of adjustments. The summary consolidated financial data for the years ended December 31, 2018 and 2017 do not reflect the adoption of ASC 842

|  | Year Ended December 31,               |                    |                   |
|--|---------------------------------------|--------------------|-------------------|
|  | 2019                                  | 2018               | 2017              |
|  | (in thousands, except per share data) |                    |                   |
| Revenue.....   | \$ 362,780                            | \$ 198,077         | \$ 100,761        |
| Cost of revenue <sup>(1)(2)</sup> .....  | 88,949                                | 46,529             | 23,414            |
| Gross profit .....   | 273,831                               | 151,548            | 77,347            |
| Operating expenses:  |                                       |                    |                   |
| Research and development <sup>(1)</sup> .....  | 111,425                               | 55,176             | 24,734            |
| Sales and marketing <sup>(1)</sup> .....   | 146,657                               | 88,849             | 44,213            |
| General and administrative <sup>(1)</sup> .....  | 35,889                                | 18,556             | 11,356            |
| Total operating expenses <sup>(3)</sup> .....  | 293,971                               | 162,581            | 80,303            |
| Operating loss .....   | (20,140)                              | (11,033)           | (2,956)           |
| Other income, net .....  | 4,164                                 | 793                | 843               |
| Loss before income taxes .....   | (15,976)                              | (10,240)           | (2,113)           |
| Provision for income taxes.....  | (734)                                 | (522)              | (457)             |
| Net loss.....  | <u>\$ (16,710)</u>                    | <u>\$ (10,762)</u> | <u>\$ (2,570)</u> |
| Net loss per share attributable to common stockholders,<br>basic and diluted <sup>(4)</sup> .....        | <u>\$ (0.12)</u>                      | <u>\$ (0.15)</u>   | <u>\$ (0.04)</u>  |
| Weighted average shares used in calculating basic and<br>diluted net loss per share <sup>(4)</sup> ..... | <u>139,873</u>                        | <u>70,951</u>      | <u>61,321</u>     |

(1) Includes stock-based compensation expense as follows:

|   | Year Ended December 31, |                 |                 |
|---|-------------------------|-----------------|-----------------|
|   | 2019                    | 2018            | 2017            |
|   | (in thousands)          |                 |                 |
| Cost of revenue .....                       | \$ 582                  | \$ 287          | \$ 112          |
| Research and development.....               | 7,972                   | 1,641           | 1,160           |
| Sales and marketing .....                   | 5,538                   | 1,910           | 977             |
| General and administrative .....            | 4,942                   | 1,406           | 819             |
| Total stock-based compensation expense..... | <u>\$ 19,034</u>        | <u>\$ 5,244</u> | <u>\$ 3,068</u> |

(2) Includes amortization of acquired intangibles expense as follows:

|                       | Year Ended December 31, |        |        |
|-----------------------|-------------------------|--------|--------|
|                       | 2019                    | 2018   | 2017   |
|                       | (in thousands)          |        |        |
| Cost of revenue ..... | \$ 752                  | \$ 511 | \$ 484 |

(3) Includes a \$2.3 million, \$0.4 million and \$2.3 million benefit within Research and development, Sales and marketing and General and administrative expenses, respectively, related to the release of a non-income tax liability for the year ended December 31, 2019. See Note 9 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further discussion.

(4) See Note 13 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for an explanation of the calculations of our basic and diluted earnings per share attributable to common stockholders and the weighted-average number of shares used in the computation of the per share amounts.

|   | December 31,   |             |             |
|---|----------------|-------------|-------------|
|   | 2019           | 2018        | 2017        |
|   | (in thousands) |             |             |
| <b>Consolidated Balance Sheet Data:</b>   |                |             |             |
| Cash and cash equivalents.....            | \$ 597,297     | \$ 53,639   | \$ 60,024   |
| Total assets .....                        | 1,038,041      | 179,750     | 127,062     |
| Total liabilities .....                   | 255,700        | 114,986     | 61,958      |
| Working capital <sup>(1)</sup> .....      | 703,703        | 9,717       | 43,164      |
| Convertible preferred stock.....          | —              | 140,805     | 140,805     |
| Total stockholders' equity (deficit)..... | \$ 782,341     | \$ (76,041) | \$ (75,701) |

(1) Working capital is defined as current assets less current liabilities.

## **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. This discussion, particularly information with respect to our future results of operations or financial condition, business strategy and plans and objectives of management for future operations, includes forward-looking statements that involve risks and uncertainties as described under the heading “Special Note Regarding Forward-Looking Statements” in this Annual Report on Form 10-K. You should review the disclosure under the heading “Part I, Item 1A. Risk Factors” in this Annual Report on Form 10-K for a discussion of important factors that could cause our actual results to differ materially from those anticipated in these forward-looking statements.*

### **Overview**

Datadog is the monitoring and analytics platform for developers, IT operations teams and business users in the cloud age.

Our SaaS platform integrates and automates infrastructure monitoring, application performance monitoring and log management to provide unified, real-time observability of our customers’ entire technology stack. Datadog is used by organizations of all sizes and across a wide range of industries to enable digital transformation and cloud migration, drive collaboration among development, operations and business teams, accelerate time to market for applications, reduce time to problem resolution, understand user behavior and track key business metrics.

We generate revenue from the sale of subscriptions to customers using our cloud-based platform. Our paid subscriptions are available in Pro and Enterprise tiers. The terms of our subscription agreements are primarily monthly or annual. Customers also have the option to purchase additional products, such as additional containers to monitor, custom metrics packages, anomaly detection and app analytics. Professional services are generally not required for the implementation of our products and revenue from such services has been immaterial to date.

We employ a land-and-expand business model centered around offering products that are easy to adopt and have a very short time to value. Our customers can expand their footprint with us on a self-service basis. Our customers often significantly increase their usage of the products they initially buy from us and expand their usage to other products we offer on our platform. We grow with our customers as they expand their workloads in the public and private cloud.

As of December 31, 2019, we had \$601.2 million in cash, cash equivalents and restricted cash and \$176.7 million in marketable securities. We have grown rapidly in recent periods, with revenues for the fiscal years ended December 31, 2019, 2018 and 2017 of \$362.8 million, \$198.1 million, and \$100.8 million, respectively, representing year-over-year growth of 83% from the fiscal year ended December 31, 2018 to the fiscal year ended December 31, 2019 and 97% from the fiscal year ended December 31, 2017 to the fiscal year ended December 31, 2018. Substantially all of our revenue is subscription software sales. We expect that the rate of growth in our revenue will decline as our business scales, even if our revenue continues to grow in absolute terms. We have continued to make significant expenditures and investments, including in personnel-related costs, sales and marketing, infrastructure and operations, and have incurred net loss in each period since our inception, including net loss of \$(16.7) million, \$(10.8) million and \$(2.6) million for the fiscal years ended December 31, 2019, 2018 and 2017, respectively. Our operating cash flow was \$24.2 million, \$10.8 million and \$13.8 million for the years ended December 31, 2019, 2018 and 2017 respectively. Our free cash flow was \$0.8 million, \$(5.0) million and \$6.0 million for the years ended December 31, 2019, 2018 and 2017 respectively. See the section titled “—Liquidity and Capital Resources—Non-GAAP Free Cash Flow” below.

Our employee headcount has increased to 1,403 employees as of December 31, 2019 from 886 as of December 31, 2018. We plan to continue to aggressively invest in the growth of our business to take advantage of our market opportunity.

### **Factors Affecting Our Performance**

#### ***Acquiring New Customers***

We believe there is substantial opportunity to continue to grow our customer base. We intend to drive new customer acquisition by continuing to invest significantly in sales and marketing to engage our prospective customers, increase brand awareness and drive adoption of our platform and products. We also plan to continue to invest in building brand awareness within the development and operations communities. As of December 31, 2019, we had approximately 10,500 customers spanning organizations of a broad range of sizes and industries. Our ability to attract new customers will depend on a number of factors, including the effectiveness and pricing of our products, offerings of our competitors, and the effectiveness of our marketing efforts.

We define the number of customers as the number of accounts with a unique account identifier for which we have an active subscription in the period indicated. Users of our free trials or tier are not included in our customer count. A single organization with multiple divisions, segments or subsidiaries is generally counted as a single customer. However, in some cases where they have separate billing terms, we may count separate divisions, segments or subsidiaries as multiple customers.

### ***Expanding Within Our Existing Customer Base***

Our base of customers represents a significant opportunity for further sales expansion. As of December 31, 2019, we had 858 customers with annual run-rate revenue, or ARR, of \$100,000 or more, up from 453 as of December 31, 2018. We define ARR as the annual run-rate revenue of subscription agreements from all customers at a point in time. We calculate ARR by taking the monthly run-rate revenue, or MRR, and multiplying it by 12. MRR for each month is calculated by aggregating, for all customers during that month, monthly revenue from committed contractual amounts, additional usage and monthly subscriptions. ARR and MRR should be viewed independently of revenue, and do not represent our revenue under U.S. GAAP on a monthly or annualized basis, as they are operating metrics that can be impacted by contract start and end dates and renewal rates. ARR and MRR are not intended to be replacements or forecasts of revenue.

We believe that our land-and-expand business model allows us to efficiently increase revenue from our existing customer base. Our customers often expand the deployment of our platform across large teams and more broadly within the enterprise as they migrate more workloads to the cloud, find new use cases for our platform, and generally realize the benefits of our platform. We intend to continue to invest in enhancing awareness of our brand and developing more products, features and functionality, which we believe are important factors to achieve widespread adoption of our platform. Our ability to increase sales to existing customers will depend on a number of factors, including our customers' satisfaction with our solution, competition, pricing and overall changes in our customers' spending levels.

### ***Sustaining Innovation and Technology Leadership***

Our success is dependent on our ability to sustain innovation and technology leadership in order to maintain our competitive advantage. We believe that we have built a highly differentiated platform that will position us to further extend the adoption of our platform and products. Datadog is frequently deployed across a customer's entire infrastructure, making it ubiquitous. Datadog is a daily part of the lives of developers, operations engineers and business leaders. We employ a land-and-expand business model centered around offering products that are easy to adopt and have a very short time to value. Our efficient go-to-market model enables us to prioritize significant investment in innovation. We have proven initial success of our platform approach, through expansion beyond our initial infrastructure monitoring solution, to include APM in 2017 and logs in 2018. In 2019, we launched user experience monitoring and network performance monitoring, and announced the addition of security monitoring to our platform. As of December 31, 2019, approximately 60% of our customers were using more than one product, up from approximately 25% a year earlier. We believe these metrics indicate strong momentum in the uptake of our newer platform products.

We intend to continue to invest in building additional products, features and functionality that expand our capabilities and facilitate the extension of our platform to new use cases. We also intend to continue to evaluate strategic acquisitions and investments in businesses and technologies to drive product and market expansion. Our future success is dependent on our ability to successfully develop, market and sell existing and new products to both new and existing customers.

### ***Expanding Internationally***

We believe there is a significant opportunity to expand usage of our platform outside of North America. Revenue, as determined based on the billing address of our customers, from regions outside of North America was 25% for the year ended December 31, 2019. In addition, we have made and plan to continue to make significant investments to expand geographically, particularly in EMEA and APAC. Although these investments may adversely affect our operating results in the near term, we believe that they will contribute to our long-term growth. Beyond North America, we now have sales presence internationally, including in Dublin, London, Paris, Amsterdam, Singapore, Sydney and Tokyo.



## **Components of Results of Operations**

### ***Revenue***

We generate revenue from the sale of subscriptions to customers using our cloud-based platform. The terms of our subscription agreements are primarily monthly or annual, with the majority of our revenue coming from annual subscriptions. Our customers can enter into a subscription for a committed contractual amount of usage that is apportioned ratably on a monthly basis over the term of the subscription period, a subscription for a committed contractual amount of usage that is delivered as used, or a monthly subscription based on usage. To the extent that our customers' usage exceeds the committed contracted amounts under their subscriptions, either on a monthly basis in the case of a ratable subscription or once the entire commitment is used in the case of a delivered-as-used subscription, they are charged for their incremental usage.

Usage is measured primarily by the number of hosts or by the volume of data indexed. A host is generally defined as a server, either in the cloud or on-premise. Our infrastructure monitoring, APM and network performance monitoring products are priced per host, our logs product is primarily priced per log events indexed and secondarily by events ingested. Customers also have the option to purchase additional products, such as additional container or serverless monitoring, custom metrics packages, anomaly detection, synthetic monitoring and app analytics.

In the case of subscriptions for committed contractual amounts of usage, revenue is recognized ratably over the term of the subscription agreement, generally beginning on the date that our platform is made available to a customer. As a result, much of our revenue is generated from subscriptions entered into during previous periods. Consequently, any decreases in new subscriptions or renewals in any one period may not be immediately reflected as a decrease in revenue for that period, but could negatively affect our revenue in future quarters. This also makes it difficult for us to rapidly increase our revenue through the sale of additional subscriptions in any period, as revenue is recognized over the term of the subscription agreement. In the case of a subscription for a committed contractual amount of usage that is delivered as used, a monthly subscription based on usage, or usage in excess of a ratable subscription, we recognize revenue as the product is used, which may lead to fluctuations in our revenue and results of operations. In addition, historically, we have experienced seasonality in new customer bookings, as we typically enter into a higher percentage of subscription agreements with new customers in the fourth quarter of the year.

Due to ease of implementation of our products, professional services generally are not required and revenue from such services has been immaterial to date.

### ***Cost of Revenue***

Cost of revenue primarily consists of expenses related to providing our products to customers, including payments to our third-party cloud infrastructure providers for hosting our software, personnel-related expenses for operations and global support, including salaries, benefits, bonuses and stock-based compensation, payment processing fees, information technology, depreciation and amortization related to the amortization of acquired intangibles and internal-use software and other overhead costs such as allocated facilities.

We intend to continue to invest additional resources in our platform infrastructure and our customer support and success organizations to expand the capability of our platform and ensure that our customers are realizing the full benefit of our platform and products. The level, timing and relative investment in our infrastructure could affect our cost of revenue in the future.

### ***Gross Profit and Gross Margin***

Gross profit represents revenue less cost of revenue. Gross margin is gross profit expressed as a percentage of revenue. Our gross margin may fluctuate from period to period as our revenue fluctuates, and as a result of the timing and amount of investments to expand our products and geographical coverage.

### ***Operating Expenses***

Our operating expenses consist of research and development, sales and marketing, and general and administrative expenses. Personnel costs are the most significant component of operating expenses and consist of salaries, benefits, bonuses, stock-based compensation expense and sales commissions. Operating expenses also include overhead costs for facilities and shared IT-related expenses, including depreciation expense.

### *Research and Development*

Research and development expense consists primarily of personnel costs for our engineering, service and design teams. Additionally, research and development expense includes contractor fees, depreciation and amortization and allocated overhead costs. Research and development costs are expensed as incurred. We expect that our research and development expense will increase in absolute dollars as our business grows, particularly as we incur additional costs related to continued investments in our platform.

### *Sales and Marketing*

Sales and marketing expense consists primarily of personnel costs for our sales and marketing organization, costs of general marketing and promotional activities, including the free tier and free introductory trials of our products, travel-related expenses and allocated overhead costs. Sales commissions earned by our sales force are deferred and amortized on a straight-line basis over the expected period of benefit, which we have determined to be four years. We expect that our sales and marketing expense will increase in absolute dollars and continue to be our largest operating expense for the foreseeable future as we expand our sales and marketing efforts. However, we expect that our sales and marketing expense will decrease as a percentage of our revenue over the long term.

### *General and Administrative*

General and administrative expense consists primarily of personnel costs and contractor fees for finance, legal, human resources, information technology and other administrative functions. In addition, general and administrative expense includes non-personnel costs, such as legal, accounting and other professional fees, hardware and software costs, certain tax, license and insurance-related expenses and allocated overhead costs.

We expect to incur additional expenses as a result of operating as a newly public company, including costs to comply with the rules and regulations applicable to companies listed on a national securities exchange, costs related to compliance and reporting obligations, and increased expenses for insurance, investor relations and professional services. We expect that our general and administrative expense will increase in absolute dollars as our business grows.

### ***Other Income, Net***

Other income, net consists of income earned on our money market funds included in cash and cash equivalents and on our marketable securities.

### ***Provision for Income Taxes***

Provision for income taxes consists of U.S. federal and state income taxes and income taxes in certain foreign jurisdictions in which we conduct business. We maintain a full valuation allowance on our federal and state deferred tax assets as we have concluded that it is not more likely than not that the deferred tax assets will be realized.

## Results of Operations

The following table sets forth our consolidated statements of operations data for the periods indicated:

|   | Years Ended December 31, |                    |                   |
|---|--------------------------|--------------------|-------------------|
|   | 2019                     | 2018               | 2017              |
|   | (in thousands)           |                    |                   |
| Revenue.....                                    | \$ 362,780               | \$ 198,077         | \$ 100,761        |
| Cost of revenue <sup>(1)(2)</sup> .....         | 88,949                   | 46,529             | 23,414            |
| Gross profit.....                               | 273,831                  | 151,548            | 77,347            |
| Operating expenses                              |                          |                    |                   |
| Research and development <sup>(1)</sup> .....   | 111,425                  | 55,176             | 24,734            |
| Sales and marketing <sup>(1)</sup> .....        | 146,657                  | 88,849             | 44,213            |
| General and administrative <sup>(1)</sup> ..... | 35,889                   | 18,556             | 11,356            |
| Total operating expenses <sup>(3)</sup> .....   | 293,971                  | 162,581            | 80,303            |
| Operating loss.....                             | (20,140)                 | (11,033)           | (2,956)           |
| Other income, net.....                          | 4,164                    | 793                | 843               |
| Loss before provision for income taxes.....     | (15,976)                 | (10,240)           | (2,113)           |
| Provision for income taxes.....                 | (734)                    | (522)              | (457)             |
| Net loss.....                                   | <u>\$ (16,710)</u>       | <u>\$ (10,762)</u> | <u>\$ (2,570)</u> |

(1) Includes stock-based compensation expense as follows:

|                                 | Years Ended December 31, |                 |                 |
|---------------------------------|--------------------------|-----------------|-----------------|
|                                 | 2019                     | 2018            | 2017            |
|                                 | (in thousands)           |                 |                 |
| Cost of revenue.....            | \$ 582                   | \$ 287          | \$ 112          |
| Research and development.....   | 7,972                    | 1,641           | 1,160           |
| Sales and marketing.....        | 5,538                    | 1,910           | 977             |
| General and administrative..... | 4,942                    | 1,406           | 819             |
| Total.....                      | <u>\$ 19,034</u>         | <u>\$ 5,244</u> | <u>\$ 3,068</u> |

(2) Includes amortization of acquired intangibles expense as follows:

|                      | Years Ended December 31, |        |        |
|----------------------|--------------------------|--------|--------|
|                      | 2019                     | 2018   | 2017   |
|                      | (in thousands)           |        |        |
| Cost of revenue..... | \$ 752                   | \$ 511 | \$ 484 |

(3) Includes a \$2.3 million, \$0.4 million and \$2.3 million benefit within Research and development, Sales and marketing and General and administrative expenses, respectively, related to the release of a non-income tax liability for the year ended December 31, 2019. See Note 9 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further discussion.

The following table sets forth our consolidated statements of operations data expressed as a percentage of revenue for the periods indicated:

|  | Years Ended December 31,           |      |      |
|--|------------------------------------|------|------|
|  | 2019                               | 2018 | 2017 |
|  | (as a percentage of total revenue) |      |      |
| Revenue.....                                 | 100%                               | 100% | 100% |
| Cost of revenue .....                        | 25                                 | 23   | 23   |
| Gross profit .....                           | 75                                 | 77   | 77   |
| Operating expenses                           |                                    |      |      |
| Research and development .....               | 31                                 | 28   | 25   |
| Sales and marketing.....                     | 40                                 | 45   | 44   |
| General and administrative.....              | 10                                 | 9    | 11   |
| Total operating expenses.....                | 81                                 | 82   | 80   |
| Operating loss .....                         | (6)                                | (5)  | (3)  |
| Other income, net.....                       | 1                                  | 1    | 1    |
| Loss before provision for income taxes ..... | (5)                                | (4)  | (2)  |
| Provision for income taxes.....              | (0)                                | (1)  | (1)  |
| Net loss.....                                | (5)%                               | (5)% | (3)% |

### Comparison of the Years Ended December 31, 2019 and 2018

#### Revenue

|              | Years Ended December 31, |            | Change     | % Change |
|--------------|--------------------------|------------|------------|----------|
|              | 2019                     | 2018       |            |          |
|              | (dollars in thousands)   |            |            |          |
| Revenue..... | \$ 362,780               | \$ 198,077 | \$ 164,703 | 83%      |

Revenue increased by \$164.7 million, or 83%, for the year ended December 31, 2019 compared to the year ended December 31, 2018. The increase in revenue was primarily due to growth from existing customers, with the remaining increase attributable to new customers.

#### Cost of Revenue and Gross Margin

|                       | Years Ended December 31, |           | Change    | % Change |
|-----------------------|--------------------------|-----------|-----------|----------|
|                       | 2019                     | 2018      |           |          |
|                       | (dollars in thousands)   |           |           |          |
| Cost of revenue ..... | \$ 88,949                | \$ 46,529 | \$ 42,420 | 91%      |
| Gross margin.....     | 75%                      | 77%       | -2%       |          |

Cost of revenue increased by \$42.4 million, or 91%, for the year ended December 31, 2019 compared to the year ended December 31, 2018. This increase was primarily due to an increase of \$35.2 million in third-party cloud infrastructure hosting and software costs, an increase of \$3.2 million in personnel expenses as a result of increased headcount, an increase of \$2.5 million of depreciation and amortization expense, an increase of \$0.8 million in credit card processing fees and other fees, and an increase of \$0.7 million in allocated overhead costs as a result of an increase in overall costs necessary to support the growth of the business and related infrastructure.

Our gross margin declined by 2% for the year ended December 31, 2019 compared to the year ended December 31, 2018, primarily as the result of the timing and amount of our investments to expand the capacity of our third-party cloud infrastructure providers.

## Research and Development

|                               | Years Ended December 31, |           | Change    | % Change |
|-------------------------------|--------------------------|-----------|-----------|----------|
|                               | 2019                     | 2018      |           |          |
|                               | (dollars in thousands)   |           |           |          |
| Research and development..... | \$ 111,425               | \$ 55,176 | \$ 56,249 | 102%     |
| Percentage of revenue .....   | 31%                      | 28%       |           |          |

Research and development expense increased by \$56.2 million, or 102%, for the year ended December 31, 2019 compared to the year ended December 31, 2018. This increase was primarily due to an increase of \$38.5 million in personnel costs for our engineering, product and design teams as a result of increased headcount, and an increase of \$17.7 million in cloud infrastructure related investments and in allocated overhead costs necessary for supporting the growth of the business.

## Sales and Marketing

|                             | Years Ended December 31, |           | Change    | % Change |
|-----------------------------|--------------------------|-----------|-----------|----------|
|                             | 2019                     | 2018      |           |          |
|                             | (dollars in thousands)   |           |           |          |
| Sales and marketing .....   | \$ 146,657               | \$ 88,849 | \$ 57,808 | 65%      |
| Percentage of revenue ..... | 40%                      | 45%       |           |          |

Sales and marketing expense increased by \$57.8 million, or 65%, for the year ended December 31, 2019 compared to the year ended December 31, 2018. This increase was primarily due to an increase of \$39.6 million in personnel costs for our sales and marketing organization as a result of increased headcount and increased variable compensation for our sales personnel, an increase of \$10.4 million in allocated overhead costs as a result of an increase in overall costs necessary to support the growth of the business and related infrastructure, and an increase of \$7.8 million in marketing and promotional activities.

## General and Administrative

|                                  | Years Ended December 31, |           | Change    | % Change |
|----------------------------------|--------------------------|-----------|-----------|----------|
|                                  | 2019                     | 2018      |           |          |
|                                  | (dollars in thousands)   |           |           |          |
| General and administrative ..... | \$ 35,889                | \$ 18,556 | \$ 17,333 | 93%      |
| Percentage of revenue .....      | 10%                      | 9%        |           |          |

General and administrative expense increased by \$17.3 million, or 93%, for the year ended December 31, 2019 compared to the year ended December 31, 2018. This increase was primarily due to an increase of \$8.6 million in personnel expenses as a result of increased headcount, an increase of \$6.9 million related to outside professional fees primarily related to legal and accounting services, an increase of \$1.8 million in allocated overhead expenses related to an increase in overall costs necessary to support the growth of the business and related infrastructure.

## Comparison of the Years Ended December 31, 2018 and 2017

### Revenue

|               | Years Ended December 31, |            | Change    | % Change |
|---------------|--------------------------|------------|-----------|----------|
|               | 2018                     | 2017       |           |          |
|               | (dollars in thousands)   |            |           |          |
| Revenue ..... | \$ 198,077               | \$ 100,761 | \$ 97,316 | 97%      |

Revenue increased by \$97.3 million, or 97%, for the year ended December 31, 2018 compared to the year ended December 31, 2017. Approximately 60% of the increase in revenue was attributable to the growth from existing customers, and the remaining increase in revenue was attributable to new customers.

### ***Cost of Revenue and Gross Margin***

|                       | <u>Years Ended December 31,</u> |             | <u>Change</u> | <u>% Change</u> |
|-----------------------|---------------------------------|-------------|---------------|-----------------|
|                       | <u>2018</u>                     | <u>2017</u> |               |                 |
|                       | (dollars in thousands)          |             |               |                 |
| Cost of revenue ..... | \$ 46,529                       | \$ 23,414   | \$ 23,115     | 99%             |
| Gross margin .....    | 77%                             | 77%         |               |                 |

Cost of revenue increased by \$23.1 million, or 99%, for the year ended December 31, 2018 compared to the year ended December 31, 2017. This increase was primarily due to an increase of \$17.2 million in third-party cloud infrastructure hosting and software costs, an increase of \$2.5 million in personnel expenses as a result of increased headcount, an increase of \$1.8 million of depreciation and amortization expense, an increase of \$0.9 million in credit card processing fees and other fees, and an increase of \$0.7 million in allocated overhead costs as a result of an increase in overall costs necessary to support the growth of the business and related infrastructure.

Our gross margin remained relatively constant for the fiscal year ended December 31, 2018 compared to the fiscal year ended December 31, 2017.

### ***Research and Development***

|                               | <u>Years Ended December 31,</u> |             | <u>Change</u> | <u>% Change</u> |
|-------------------------------|---------------------------------|-------------|---------------|-----------------|
|                               | <u>2018</u>                     | <u>2017</u> |               |                 |
|                               | (dollars in thousands)          |             |               |                 |
| Research and development..... | \$ 55,176                       | \$ 24,734   | \$ 30,442     | 123%            |
| Percentage of revenue .....   | 28%                             | 25%         |               |                 |

Research and development expense increased by \$30.4 million, or 123%, for the year ended December 31, 2018 compared to the year ended December 31, 2017. This increase was primarily due to an increase of \$21.7 million in personnel costs for our engineering, product and design teams as a result of increased headcount and an increase of \$8.7 million in cloud infrastructure related investments and in allocated overhead costs necessary for supporting the growth of the business.

### ***Sales and Marketing***

|                             | <u>Years Ended December 31,</u> |             | <u>Change</u> | <u>% Change</u> |
|-----------------------------|---------------------------------|-------------|---------------|-----------------|
|                             | <u>2018</u>                     | <u>2017</u> |               |                 |
|                             | (dollars in thousands)          |             |               |                 |
| Sales and marketing .....   | \$ 88,849                       | \$ 44,213   | \$ 44,636     | 101%            |
| Percentage of revenue ..... | 45%                             | 44%         |               |                 |

Sales and marketing expense increased by \$44.6 million, or 101%, for the year ended December 31, 2018 compared to the year ended December 31, 2017. This increase was primarily due to an increase of \$26.1 million in personnel costs for our sales and marketing organization as a result of increased headcount and increased variable compensation for our sales personnel, an increase of \$11.6 million in marketing and promotional activities, and an increase of \$6.9 million in allocated overhead costs as a result of an increase in overall costs necessary to support the growth of the business and related infrastructure.

### ***General and Administrative***

|                                  | <u>Years Ended December 31,</u> |             | <u>Change</u> | <u>% Change</u> |
|----------------------------------|---------------------------------|-------------|---------------|-----------------|
|                                  | <u>2018</u>                     | <u>2017</u> |               |                 |
|                                  | (dollars in thousands)          |             |               |                 |
| General and administrative ..... | \$ 18,556                       | \$ 11,356   | \$ 7,200      | 63%             |
| Percentage of revenue .....      | 9%                              | 11%         |               |                 |

General and administrative expense increased by \$7.2 million, or 63%, for the year ended December 31, 2018 compared to the year ended December 31, 2017. This increase was primarily due to an increase of \$4.7 million in personnel expenses as a result of increased headcount, an increase of \$0.9 million related to outside professional fees primarily related to legal and accounting services, an increase of \$1.6 million in allocated overhead expenses related to an increase in overall costs necessary to support the growth of the business and related infrastructure.

## Quarterly Results of Operations

The following tables summarize our selected unaudited quarterly consolidated statements of operations data for each of the eight quarters in the period ended December 31, 2019. The information for each of these quarters has been prepared on the same basis as our audited annual consolidated financial statements and reflect, in the opinion of management, all adjustments of a normal, recurring nature that are necessary for the fair statement of the results of operations for these periods. This data should be read in conjunction with our audited consolidated financial statements included in “Part II, Item 8. Financial Statements” of this Annual Report on Form 10-K. Historical results are not necessarily indicative of the results that may be expected for the full fiscal year or any other period.

|   | Three Months Ended                               |                       |                  |                   |                      |                       |                  |                   |
|---|--|-----------------------|------------------|-------------------|----------------------|-----------------------|------------------|-------------------|
|   | December 31,<br>2019                             | September 30,<br>2019 | June 30,<br>2019 | March 31,<br>2019 | December 31,<br>2018 | September 30,<br>2018 | June 30,<br>2018 | March 31,<br>2018 |
|   | (in thousands, except per share data; unaudited) |                       |                  |                   |                      |                       |                  |                   |
| Revenue.....  | \$ 113,644                                       | \$ 95,864             | \$ 83,222        | \$ 70,050         | \$ 61,610            | \$ 51,074             | \$ 45,678        | \$ 39,715         |
| Cost of revenue <sup>(1)(2)</sup> .....   | 25,724   | 23,297                | 20,978           | 18,950            | 15,839               | 12,098                | 9,450            | 9,142             |
| Gross profit .....  | 87,920   | 72,567                | 62,244           | 51,100            | 45,771               | 38,976                | 36,228           | 30,573            |
| Operating Expenses:   |  |                       |                  |                   |                      |                       |                  |                   |
| Research and development <sup>(1)</sup> .....   | 35,894   | 28,684                | 24,032           | 22,815            | 17,720               | 14,159                | 12,426           | 10,871            |
| Sales and marketing <sup>(1)</sup> ....   | 41,596   | 38,836                | 36,118           | 30,107            | 29,102               | 25,130                | 19,335           | 15,282            |
| General and administrative <sup>(1)</sup> .....                                       | 12,696   | 9,265                 | 6,088            | 7,840             | 5,623                | 4,322                 | 4,344            | 4,267             |
| Total operating expenses <sup>(3)</sup> .....   | 90,186   | 76,785                | 66,238           | 60,762            | 52,445               | 43,611                | 36,105           | 30,420            |
| Operating (loss) income ....  | (2,266)  | (4,218)               | (3,994)          | (9,662)           | (6,674)              | (4,635)               | 123              | 153               |
| Other income, net .....   | 3,518  | 90                    | 326              | 230               | 181                  | 311                   | 28               | 273               |
| Income (loss) before income taxes.....  | 1,252  | (4,128)               | (3,668)          | (9,432)           | (6,493)              | (4,324)               | 151              | 426               |
| Provision for income taxes .....  | (361)  | (33)                  | (281)            | (59)              | (94)                 | (349)                 | 2                | (81)              |
| Net income (loss) .....   | \$ 891   | \$ (4,161)            | \$ (3,949)       | \$ (9,491)        | \$ (6,587)           | \$ (4,673)            | \$ 153           | \$ 345            |
| Net income (loss) per share, basic .....  | 0.00   | (0.04)                | (0.05)           | (0.12)            | (0.09)               | (0.06)                | 0.00             | 0.01              |
| Net income (loss) per share, diluted .....  | 0.00   | (0.04)                | (0.05)           | (0.12)            | (0.09)               | (0.06)                | 0.00             | 0.00              |
| Weighted average shares used in calculating basic net income (loss) per share .....   | 294,515  | 103,876               | 82,043           | 77,061            | 74,640               | 73,353                | 71,942           | 63,723            |
| Weighted average shares used in calculating diluted net income (loss) per share ..... | 327,333  | 103,876               | 82,043           | 77,061            | 74,640               | 73,353                | 86,673           | 74,433            |

(1) Includes stock-based compensation expense as follows:

|  | Three Months Ended   |                       |                  |                   |                      |                       |                  |                   |
|--|----------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|------------------|-------------------|
|  | December 31,<br>2019 | September 30,<br>2019 | June 30,<br>2019 | March 31,<br>2019 | December 31,<br>2018 | September 30,<br>2018 | June 30,<br>2018 | March 31,<br>2018 |
|  | (in thousands)       |                       |                  |                   |                      |                       |                  |                   |
| Cost of revenue .....                  | \$ 210               | \$ 161                | \$ 112           | \$ 99             | \$ 105               | \$ 74                 | \$ 62            | \$ 46             |
| Research and development .....         | 4,263                | 1,934                 | 989              | 786               | 710                  | 387                   | 265              | 279               |
| Sales and marketing .....              | 2,262                | 1,540                 | 1,007            | 729               | 669                  | 522                   | 420              | 299               |
| General and administrative .....       | 2,283                | 1,042                 | 786              | 831               | 709                  | 325                   | 202              | 170               |
| Stock-based compensation expense ..... | <u>\$ 9,018</u>      | <u>\$ 4,677</u>       | <u>\$ 2,894</u>  | <u>\$ 2,445</u>   | <u>\$ 2,193</u>      | <u>\$ 1,308</u>       | <u>\$ 949</u>    | <u>\$ 794</u>     |

(2) Includes amortization of acquired intangibles expense as follows:

|                       | Three Months Ended   |                       |                  |                   |                      |                       |                  |                   |
|-----------------------|----------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|------------------|-------------------|
|                       | December 31,<br>2019 | September 30,<br>2019 | June 30,<br>2019 | March 31,<br>2019 | December 31,<br>2018 | September 30,<br>2018 | June 30,<br>2018 | March 31,<br>2018 |
|                       | (in thousands)       |                       |                  |                   |                      |                       |                  |                   |
| Cost of revenue ..... | \$ 221               | \$ 179                | \$ 177           | \$ 175            | \$ 179               | \$ 112                | \$ 108           | \$ 112            |

(3) Includes a \$2.3 million, \$0.4 million and \$2.3 million benefit within Research and development, Sales and marketing and General and administrative expenses, respectively, related to the release of a non-income tax liability for the three months ended June 30, 2019. See Note 9 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further discussion.

|   | Three Months Ended                 |                       |                  |                   |                      |                       |                  |                   |
|---|------------------------------------|-----------------------|------------------|-------------------|----------------------|-----------------------|------------------|-------------------|
|   | December 31,<br>2019               | September 30,<br>2019 | June 30,<br>2019 | March 31,<br>2019 | December 31,<br>2018 | September 30,<br>2018 | June 30,<br>2018 | March 31,<br>2018 |
|   | (as a percentage of total revenue) |                       |                  |                   |                      |                       |                  |                   |
| Revenue .....                           | 100%                               | 100%                  | 100%             | 100%              | 100%                 | 100%                  | 100%             | 100%              |
| Cost of revenue .....                   | 23                                 | 24                    | 25               | 27                | 26                   | 24                    | 21               | 23                |
| Gross profit .....                      | 77                                 | 76                    | 75               | 73                | 74                   | 76                    | 79               | 77                |
| Operating Expenses:                     |                                    |                       |                  |                   |                      |                       |                  |                   |
| Research and development .....          | 32                                 | 30                    | 29               | 33                | 29                   | 28                    | 27               | 27                |
| Sales and marketing .....               | 36                                 | 41                    | 43               | 43                | 47                   | 49                    | 42               | 38                |
| General and administrative .....        | 11                                 | 10                    | 7                | 11                | 9                    | 8                     | 10               | 11                |
| Total operating expenses .....          | 79                                 | 81                    | 79               | 87                | 85                   | 85                    | 79               | 76                |
| Operating (loss) income .....           | (2)                                | (4)                   | (4)              | (14)              | (11)                 | (9)                   | 0                | 1                 |
| Other income, net .....                 | 3                                  | 0                     | 0                | 1                 | 1                    | 1                     | 0                | 1                 |
| Income (loss) before income taxes ..... | 1                                  | (4)                   | (4)              | (13)              | (10)                 | (8)                   | 0                | 2                 |
| Provision for income taxes .....        | (0)                                | (1)                   | (1)              | (1)               | (1)                  | (1)                   | 0                | (1)               |
| Net income (loss) .....                 | <u>1%</u>                          | <u>(5)%</u>           | <u>(5)%</u>      | <u>(14)%</u>      | <u>(11)%</u>         | <u>(9)%</u>           | <u>0%</u>        | <u>1%</u>         |

### Quarterly Revenue Trends

Total revenue increased sequentially in each of the quarters presented primarily due to the growth from existing customers and the addition of new customers. We recognize revenue ratably over the terms of our subscription contracts. As a result, a substantial portion of the revenue we report in a period is attributable to orders we received during prior periods. Therefore, increases or decreases in new sales, customer expansion or renewals in a period may not be immediately reflected in revenue for the period.



### ***Quarterly Cost of Revenue Trends***

Our quarterly cost of revenue has generally increased quarter-over-quarter in each period presented above primarily as a result of third-party cloud infrastructure hosting and software costs, as well as increased headcount, which resulted in increased personnel expenses.

### ***Quarterly Gross Margin Trends***

Our quarterly gross margins have fluctuated between 73% and 79% in each period presented. Our gross margins increased in the last three quarters ended December 31, 2019 as a result of better optimization of cloud spend.

### ***Quarterly Operating Expense Trends***

Operating expenses have generally increased in each sequential quarter presented above primarily due to the increased headcount, infrastructure and related costs to support our growth. We intend to continue to make significant investments in research and development as we add features and enhance our platform. We also intend to invest in our sales and marketing organization to drive future revenue growth.

### ***Quarterly Other Income, Net Trends***

Other income, net stayed flat over the seven quarters ended September 30, 2019. During the last quarter ended December 31, 2019, we earned interest income from investments in money market funds and marketable securities.

### **Liquidity and Capital Resources**

Since inception, we have financed operations primarily through sales of subscriptions and the net proceeds we have received from sales of equity securities as further detailed below. Our cash and cash equivalents primarily consist of bank deposits and money market funds. Our marketable securities consist of U.S. government treasury securities, commercial paper and corporate bonds. As of December 31, 2019, we had cash and cash equivalents of \$597.3 million and marketable securities of \$176.7 million.

In September 2019, we closed our IPO of 27,600,000 shares of our Class A common stock at an offering price of \$27.00 per share, including 3,600,000 shares pursuant to the underwriters' option to purchase shares of our Class A common stock, resulting in aggregate net proceeds to us of \$705.9 million after deducting underwriting discounts and commissions of \$37.3 million and net offering expenses of \$2.0 million.

We believe that our existing cash and cash equivalents, marketable securities and cash flow from operations will be sufficient to support working capital and capital expenditure requirements for at least the next 12 months. Our future capital requirements will depend on many factors, including our subscription growth rate, subscription renewal activity, including 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 development efforts, the introduction of new and enhanced products, and the continuing market adoption of our platform. We may, in the future, enter into arrangements to acquire or invest in complementary businesses, products, and technologies. We may be required to seek additional equity or debt financing. In the event that we require additional financing, we may not be able to raise such financing on terms acceptable to us or at all. If we are unable to raise additional capital or generate cash flows necessary to expand our operations and invest in continued innovation, we may not be able to compete successfully, which would harm our business, operations and financial condition.

A substantial source of our cash from operations is from our deferred revenue, which is included in the liabilities section of our consolidated balance sheet. Deferred revenue consists of the unearned portion of customer billings, which is recognized as revenue in accordance with our revenue recognition policy. As of December 31, 2019, we had deferred revenue of \$138.5 million, of which \$134.1 million was recorded as a current liability and expected to be recognized as revenue in the next 12 months, provided all other revenue recognition criteria have been met.

The following table shows a summary of our cash flows for the periods presented:

|   | Year Ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 2019                    | 2018      | 2017      |
|   | (in thousands)          |           |           |
| Cash provided by operating activities ..... | \$ 24,234               | \$ 10,829 | \$ 13,832 |
| Cash used in investing activities .....     | (202,220)               | (17,456)  | (12,760)  |
| Cash provided by financing activities ..... | \$ 714,216              | \$ 7,782  | \$ 462    |

### *Operating Activities*

Our largest source of operating cash is cash collection from sales of subscriptions to our customers. Our primary uses of cash from operating activities are for personnel expenses, marketing expenses, hosting expenses and overhead expenses. We have generated positive cash flows and have supplemented working capital requirements through net proceeds from the sale of equity securities.

Cash provided by operating activities for the fiscal year ended December 31, 2019 of \$24.2 million was primarily related to our net loss of \$16.7 million, adjusted for non-cash charges of \$50.5 million and net cash outflows of \$9.5 million provided by changes in our operating assets and liabilities. Non-cash charges primarily consisted of stock-based compensation, depreciation and amortization of property and equipment, amortization of capitalized software, amortization of acquired intangibles and amortization of deferred contract costs. The main drivers of the changes in operating assets and liabilities were related to a \$67.8 million increase in deferred revenue, resulting primarily from increased billings for subscriptions, a \$6.4 million increase in accrued expenses and other liabilities, and a \$2.5 million increase in accounts payable. These amounts were partially offset by a \$47.5 million increase in accounts receivable, net, due to increases in sales, a \$20.1 million increase in deferred contract costs related to commissions paid on new bookings, a \$10.0 million increase in prepaid expenses and other current assets, primarily driven by prepaid hosting services, and a \$8.5 million increase in other assets.

Cash provided by operating activities for the fiscal year ended December 31, 2018 of \$10.8 million was primarily related to our net loss of \$10.8 million, adjusted for non-cash charges of \$14.4 million and net cash inflows of \$7.2 million provided by changes in our operating assets and liabilities. Non-cash charges primarily consisted of stock-based compensation, net of amounts capitalized, depreciation and amortization of property and equipment, amortization of capitalized software, and amortization of acquired intangibles. The main drivers of the changes in operating assets and liabilities were related to a \$31.6 million increase in deferred revenue, resulting primarily from increased billings for subscriptions, a \$7.2 million increase in accounts payable, and a \$10.9 million increase in accrued expenses and other liabilities, due to an increase in headcount. These amounts were partially offset by a \$25.3 million increase in accounts receivable, net, due to increases in sales, a \$1.3 million increase in prepaid expenses and other current assets, primarily driven by prepaid hosting services, an \$8.9 million increase in deferred contract costs related to commissions paid on new bookings, and a \$7.0 million increase in other assets.

Cash provided by operating activities for the fiscal year ended December 31, 2017 of \$13.8 million was primarily related to our net loss of \$2.6 million, adjusted for non-cash charges of \$7.4 million and net cash inflows of \$9.0 million provided by changes in our operating assets and liabilities. Non-cash charges primarily consisted of stock-based compensation, net of amounts capitalized, depreciation and amortization of property and equipment, amortization of capitalized software, and amortization of acquired intangibles. The main drivers of the changes in operating assets and liabilities were related to a \$29.8 million increase in deferred revenue, resulting primarily from increased billings for subscriptions, a \$4.6 million increase in accounts payable, and a \$2.9 million increase in accrued expenses and other liabilities, due to an increase in headcount. These amounts were partially offset by a \$19.3 million increase in accounts receivable, net, due to increases in sales, a \$4.3 million increase in prepaid expenses and other current assets, a \$3.4 million increase in deferred contract costs related to commissions paid on new bookings, and a \$1.5 million increase in other assets.

### *Investing Activities*

Cash used in investing activities for the years ended December 31, 2019, 2018 and 2017 was \$202.2 million, \$17.5 million and \$12.8 million, respectively, and was primarily the result of investment in marketable securities, increases in capital expenditures to purchase property and equipment to support additional office space and site operations, increases in capitalization of software development costs and increases in acquired intangibles.

## Financing Activities

Cash provided by financing activities for the year ended December 31, 2019 was \$714.2 million and was primarily the result of aggregate net proceeds from our IPO in the amount of \$706.3 million and proceeds from the exercise of stock options in the amount of \$7.9 million. Cash provided by financing activities for the fiscal years ended December 31, 2018 and 2017 was \$7.8 million and \$0.5 million, respectively, and was primarily the result of proceeds from the exercise of stock options.

## Non-GAAP Free Cash Flow

We report our financial results in accordance with U.S. GAAP. To supplement our consolidated financial statements, we provide investors with the amount of free cash flow, which is a non-GAAP financial measure. Free cash flow represents net cash used in operating activities, reduced by capital expenditures and capitalized software development costs, if any. Free cash flow is a measure used by management to understand and evaluate our liquidity and to generate future operating plans. The reduction of capital expenditures and amounts capitalized for software development facilitates comparisons of our liquidity on a period-to-period basis and excludes items that we do not consider to be indicative of our liquidity. We believe that free cash flow is a measure of liquidity that provides useful information to our management, board of directors, investors and others in understanding and evaluating the strength of our liquidity and future ability to generate cash that can be used for strategic opportunities or investing in our business. Nevertheless, our use of free cash flow has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our financial results as reported under GAAP. Further, our definition of free cash flow may differ from the definitions used by other companies and therefore comparability may be limited. You should consider free cash flow alongside our other GAAP-based financial performance measures, such as net cash used in operating activities, and our other GAAP financial results. The following table presents a reconciliation of free cash flow to net cash used in operating activities, the most directly comparable GAAP measure, for each of the periods indicated.

The following table presents our cash flows for the periods presented and a reconciliation of free cash flow to net cash provided by operating activities, the most directly comparable financial measure calculated in accordance with GAAP:

|  | Year Ended December 31, |                   |                 |
|--|-------------------------|-------------------|-----------------|
|  | 2019                    | 2018              | 2017            |
|  | (in thousands)          |                   |                 |
| Net cash provided by operating activities .....    | \$ 24,234               | \$ 10,829         | \$ 13,832       |
| Less: Purchases of property and equipment .....    | (13,315)                | (9,662)           | (2,351)         |
| Less: Capitalized software development costs ..... | (10,128)                | (6,176)           | (5,452)         |
| Free cash flow .....                               | <u>\$ 791</u>           | <u>\$ (5,009)</u> | <u>\$ 6,029</u> |

## Contractual Obligations and Commitments

The following table summarizes our contractual obligations as of December 31, 2019:

|                                   | Payments Due By Period |                     |                   |                 |                      |
|-----------------------------------|------------------------|---------------------|-------------------|-----------------|----------------------|
|                                   | Total                  | Less than 1<br>Year | 1-3 Years         | 3-5 Years       | More than 5<br>Years |
|                                   | (in thousands)         |                     |                   |                 |                      |
| Operating lease commitments ..... | \$ 66,837              | \$ 14,576           | \$ 48,244         | \$ 4,017        | \$ —                 |
| Purchase commitments .....        | 213,229                | 74,875              | 138,354           | —               | —                    |
| Total .....                       | <u>\$ 280,066</u>      | <u>\$ 89,451</u>    | <u>\$ 186,598</u> | <u>\$ 4,017</u> | <u>\$ —</u>          |

The commitment amounts in the table above are associated with contracts that are enforceable and legally binding and that specify all significant terms, including fixed or minimum services to be used, fixed, minimum or variable price provisions, and the approximate timing of the actions under the contracts. Our operating lease commitments relate primarily to our office space. The significant operating lease obligations relate to leases for our New York, Boston, Paris and Dublin office spaces. Purchase commitments relate mainly to hosting agreements as well as computer software used to facilitate our operations at the enterprise level.

In January 2020, we entered into an agreement with Microsoft Azure, pursuant to which we are required to purchase an aggregate of at least \$21.0 million of cloud services through January 2023. This agreement is not reflected in the table above.

We have also excluded unrecognized tax benefits from the contractual obligations table above. A variety of factors could affect the timing of payments for the liabilities related to unrecognized tax benefits. Therefore, we cannot reasonably estimate the timing of such payments. We believe that these matters will likely not be resolved in the next 12 months and accordingly we have classified the estimated liability as non-current in the consolidated balance sheet. For further information see Note 12 in our Notes to Consolidated Financial Statements included in “Part II, Item 8. Financial Statements” of this Annual Report on Form 10-K.

### **Off-Balance Sheet Arrangements**

As of December 31, 2019 we did not have any off-balance sheet financing arrangements or any relationships with unconsolidated entities or financial partnerships, including entities sometimes referred to as structured finance or special purpose entities, that were established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

### **Critical Accounting Policies and Estimates**

Our financial statements are prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

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

#### ***Revenue Recognition***

We generate revenue from the sale of subscriptions to customers using our cloud-based platform. The terms of our subscription agreements are primarily monthly or annual, with the majority of our revenue coming from annual subscriptions. Our customers can enter into a subscription for a committed contractual amount of usage that is apportioned ratably on a monthly basis over the term of the subscription period, a subscription for a committed contractual amount of usage that is delivered as used, or a monthly subscription based on usage. To the extent that our customers’ usage exceeds the committed contracted amounts under their subscriptions, either on a monthly basis in the case of a ratable subscription or once the entire commitment is used in the case of a delivered-as-used subscription, they are charged for their incremental usage.

We elected to early adopt Financial Accounting Standards Board, Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*, or Topic 606, effective January 1, 2017, using the full retrospective method of adoption. As such, the consolidated financial statements present revenue in accordance with Topic 606 for the period presented.

We account for revenue contracts with customers through the following steps:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract; and
- recognize revenue when or as, we satisfy a performance obligation.

Our subscriptions are generally non-cancellable. Once we have determined the transaction price, the total transaction price is allocated to each performance obligation in the contract on a relative stand-alone selling price basis, or SSP. The determination of a relative stand-alone SSP for each distinct performance obligation requires judgment. We determine SSP for performance obligations based on overall pricing objectives, which take into consideration market conditions and customer-specific factors. This includes a review of internal discounting tables, the service(s) being sold, and customer demographics.

Revenue is recognized when control of these services is transferred to customers, in an amount that reflects the consideration we expect to be entitled to receive in exchange for those services. We determined an output method to be the most appropriate measure of progress because it most faithfully represents when the value of the services are simultaneously received and consumed by the customer, and control is transferred.

For committed contractual amounts of usage, revenue is recognized ratably over the term of the subscription agreement generally beginning on the date that the platform is made available to a customer. For committed contractual amount of usage that is delivered as used, a monthly subscription based on usage, or usage in excess of a ratable subscription, we recognize revenue as the services are rendered.

### ***Stock-Based Compensation***

We account for stock-based compensation expense related to stock-based awards based on the estimated fair value of the award on the grant date. We historically issued options to purchase shares of our common stock under our 2012 equity incentive plan, or the 2012 Plan. Following the IPO, we ceased granting awards under the 2012 Plan, and all shares that remained available for issuance under the 2012 Plan at that time were transferred to our 2019 equity incentive plan, or the 2019 Plan. Under the 2019 Plan, we may grant stock options, stock appreciation rights, restricted stock awards, restricted stock units, or RSUs, and performance-based and other awards, each valued or based on our Class A common stock, to our employees, directors, consultants, and advisors. Through December 31, 2019, we have only issued stock options and RSUs in connection with the 2012 Plan and 2019 Plan. For further information see Note 11 in our Notes to Consolidated Financial Statements included in “Part II, Item 8. Financial Statements” of this Annual Report on Form 10-K.

Compensation expense related to stock-based transactions, including employee, consultant, and non-employee director stock option awards, is measured and recognized in the consolidated financial statements based on fair value. The fair value of each option award is estimated on the grant date using the Black Scholes option-pricing model. Expense is recognized on a straight-line basis over the vesting period of the award. Forfeitures are accounted for in the period in which the awards are forfeited.

Our option-pricing model requires the input of highly subjective assumptions, including the fair value of the underlying common stock, the expected term of the option, the expected volatility of the price of our common stock, risk-free interest rates, and the expected dividend yield of our common stock. The assumptions used in our option-pricing model represent management’s best estimates. These estimates involve inherent uncertainties and the application of management’s judgment. If factors change and different assumptions are used, our stock-based compensation expense could be materially different in the future.

These assumptions are estimated as follows:

- *Fair value.* Prior to our IPO, the fair value of common stock underlying the stock options had historically been determined by our Board of Directors, with input from our management. Our Board of Directors previously determined the fair value of the common stock at the time of grant of the options by considering a number of objective and subjective factors, including the results of contemporaneous independent third-party valuations of our common stock, the prices, rights, preferences, and privileges of our redeemable convertible Preferred Stock relative to those of our common stock, the prices of common or convertible preferred stock sold to third-party investors by us and in secondary transactions or repurchased by us in arm’s-length transactions, the lack of marketability of our common stock, actual operating and financial results, current business conditions and projections, the likelihood of achieving a liquidity event, such as an initial public offering or a merger or acquisition of our company given prevailing market conditions. Subsequent to our IPO, the fair value of the underlying common stock is determined by the closing price, on the date of grant, of our Class A common stock, as reported by the Nasdaq.
- *Expected volatility.* Expected volatility is a measure of the amount by which the stock price is expected to fluctuate. Since we do not have sufficient trading history of our common stock, we estimate the expected volatility of our stock options at the grant date by taking the average historical volatility of a group of comparable publicly traded companies over a period equal to the expected life of the options.
- *Expected term.* We determine the expected term based on the average period the stock options are expected to remain outstanding using the simplified method, generally calculated as the midpoint of the stock options’ vesting term and contractual expiration period, as we do not have sufficient historical information to develop reasonable expectations about future exercise patterns and post-vesting employment termination behavior.
- *Risk-free rate.* We use the U.S. Treasury yield for our risk-free interest rate that corresponds with the expected term.
- *Expected dividend yield.* We utilize a dividend yield of zero, as we do not currently issue dividends, nor do we expect to do so in the future.

The following assumptions were used to calculate the fair value of stock options granted to employees:

|                               | Year Ended December 31, |               |               |
|-------------------------------|-------------------------|---------------|---------------|
|                               | 2019                    | 2018          | 2017          |
| Expected dividend yield ..... | —                       | —             | —             |
| Expected volatility .....     | 38.9% - 39.5%           | 38.4% - 39.0% | 37.1% - 38.8% |
| Expected term (years) .....   | 5.2 - 6.3               | 5.8 - 6.1     | 5.1 - 6.1     |
| Risk-free interest rate ..... | 1.4% - 2.6%             | 2.6% - 3.0%   | 1.8% - 2.2%   |

Assumptions used in valuing non-employee stock options are generally consistent with those used for employee stock options with the exception that the expected term is over the contractual life, or 10 years.

Prior to January 1, 2018, we estimated a forfeiture rate to calculate stock-based compensation. We adopted ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718)*, effective January 1, 2018, and elected to account for forfeitures as they occur, rather than estimating expected forfeitures over the course of a vesting period. We recognized a cumulative effect of \$0.8 million to accumulated deficit as of January 1, 2018 upon adoption. For further information see Note 2 in our Notes to Consolidated Financial Statements included in “Part II, Item 8. Financial Statements” of this Annual Report on Form 10-K.

We will continue to use judgment in evaluating the assumptions related to our stock-based compensation on a prospective basis. As we continue to accumulate additional data related to our common stock, we may have refinements to our estimates, which could materially impact our future stock-based compensation expense.

### ***Internal Use Software Development Costs***

We capitalize certain costs related to the development of our platform and other software applications for internal use. In accordance with authoritative guidance, we begin to capitalize our costs to develop software when preliminary development efforts are successfully completed, management has authorized and committed project funding, and it is probable that the project will be completed and the software will be used as intended. We stop capitalizing these costs when the software is substantially complete and ready for its intended use, including the completion of all significant testing. These costs are amortized on a straight-line basis over the estimated useful life of the related asset, generally estimated to be two years. We also capitalize costs related to specific upgrades and enhancements when it is probable the expenditure will result in additional functionality and expense costs incurred for maintenance and minor upgrades and enhancements. Costs incurred prior to meeting these criteria together with costs incurred for training and maintenance are expensed as incurred and recorded within research and development expenses in our consolidated statements of operations.

We exercise judgment in determining the point at which various projects may be capitalized, in assessing the ongoing value of the capitalized costs and in determining the estimated useful lives over which the costs are amortized. To the extent that we change the manner in which we develop and test new features and functionalities related to our platform, assess the ongoing value of capitalized assets or determine the estimated useful lives over which the costs are amortized, the amount of internal-use software development costs we capitalize and amortize could change in future periods.

### **Recently Adopted Accounting Pronouncements**

See Note 2, in our Notes to Consolidated Financial Statements included in “Part II, Item 8. Financial Statements” of this Annual Report on Form 10-K for a discussion of recent accounting pronouncements.

### **JOBS Act Accounting Election**

We are an emerging growth company, as defined in the JOBS Act. The JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. This provision allows an emerging growth company to delay the adoption of some accounting standards until those standards would otherwise apply to private companies. We have elected to use the extended transition period under the JOBS Act until the earlier of the date we (1) are no longer an emerging growth company or (2) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

We are exposed to 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 the result of fluctuations in interest rates and foreign currency exchange rates.

### ***Interest Rate Risk***

As of December 31, 2019, we had \$588.8 million of cash equivalents invested in money market funds and marketable securities totaling \$176.7 million. In addition, we had \$3.9 million of restricted cash due to the outstanding letters of credit established in connection with lease agreements for our facilities. Our cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Our investments are exposed to market risk due to a fluctuation in interest rates, which may affect our interest income and the fair market value of our investments. As of December 31, 2019, a hypothetical 10% relative change in interest rates would not have a material impact on our consolidated financial statements.

### ***Foreign Currency Exchange Risk***

Our reporting currency and the functional currency of our wholly owned foreign subsidiaries is the U.S. dollar. All of our sales are denominated in U.S. dollars, and therefore our revenue is not currently subject to significant foreign currency risk. Our operating expenses are denominated in the currencies of the countries in which our operations are located, which are primarily in the United States, Canada, France, Ireland, the United Kingdom, Japan and Australia. Our consolidated results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates. To date, we have not entered into any hedging arrangements with respect to foreign currency risk or other derivative financial instruments, although we may choose to do so in the future. A hypothetical 10% increase or decrease in the relative value of the U.S. dollar to other currencies would not have a material effect on our operating results.

**Item 8. Financial Statements and Supplementary Data**

**DATADOG, INC.**  
**Form 10-K**  
**For the Fiscal Year Ended December 31, 2019**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Datadog, Inc.

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Datadog, Inc. and its subsidiaries (the “Company”), as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive loss, convertible preferred stock and stockholders’ equity (deficit), and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

### Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective January 1, 2019, the Company has adopted the FASB Accounting Standards Update 2016-02, Leases, using the modified retrospective approach.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

New York, New York  
February 25, 2020

We have served as the Company's auditor since 2016.

**DATADOG, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share and per share data)

|  | December 31,<br>2019 | December 31,<br>2018 |
|--|----------------------|----------------------|
| <b>ASSETS</b>  |                      |                      |
| <b>CURRENT ASSETS:</b>   |                      |                      |
| Cash and cash equivalents .....  | \$ 597,297           | \$ 53,639            |
| Marketable securities .....  | 176,674              | —                    |
| Accounts receivable, net of allowance for doubtful accounts of \$817 and \$477 as of December 31, 2019 and 2018, respectively .....  | 102,394              | 55,822               |
| Deferred contract costs, current .....   | 8,346                | 3,717                |
| Prepaid expenses and other current assets .....  | 19,231               | 8,773                |
| Total current assets .....   | 903,942              | 121,951              |
| Property and equipment, net .....  | 32,749               | 21,649               |
| Operating lease assets .....   | 53,002               | —                    |
| Goodwill .....   | 9,058                | 7,626                |
| Intangible assets, net .....   | 1,435                | 1,288                |
| Deferred contract costs, non-current .....   | 17,409               | 7,292                |
| Restricted cash .....  | 3,456                | 11,341               |
| Other assets .....   | 16,990               | 8,603                |
| <b>TOTAL ASSETS</b> .....  | <b>\$ 1,038,041</b>  | <b>\$ 179,750</b>    |
| <b>LIABILITIES, CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)</b>   |                      |                      |
| <b>CURRENT LIABILITIES:</b>  |                      |                      |
| Accounts payable .....   | \$ 15,429            | \$ 12,638            |
| Accrued expenses and other current liabilities .....   | 38,746               | 30,290               |
| Operating lease liabilities, current .....   | 11,916               | —                    |
| Deferred revenue, current .....  | 134,148              | 69,306               |
| Total current liabilities .....  | 200,239              | 112,234              |
| Operating lease liabilities, non-current .....   | 48,510               | —                    |
| Deferred revenue, non-current .....  | 4,340                | 1,393                |
| Other liabilities .....  | 2,611                | 1,359                |
| Total liabilities .....  | 255,700              | 114,986              |
| <b>COMMITMENTS AND CONTINGENCIES (NOTE 9)</b>  |                      |                      |
| <b>CONVERTIBLE PREFERRED STOCK:</b>  |                      |                      |
| Convertible preferred stock; \$0.00001 par value per share; 0 and 179,814,912 shares authorized as of December 31, 2019 and 2018, respectively; 0 and 179,814,912 shares issued and outstanding as of December 31, 2019 and 2018, respectively ..... | —                    | 140,805              |
| <b>STOCKHOLDERS' EQUITY (DEFICIT):</b>   |                      |                      |
| Preferred stock; \$0.00001 par value per share; 20,000,000 and 0 shares authorized as of December 31, 2019 and 2018, respectively; 0 shares issued and outstanding as of December 31, 2019 and 2018, respectively .....                              | —                    | —                    |
| Common stock, \$0.00001 par value per share; 0 and 380,000,000 shares authorized as of December 31, 2019 and 2018, respectively; 0 and 78,180,606 shares issued and outstanding as of December 31, 2019 and 2018, respectively .....                 | —                    | —                    |
| Class A common stock, \$0.00001 par value per share; 2,000,000,000 and 0 shares authorized as of December 31, 2019 and 2018, respectively; 64,308,498 and 0 shares issued and outstanding as of December 31, 2019 and 2018, respectively .....       | 1                    | —                    |
| Class B common stock, \$0.00001 par value per share; 310,000,000 and 0 shares authorized as of December 31, 2019 and 2018, respectively; 232,078,452 and 0 shares issued and outstanding as of December 31, 2019 and 2018, respectively .....        | 2                    | —                    |
| Additional paid-in capital .....   | 905,821              | 30,834               |
| Accumulated other comprehensive income .....   | 133                  | 31                   |
| Accumulated deficit .....  | (123,616)            | (106,906)            |
| Total stockholders' equity (deficit) .....   | 782,341              | (76,041)             |
| <b>TOTAL LIABILITIES, CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' EQUITY (DEFICIT)</b> .....   | <b>\$ 1,038,041</b>  | <b>\$ 179,750</b>    |

See accompanying notes to consolidated financial statements.

**DATADOG, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share data)

|  | Year Ended December 31, |                    |                   |
|--|-------------------------|--------------------|-------------------|
|  | 2019                    | 2018               | 2017              |
| Revenue .....  | \$ 362,780              | \$ 198,077         | \$ 100,761        |
| Cost of revenue .....  | 88,949                  | 46,529             | 23,414            |
| Gross profit .....   | 273,831                 | 151,548            | 77,347            |
| Operating expenses:  |                         |                    |                   |
| Research and development .....   | 111,425                 | 55,176             | 24,734            |
| Sales and marketing .....  | 146,657                 | 88,849             | 44,213            |
| General and administrative .....   | 35,889                  | 18,556             | 11,356            |
| Total operating expenses .....   | 293,971                 | 162,581            | 80,303            |
| Operating loss .....   | (20,140)                | (11,033)           | (2,956)           |
| Other income, net .....  | 4,164                   | 793                | 843               |
| Loss before provision for income taxes .....   | (15,976)                | (10,240)           | (2,113)           |
| Provision for income taxes .....   | (734)                   | (522)              | (457)             |
| Net loss .....   | <u>\$ (16,710)</u>      | <u>\$ (10,762)</u> | <u>\$ (2,570)</u> |
| Net loss attributable to common stockholders .....   | <u>\$ (16,710)</u>      | <u>\$ (10,762)</u> | <u>\$ (2,570)</u> |
| Basic and diluted net loss per share .....   | <u>\$ (0.12)</u>        | <u>\$ (0.15)</u>   | <u>\$ (0.04)</u>  |
| Weighted average shares used in calculating basic and diluted net<br>loss per share: ..... | <u>139,873</u>          | <u>70,951</u>      | <u>61,321</u>     |

See accompanying notes to consolidated financial statements.

**DATADOG, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
(in thousands)

|  | Year Ended December 31, |                    |                   |
|--|-------------------------|--------------------|-------------------|
|  | 2019                    | 2018               | 2017              |
| Net loss.....  | \$ (16,710)             | \$ (10,762)        | \$ (2,570)        |
| Other comprehensive income (loss):                               |                         |                    |                   |
| Foreign currency translation adjustments.....                    | 55                      | 78                 | (48)              |
| Unrealized gain on available-for-sale marketable securities..... | 47                      | —                  | —                 |
| Other comprehensive income (loss) .....                          | 102                     | 78                 | (48)              |
| Comprehensive loss .....   | <u>\$ (16,608)</u>      | <u>\$ (10,684)</u> | <u>\$ (2,618)</u> |

See accompanying notes to consolidated financial statements.

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

|   | Convertible Preferred Stock |            | Class A and Class B Common Stock |        | Common Stock |        | Non-Voting Common Stock |           | Additional Paid-in Capital |        | Accumulated Other Comprehensive Income (Loss) |              | Accumulated Deficit |           | Total Stockholders' Equity (Deficit) |
|---|-----------------------------|------------|----------------------------------|--------|--------------|--------|-------------------------|-----------|----------------------------|--------|---|--------------|---------------------|-----------|--------------------------------------|
|   | Shares                      | Amount     | Shares                           | Amount | Shares       | Amount | Shares                  | Amount    | Shares                     | Amount | Income (Loss)                                 | Deficit      | Deficit             |           |                                      |
| BALANCE—December 31, 2016 (as reported)   | 179,814,912                 | \$ 140,805 | —                                | —      | 57,692,496   | \$ —   | —                       | 1,137,000 | \$ —                       | 13,785 | —   | \$ (95,476)  | \$ 2,677            | (81,691)  |                                      |
| Effect of adoption of ASC 606   | —                           | —          | —                                | —      | —            | —      | —                       | —         | —                          | —      | —   | —            | —                   | 2,677     |                                      |
| BALANCE—January 1, 2017 (as adjusted)   | 179,814,912                 | 140,805    | —                                | —      | 57,692,496   | —      | 1,137,000               | —         | 13,785                     | —      | —   | (92,799)     | —                   | (79,014)  |                                      |
| Issuance of common stock upon exercise of stock options   | —                           | —          | —                                | —      | 2,165,976    | —      | —                       | —         | 449                        | —      | —   | —            | —                   | 449       |                                      |
| Vesting of early exercised stock options  | —                           | —          | —                                | —      | —            | —      | —                       | —         | 143                        | —      | —   | —            | —                   | 143       |                                      |
| Issuance of common stock for acquisition  | —                           | —          | —                                | —      | 2,292,012    | —      | —                       | —         | 2,015                      | —      | —   | —            | —                   | 2,015     |                                      |
| Stock-based compensation  | —                           | —          | —                                | —      | —            | —      | —                       | —         | 3,316                      | —      | —   | —            | —                   | 3,316     |                                      |
| Other comprehensive income (loss)   | —                           | —          | —                                | —      | —            | —      | —                       | —         | —                          | —      | (48)  | —            | —                   | (48)      |                                      |
| Other   | —                           | —          | —                                | —      | 10,500       | —      | —                       | —         | 8                          | —      | —   | —            | —                   | 8         |                                      |
| Net loss  | —                           | —          | —                                | —      | —            | —      | —                       | —         | —                          | —      | —   | —            | (2,570)             | (2,570)   |                                      |
| BALANCE—December 31, 2017   | 179,814,912                 | \$ 140,805 | —                                | —      | 62,160,984   | \$ —   | 1,137,000               | \$ —      | 19,716                     | \$ —   | (48)  | \$ (95,369)  | \$ (75,701)         | (75,701)  |                                      |
| Effect of adoption of ASU 2016-19   | —                           | —          | —                                | —      | —            | —      | —                       | —         | 775                        | —      | —   | —            | (775)               | —         |                                      |
| BALANCE—January 1, 2018   | 179,814,912                 | 140,805    | —                                | —      | 62,160,984   | —      | 1,137,000               | —         | 20,491                     | —      | (48)  | (96,144)     | —                   | (75,701)  |                                      |
| Issuance of common stock upon exercise of stock options   | —                           | —          | —                                | —      | 14,882,622   | —      | —                       | —         | 4,557                      | —      | —   | —            | —                   | 4,557     |                                      |
| Vesting of early exercised stock options  | —                           | —          | —                                | —      | —            | —      | —                       | —         | 375                        | —      | —   | —            | —                   | 375       |                                      |
| Stock-based compensation  | —                           | —          | —                                | —      | —            | —      | —                       | —         | 5,411                      | —      | —   | —            | —                   | 5,411     |                                      |
| Conversion of non-voting common stock   | —                           | —          | —                                | —      | 1,137,000    | —      | (1,137,000)             | —         | —                          | —      | —   | —            | —                   | —         |                                      |
| Other comprehensive income (loss)   | —                           | —          | —                                | —      | —            | —      | —                       | —         | —                          | —      | 79  | —            | —                   | 79        |                                      |
| Net loss  | —                           | —          | —                                | —      | —            | —      | —                       | —         | —                          | —      | —   | (10,762)     | —                   | (10,762)  |                                      |
| BALANCE—December 31, 2018   | 179,814,912                 | \$ 140,805 | —                                | —      | 78,180,606   | \$ —   | —                       | \$ —      | 30,834                     | \$ —   | 31  | \$ (106,906) | \$ (76,041)         | (76,041)  |                                      |
| Issuance of common stock upon exercise of stock options   | —                           | —          | 429,430                          | —      | 10,117,557   | —      | —                       | —         | 7,173                      | —      | —   | —            | —                   | 7,173     |                                      |
| Issuance of restricted shares of common stock   | —                           | —          | 244,445                          | —      | —            | —      | —                       | —         | —                          | —      | —   | —            | —                   | —         |                                      |
| Vesting of early exercised stock options  | —                           | —          | —                                | —      | —            | —      | —                       | —         | 1,883                      | —      | —   | —            | —                   | 1,883     |                                      |
| Stock-based compensation  | —                           | —          | —                                | —      | —            | —      | —                       | —         | 19,235                     | —      | —   | —            | —                   | 19,235    |                                      |
| Conversion of convertible preferred stock to common stock in connection with third-party tender offer                         | —                           | —          | —                                | —      | 803,481      | —      | —                       | —         | 53                         | —      | —   | —            | —                   | 53        |                                      |
| Reclassification of common stock to class A and class B common stock  | (803,481)                   | (53)       | —                                | —      | (89,101,644) | —      | —                       | —         | —                          | —      | —   | —            | —                   | —         |                                      |
| Conversion of convertible preferred stock to class B common stock in connection with initial public offering                  | (179,011,431)               | (140,752)  | 179,011,431                      | 2      | —            | —      | —                       | —         | 140,750                    | —      | —   | —            | —                   | 140,752   |                                      |
| Issuance of class A common stock in connection with initial public offering, net of underwriting discounts and issuance costs | —                           | —          | 27,600,000                       | 1      | —            | —      | —                       | —         | 705,893                    | —      | —   | —            | —                   | 705,894   |                                      |
| Other comprehensive income (loss)   | —                           | —          | —                                | —      | —            | —      | —                       | —         | —                          | —      | 102   | —            | —                   | 102       |                                      |
| Net loss  | —                           | —          | —                                | —      | —            | —      | —                       | —         | —                          | —      | —   | (16,710)     | —                   | (16,710)  |                                      |
| BALANCE—December 31, 2019   | —                           | \$ —       | 296,386,950                      | 3      | —            | \$ —   | —                       | \$ —      | 905,821                    | \$ —   | 133   | \$ (123,616) | \$ 782,341          | (123,616) |                                      |

See accompanying notes to consolidated financial statements.

**DATADOG, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

|  | Year Ended December 31, |                  |                  |
|--|-------------------------|------------------|------------------|
|  | 2019                    | 2018             | 2017             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                         |                  |                  |
| Net loss.....  | \$ (16,710)             | \$ (10,762)      | \$ (2,570)       |
| Adjustments to reconcile net loss to net cash provided by operating activities:  |                         |                  |                  |
| Depreciation and amortization .....  | 12,370                  | 6,026            | 2,704            |
| Amortization of discounts or premiums on marketable securities .....   | 12                      | —                | —                |
| Amortization of deferred contract costs .....  | 5,400                   | 2,671            | 1,274            |
| Stock-based compensation, net of amounts capitalized .....   | 19,034                  | 5,244            | 3,068            |
| Non-cash lease expense.....  | 11,763                  | —                | —                |
| Provision for accounts receivable allowance .....  | 1,195                   | 477              | 378              |
| Loss on disposal of property and equipment.....  | 708                     | 9                | 4                |
| Changes in operating assets and liabilities:   |                         |                  |                  |
| Accounts receivable, net.....  | (47,510)                | (25,322)         | (19,274)         |
| Deferred contract costs.....   | (20,146)                | (8,925)          | (3,352)          |
| Prepaid expenses and other current assets.....   | (10,046)                | (1,331)          | (4,250)          |
| Other assets.....  | (8,486)                 | (6,955)          | (1,482)          |
| Accounts payable .....   | 2,484                   | 7,241            | 4,647            |
| Accrued expenses and other liabilities .....   | 6,376                   | 10,857           | 2,860            |
| Deferred revenue .....   | 67,790                  | 31,599           | 29,825           |
| Net cash provided by operating activities.....   | <u>24,234</u>           | <u>10,829</u>    | <u>13,832</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                         |                  |                  |
| Purchases of marketable securities .....   | (176,639)               | —                | —                |
| Purchases of property and equipment .....  | (13,315)                | (9,662)          | (2,351)          |
| Capitalized software development costs .....   | (10,128)                | (6,176)          | (5,452)          |
| Cash paid for acquisition of businesses; net of cash acquired .....  | (2,138)                 | (1,618)          | (4,957)          |
| Net cash used in investing activities.....   | <u>(202,220)</u>        | <u>(17,456)</u>  | <u>(12,760)</u>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                         |                  |                  |
| Proceeds from exercise of stock options.....   | 7,899                   | 7,782            | 462              |
| Proceeds from initial public offering, net of underwriting discounts and commissions and other offering costs.....   | 706,317                 | —                | —                |
| Net cash provided by financing activities.....   | <u>714,216</u>          | <u>7,782</u>     | <u>462</u>       |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash .....  | (21)                    | 47               | (54)             |
| NET INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH .....   | 536,209                 | 1,202            | 1,480            |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH—Beginning of period.....  | 64,980                  | 63,778           | 62,298           |
| CASH, CASH EQUIVALENTS AND RESTRICTED CASH —End of period.....   | <u>\$ 601,189</u>       | <u>\$ 64,980</u> | <u>\$ 63,778</u> |
| <b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>  |                         |                  |                  |
| Cash paid for income taxes .....   | \$ 143                  | \$ 36            | \$ 40            |
| <b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:</b>   |                         |                  |                  |
| Accrued property and equipment purchases .....   | \$ 315                  | \$ 25            | \$ —             |
| Stock-based compensation included in capitalized software development costs .....  | \$ 201                  | \$ 167           | \$ 248           |
| Vesting of early exercised options .....   | \$ 1,883                | \$ 375           | \$ 143           |
| Acquisition of intangible assets through issuance of common stock.....   | \$ —                    | \$ —             | \$ 2,015         |
| Costs related to initial public offering included in accounts payable and accrued liabilities.....   | \$ 423                  | \$ —             | \$ —             |
| <b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH WITHIN THE CONSOLIDATED BALANCE SHEETS TO THE AMOUNTS SHOWN IN THE STATEMENTS OF CASH FLOWS ABOVE:</b> |                         |                  |                  |
| Cash and cash equivalents.....   | \$ 597,297              | \$ 53,639        | \$ 60,024        |
| Restricted cash – Including amounts in prepaid expense and other current assets and other assets .....   | 3,892                   | 11,341           | 3,754            |
| Total cash, cash equivalents and restricted cash .....   | <u>\$ 601,189</u>       | <u>\$ 64,980</u> | <u>\$ 63,778</u> |

See accompanying notes to consolidated financial statements.

# DATADOG, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Organization and Description of Business

#### *Description of Business*

Datadog, Inc. (“Datadog” or the “Company”) was incorporated in the State of Delaware on June 4, 2010. The Company is the monitoring and analytics platform for developers, IT operations teams and business users in the cloud age. The Company’s SaaS platform integrates and automates infrastructure monitoring, application performance monitoring and log management, to provide unified, real-time observability of its customers’ entire technology stack. The Company is headquartered in New York City and has various other global office locations.

### 2. Basis of Presentation and Summary of Significant Accounting Policies

#### *Basis of Presentation*

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”).

#### *Principles of Consolidation*

The consolidated financial statements include the accounts of Datadog, Inc. and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

#### *Initial Public Offering*

On September 23, 2019, the Company completed its initial public offering (“IPO”), in which the Company issued and sold 24,000,000 shares of its Class A common stock at a public offering price of \$27.00 per share, which resulted in net proceeds of \$615.6 million after deducting underwriting discounts and commissions. On September 25, 2019, the underwriters exercised their option to purchase an additional 3,600,000 shares of Class A common stock at \$27.00 per share, resulting in additional proceeds of \$92.3 million, net of underwriters’ discounts and commissions. Immediately prior to the closing of the IPO, all shares of common stock then outstanding were reclassified as Class B common stock and all shares of the convertible preferred stock then outstanding automatically converted into 179,011,431 shares of Class B common stock.

The Company incurred \$2.0 million of net offering costs in connection with the IPO which were recorded as an offset against IPO proceeds.

#### *Stock Split and Authorized Shares*

On January 2, 2018, the Company’s Board of Directors (the “Board”) and stockholders approved a 4-for-1 stock split of the Company’s then-outstanding common stock and convertible preferred stock was effected without any change in the par value per share.

On September 6, 2019, the Board and stockholders approved an amended and restated certificate of incorporation of the Company effecting a 3-for-1 stock split of the Company’s issued and outstanding shares of common stock and convertible preferred stock, and an increase to the authorized shares of the Company’s common stock and convertible preferred stock to 380,000,000 shares and 179,814,912 shares, respectively. The split was effected on September 6, 2019 and without any change in the par value per share.

All information related to the Company’s common stock, convertible preferred stock and stock awards has been retroactively adjusted to give effect to the 4-for-1 stock split on January 2, 2018 and 3-for-1 stock split on September 6, 2019.

On September 23, 2019, an amended and restated certificate of incorporation of the Company was filed immediately prior to the closing of the IPO authorizing an aggregate of 2,330,000,000 shares of capital stock of the Company, including 2,000,000,000 shares of Class A common stock, 310,000,000 shares of Class B common stock and 20,000,000 shares of preferred stock.

## ***Segment Information***

The Company has a single operating and reportable segment as well as one business activity, monitoring and providing analytics on companies' information technology ("IT") infrastructure. The Company's chief operating decision maker is its Chief Executive Officer, who reviews financial information presented on a consolidated basis for purposes of making operating decisions, assessing financial performance, and allocating resources. There are no segment managers who are held accountable for operations or results below the consolidated level.

## ***Use of Estimates***

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Such estimates include the fair value of marketable securities, allowance for doubtful accounts, the fair value of acquired assets and assumed liabilities from business combinations, useful lives of property, equipment, software, and finite lived intangibles, stock-based compensation, fair value of common stock and redeemable convertible preferred stock prior to the IPO, valuation of long-lived assets and their recoverability, including goodwill, the incremental borrowing rate for operating leases, estimated expected period of benefit period for deferred contract costs, realization of deferred tax assets and uncertain tax positions, revenue recognition and the allocation of overhead costs between cost of revenue and operating expenses. The Company bases its estimates on historical experience and also on assumptions that management considers reasonable. The Company assesses these estimates on a regular basis; however, actual results could materially differ from these estimates.

## ***Foreign Currency Translation***

The reporting currency of the Company is the United States dollar ("USD"). The functional currency of the Company is USD, and the functional currency of the Company's subsidiaries is generally the local currency of the jurisdiction in which the foreign subsidiary is located. The assets and liabilities of the Company's subsidiaries are translated to USD at exchange rates in effect at the balance sheet date. All income statement accounts are translated at monthly average exchange rates. Resulting foreign currency translation adjustments are recorded directly in accumulated other comprehensive (loss) income as a separate component of stockholders' equity (deficit).

Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in other income, net in the accompanying consolidated statements of operations when realized.

## ***Revenue Recognition***

The Company generates revenue from the sale of subscriptions to customers using its cloud-based platform. The terms of the Company's subscription agreements are primarily monthly or annual. The Company's customers can enter into (1) a subscription agreement for a committed contractual amount of usage that is apportioned ratably on a monthly basis over the term of the subscription period, (2) a subscription agreement for a committed contractual amount of usage that is delivered as used, or (3) a monthly subscription based on usage. The Company typically bills customers on an annual subscription in full up-front, with any usage in excess of the committed contracted amount billed monthly in arrears. The Company typically bills customers on a monthly plan in arrears. Customers also have the option to purchase additional services priced at rates at or above the stand-alone selling price.

The Company elected to early adopt Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("Topic 606"), effective January 1, 2017, using the full retrospective method of adoption. As such, the consolidated financial statements present revenue in accordance with Topic 606 for all of the periods presented.

The Company accounts for revenue contracts with customers through the following steps:

- (1) identify the contract with a customer;
- (2) identify the performance obligations in the contract;
- (3) determine the transaction price;
- (4) allocate the transaction price; and
- (5) recognize revenue when or as the Company satisfies a performance obligation.



The Company's revenue arrangements may include infrastructure monitoring, application performance monitoring, log management, and synthetics, as well as secondary services including custom metrics in dashboard monitoring, serverless monitoring, docker container monitoring, and app analytics. The Company has identified each service as a separate performance obligation.

The transaction price is based on the fixed price for the contracted level of service plus variable consideration for additional optional purchases. Billing periods correspond to the periods over which services are performed and there are no discounts given on the purchase of future services.

The Company allocates revenue to each performance obligation based on its relative standalone selling price. The Company generally determines standalone selling prices based on a range of actual prices charged to customers.

Revenue is recognized when control of these services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to receive in exchange for those services. The Company determined an output method to be the most appropriate measure of progress because it most faithfully represents when the value of the services are simultaneously received and consumed by the customer, and control is transferred.

For committed contractual amounts of usage, revenue is recognized ratably over the term of the subscription agreement generally beginning on the date that the platform is made available to a customer. For committed contractual amount of usage that is delivered as used, a monthly subscription based on usage, or usage in excess of a ratable subscription, the Company recognizes revenue as the product is used. Subscription revenue excludes sales and other indirect taxes.

The Company applied the practical expedient in Topic 606 and did not evaluate contracts of one year or less for the existence of a significant financing component.

### ***Cost of Revenue***

Cost of revenue consists primarily of costs related to providing subscription services to paying customers, including data center and networking expenses, employee compensation (including stock-based compensation) and other employee-related expenses for customer experience and technical operations staff, payments to outside service providers, payment processing fees, amortization of capitalized internally developed software costs and acquired developed technology, and allocated overhead costs.

### ***Research and Development Costs***

Research and development costs are expensed as incurred. Research and development costs consist of employee compensation (including stock-based compensation) and other employee-related expenses, materials and supplies, and allocated overhead costs such as rent and facilities costs.

### ***Sales and Marketing Costs***

Sales and marketing costs consist primarily of personnel costs for the Company's sales and marketing organization, including stock-based compensation and commissions, costs of general marketing and promotional activities, including the free tier and introductory trials of the Company's products, travel-related expenses and allocated overhead costs.

### ***Advertising Costs***

Advertising costs are expensed as incurred and were approximately \$9.5 million, \$8.3 million and \$4.4 million for the years ended December 31, 2019, 2018 and 2017, respectively, and are included in sales and marketing expense in the accompanying consolidated statement of operations.

## ***Income Taxes***

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts for financial reporting and the tax bases of assets and liabilities. The deferred assets and liabilities are recorded at the statutorily enacted tax rates anticipated to be in effect when such temporary differences reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. A valuation allowance is established; when based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company engages in transactions in which the tax consequences may be subject to uncertainty. The Company accounts for uncertain tax positions based on an evaluation as to whether it is more likely than not that a tax position will be sustained on audit, including resolution of any related appeals or litigation processes. This evaluation is based on all available evidence and assumes that the appropriate tax authorities have full knowledge of all relevant information concerning the tax position. The Company accounts for uncertain tax positions as non-current tax liabilities or through a reduction of a corresponding deferred tax asset. The tax benefit recognized is based on the largest amount that is greater than 50% likely of being realized upon ultimate settlement. The Company includes potential interest expense and penalties related to its uncertain tax positions in income tax expense.

## ***Stock-Based Compensation***

The Company recognizes and measures compensation expense for all stock-based payment awards granted to employees, directors, and nonemployees, including stock options, restricted stock units (“RSUs”), and the employee stock purchase plan (the “ESPP”) based on the fair value of the awards on the date of grant. The fair value of each stock option granted is estimated using the Black Scholes option pricing model. The determination of the grant date fair value using an option-pricing model is affected by the estimated fair value of the Company’s common stock as well as assumptions regarding a number of other complex and subjective variables. These variables include expected stock price volatility over the expected term of the award, actual and projected employee stock option exercise behaviors, the risk-free interest rate for the expected term of the award and expected dividends. The fair value of RSUs is determined by the closing price on the date of grant of the Company’s Class A common stock, as reported on The Nasdaq Global Select Market. The Company estimates the fair value of the rights to acquire stock under the ESPP using the Black-Scholes option pricing model. Stock-based compensation is recognized on a straight-line basis over the requisite service period and account for forfeitures as they occur.

The Company also has certain options that have performance-based vesting conditions; stock-based compensation expense for such awards is recognized on a straight-line basis from the time the vesting condition is likely to be met through the time the vesting condition has been achieved.

## ***Cash and Cash Equivalents***

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents consist of funds deposited into money market funds.

## ***Marketable Securities***

The Company’s marketable securities consist of commercial debt securities, U.S. government treasury securities, and commercial paper. The Company determines the appropriate classification of its marketable securities at the time of purchase and reevaluates such designation at each balance sheet date. The Company has classified and accounted for its marketable securities as available-for-sale securities as the Company may sell these securities at any time for use in its current operations or for other purposes, even prior to maturity. As a result, the Company classifies its marketable securities within current assets on the consolidated balance sheet.

Available-for-sale securities are recorded at fair value each reporting period. Premiums and discounts are amortized or accreted over the life of the related available-for-sale security as an adjustment to yield using the effective interest method. Interest income is recognized when earned. Unrealized gains and losses on these marketable securities are reported as a separate component of accumulated other comprehensive (loss) income on the consolidated balance sheet until realized. Realized gains and losses are determined based on the specific identification method and are reported in interest income in the consolidated statements of operations. The Company periodically evaluates its marketable securities to assess whether those with unrealized loss positions are other than temporarily impaired. The Company considers various factors in determining whether to recognize an impairment charge. If the Company determines that the decline in an investment’s fair value is other-than-temporary, the difference is recognized as an impairment loss in the consolidated statements of operations. As of December 31, 2019 and 2018, the Company has not recorded any other-than-temporary-impairment charges in its consolidated statements of operations.

### **Restricted Cash**

Restricted cash primarily consists of collateralized letters of credit established in connection with lease agreements for the Company's facilities. Restricted cash is included in current assets for leases that expire within one year and is included in non-current assets for leases that expire in more than one year from the balance sheet date.

### **Concentration of Credit Risk**

Financial instruments that potentially subject the Company to credit risk primarily consist of cash and cash equivalents, marketable securities and accounts receivable. Cash deposits may, at times, exceed amounts insured by the Federal Deposit Insurance Corporation ("FDIC") and the Securities Investor Protection Corporation ("SIPC"). The Company has not experienced any losses on its deposits of cash and cash equivalents to date. For accounts receivable, the Company is exposed to credit risk in the event of nonpayment by customers to the extent of the amounts recorded on the accompanying consolidated balance sheets.

There were no customers representing greater than 10% of total revenue for the years ended December 31, 2019, 2018, and 2017. No customers represented greater than 10% of accounts receivable as of December 31, 2019 and 2018.

### **Geographical Information**

Revenue by location is determined by the billing address for the customer. The following table sets forth revenue by geographic area (in thousands):

|                     | Year Ended December 31, |                   |                   |
|---------------------|-------------------------|-------------------|-------------------|
|                     | 2019                    | 2018              | 2017              |
| North America ..... | \$ 272,190              | \$ 150,945        | \$ 76,352         |
| International ..... | 90,590                  | 47,132            | 24,409            |
| Total.....          | <u>\$ 362,780</u>       | <u>\$ 198,077</u> | <u>\$ 100,761</u> |

Other than the United States, no other individual country accounted for 10% or more of total revenue for the years ended December 31, 2019, 2018, or 2017. As of December 31, 2019, and 2018, 70% and 85% of the Company's long lived assets were located in the United States and 30% and 15% were located in Europe, respectively.

### **Fair Value of Financial Instruments**

The accounting guidance for fair value provides a framework for measuring fair value, clarifies the definition of fair value, and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value as follows:

**Level 1 Inputs:** Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.

**Level 2 Inputs:** Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

**Level 3 Inputs:** Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at measurement date.

The Company's financial instruments consist of cash equivalents, marketable securities, accounts receivable, accounts payable and accrued expenses. Cash equivalents are stated at amortized cost, which approximates fair value at the balance sheet dates, due to the short period of time to maturity. Marketable securities are recorded at fair value. Accounts receivable, accounts payable, and accrued expenses are stated at their carrying value, which approximates fair value due to the short time to the expected receipt or payment date.

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

### ***Accounts Receivable***

Accounts receivable includes billed and unbilled receivables. Trade accounts receivable are recorded at invoiced amounts and do not bear interest. The Company generally does not require collateral and provides for expected losses. The expectation of collectability is based on a review of credit profiles of customers, contractual terms and conditions, current economic trends, and historical payment experience. The Company regularly reviews the adequacy of the allowance for doubtful accounts by considering the age of each outstanding invoice and the collection history of each customer to determine the appropriate amount of allowance for doubtful accounts. Accounts receivable deemed uncollectible are charged against the allowance for doubtful accounts when identified. During the years ended December 31, 2019 and 2018, the Company charged \$0.9 million and \$0.4 million, respectively, of accounts receivable deemed uncollectible against the allowance for doubtful accounts.

Unbilled accounts receivable represents revenue recognized on contracts for which billings have not yet been presented to customers because the amounts were earned but not contractually billable as of the balance sheet date, substantially all of which is expected to be billed and collected within one year. As of December 31, 2019 and 2018, unbilled accounts receivable of approximately \$14.4 million and \$13.1 million, respectively, was included in accounts receivable on the Company's consolidated balance sheets.

### ***Internal Use Software Development Costs***

The Company capitalizes qualifying internal use software development costs related to its cloud platform. The costs consist of personnel costs (including related benefits and stock-based compensation) that are incurred during the application development stage. Capitalization of costs begins when two criteria are met: (1) the preliminary project stage is completed, and (2) it is probable that the software will be completed and used for its intended function. Capitalization ceases when the software is substantially complete and ready for its intended use, including the completion of all significant testing. Costs related to preliminary project activities and post implementation operating activities are expensed as incurred.

Capitalized costs are included in property and equipment. These costs are amortized over the estimated useful life of the software, which is two years, on a straight-line basis, which represents the manner in which the expected benefit will be derived. The amortization of costs related to the platform applications is included in cost of revenue and sales and marketing expense based on an allocation between paid customer accounts and free customer accounts not generating revenue.

### ***Property and Equipment, Net***

Property and equipment, net is stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful life of the related asset. Expenses that improve an asset or extend its remaining useful life are capitalized. Costs of maintenance or repairs that do not extend the lives of the respective assets are charged to expenses as incurred.

### ***Deferred Contract Costs***

Sales commissions earned by the Company's sales force are considered incremental and recoverable costs of obtaining a contract with a customer. There are no sales commissions earned on renewals. These costs are deferred and then amortized over a period of benefit which is determined to be four years. The Company determined the period of benefit by taking into consideration the length of terms in its customer contracts, life of the technology and other factors. Amounts expected to be recognized within one year of the balance sheet date are recorded as deferred contract costs, current; the remaining portion is recorded as deferred contract costs, non-current, in the consolidated balance sheets. Deferred contract costs are periodically analyzed for impairment. Amortization expense is included in sales and marketing expenses in the accompanying consolidated statements of operations.

The adoption of ASC 606 related to the deferral of incremental commission costs of obtaining a contract, primarily sales commissions, resulted in a decrease to accumulated deficit of \$2.7 million as of January 1, 2017.

The following table represents a rollforward of the Company's deferred contract costs (in thousands):

|  | <u>Amount</u>           |
|--|-------------------------|
| Balance as of January 1, 2017.....           | \$ 2,677                |
| Additions to deferred contract costs .....   | 3,352                   |
| Amortization of deferred contract costs..... | (1,274)                 |
| Balance as of December 31, 2017.....         | <u>\$ 4,755</u>         |
| Additions to deferred contract costs .....   | 8,925                   |
| Amortization of deferred contract costs..... | (2,671)                 |
| Balance as of December 31, 2018.....         | <u>\$ 11,009</u>        |
| Additions to deferred contract costs .....   | 20,146                  |
| Amortization of deferred contract costs..... | (5,400)                 |
| Balance as of December 31, 2019.....         | <u><u>\$ 25,755</u></u> |

### ***Business Combinations***

When the Company acquires a business, the purchase consideration is allocated to the tangible assets acquired, liabilities assumed, and intangible assets acquired based on their estimated respective fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require the Company to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired users, acquired technology, and trade names from a market participant perspective, useful lives and discount rates. The Company's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, the Company may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to other income, net in the consolidated statement of operations.

### ***Accounting for Impairment of Long-Lived Assets (Including Goodwill and Intangibles)***

Long-lived assets with finite lives include property and equipment, capitalized development software costs and acquired intangible assets. Long-lived assets are amortized over their estimated useful lives which are as follows:

|  |   |
|--|---|
| Computers and equipment .....                | 3 years                                       |
| Furnitures and fixtures .....                | 5 years                                       |
| Leasehold improvements .....                 | Shorter of lease term or useful life of asset |
| Capitalized software development costs ..... | 2 years                                       |
| Intangible assets .....                      | 1-3 years                                     |

The Company evaluates long lived assets, including acquired intangible assets and capitalized software development costs, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or the estimated useful life becomes shorter than originally estimated. Recoverability of assets held and used is measured by comparison of the carrying amount of an asset or an asset group to estimated undiscounted future net cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset exceeds these estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the assets exceeds the fair value of the asset or asset group, based on discounted cash flows.

Goodwill is not amortized but rather tested for impairment at least annually on October 1, or more frequently if events or changes in circumstances indicate that goodwill may be impaired. Goodwill impairment is recognized when the quantitative assessment results in the carrying value exceeding the fair value, in which case an impairment charge is recorded to the extent the carrying value exceeds the fair value. The Company did not recognize any impairment of goodwill during the years ended December 31, 2019, 2018 or 2017.

## ***Operating Leases***

The Company determines if an arrangement is a lease at inception. Operating lease assets and liabilities are reflected within operating lease assets, operating lease liabilities, current, and operating lease liabilities, non-current, on the consolidated balance sheets. For short-term leases (an initial term of 12 months or less), an operating lease asset and corresponding lease liability are not recorded and the Company records rent expense in its consolidated statements of operations on a straight-line basis over the lease term. Operating lease assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company generally uses its incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments at commencement date. The operating lease assets also include any lease payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company has lease agreements with lease and non-lease components, which are accounted for separately.

Prior to the adoption of ASC 842, *Leases* on January 1, 2019, the Company recorded the difference between the rent paid and the straight-line rent expense as a deferred rent liability within accrued expenses and other current liabilities and other liabilities.

## ***Deferred Revenue***

The Company records contract liabilities to deferred revenue when the Company receives customer payments in advance of the performance obligations being satisfied on the Company's contracts. Certain of the Company's customers pay in advance of satisfaction of performance obligations and other customers with monthly contract terms are billed in arrears on a monthly basis.

Revenue recognized during the years ended December 31, 2019, 2018 and 2017, which was included in the deferred revenue balances at the beginning of each respective period, was \$71.0 million, \$37.1 million, and \$9.2 million.

Remaining performance obligations represent the aggregate amount of the transaction price in contracts allocated to performance obligations not delivered, or partially undelivered, as of the end of the reporting period. Remaining performance obligations include unearned revenue, multi-year contracts with future installment payments and certain unfulfilled orders against accepted customer contracts at the end of any given period and does not include usage of our products beyond the contractually committed level. As of December 31, 2019, and December 31, 2018, the aggregate transaction price allocated to remaining performance obligations was \$243.8 million and \$127.1 million, respectively. There is uncertainty in the timing of revenues associated with the Company's drawdown contracts, as future revenue can often vary significantly from past revenue. However, the Company expects to recognize substantially all of the remaining performance obligations over the next 24 months and more than a majority will be recognized to revenue over the next 12 months.

## ***Net Income (Loss) Per Share Attributable to Common Shareholders***

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during the period. Diluted net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during the period giving effect to all potentially dilutive securities to the extent they are dilutive. The dilutive effect of potentially dilutive securities is reflected in diluted net income (loss) per share by application of the two-class method. During the periods when the Company is in a net loss position, the net loss attributable to common stockholders was not allocated to the convertible preferred stock and unvested common stock under the two-class method as these securities do not have a contractual obligation to share in the Company's losses.

## ***Accounting Pronouncements Recently Adopted***

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740), Balance Sheet Classification of Deferred Tax*. ASU No. 2015-17 was issued by the FASB as part of its initiative to reduce complexity in accounting standards (the Simplification Initiative). Current GAAP requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. To simplify the presentation of deferred income taxes, the amendments in ASU 2015-17 require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the amendments of ASU 2015-17. ASU 2015-17 is effective for financial statements issued for annual periods beginning after December 15, 2017 and interim periods within those annual periods. Early adoption is permitted for financial statements that have not been previously issued. The ASU was adopted January 1, 2019 and applied retrospectively to all deferred tax assets and liabilities for all periods presented. The Company adoption of this ASU had no material impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows*. The ASU provides guidance on how certain cash receipts and outflows should be classified on entities' statement of cash flows. The Company adopted the ASU on January 1, 2019 on a retrospective basis to all periods presented. Adoption of this ASU did not have a material impact on the Company's consolidated statements of cash flows for the periods presented.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows*. The standard requires that the statements of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The Company adopted the ASU on January 1, 2019 on a retrospective basis for all periods presented. As a result of adopting the ASU, the Company includes restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts presented on the statement of consolidated cash flows. Accordingly, the statement of cash flows has been revised to include restricted cash as a consolidated component of cash, cash equivalents, and restricted cash.

In February 2016, the FASB issued ASU 2016-02, *Leases (ASC 842)*, which requires, among other items, lessees to recognize most leases as assets and liabilities on the balance sheet. Qualitative and quantitative disclosures are also enhanced to better understand the amount, timing and uncertainty of cash flows arising from leases. The Company adopted this ASU on January 1, 2019 and has elected the transition option prescribed by ASU 2018-11, and accordingly will not restate prior periods under ASC 842. The Company elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the Company to carry forward the historical lease classification and determination of the lease term. Upon adoption, the Company recognized a right of use asset of \$47.9 million and a lease liability of \$51.4 million with no impact to accumulated deficit or consolidated statement of cash flows.

In June 2018, the FASB issued ASU 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. The updated guidance simplifies the accounting for nonemployee share-based payment transactions. The amendments in the new guidance specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor's own operations by issuing share-based payment awards. The Company adopted this ASU on January 1, 2019 and it had no impact on the Company's financial statements.

### ***Accounting Pronouncements Not Yet Adopted***

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software*, which align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendments in this ASU. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of this ASU to have a material effect on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires an entity to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate its lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model is expected to result in more timely recognition of credit losses. This guidance also requires new disclosures for financial assets measured at amortized cost, loans and available-for-sale debt securities. This guidance will be effective for the Company beginning January 1, 2020. The Company does not expect the adoption of this ASU to have a material effect on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which aims to reduce complexity in accounting standards by improving certain areas of generally accepted accounting principles (GAAP) without compromising information provided to users of financial statements. This guidance will be effective for the Company beginning January 1, 2021. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

### 3. Marketable Securities

The following is a summary of available-for-sale marketable securities, excluding those securities classified within cash and cash equivalents on the consolidated balance sheet as of December 31, 2019 (in thousands):

|   | Amortized<br>Cost | Unrealized<br>Gain | Unrealized<br>Losses | Fair<br>Value     |
|---|-------------------|--------------------|----------------------|-------------------|
| Commercial debt securities.....           | \$ 80,376         | \$ 46              | \$ (5)               | \$ 80,417         |
| U.S. government treasury securities ..... | 72,467            | 10                 | (4)                  | 72,473            |
| Commercial paper.....                     | 23,784            | —                  | —                    | 23,784            |
| Marketable securities.....                | <u>\$ 176,627</u> | <u>\$ 56</u>       | <u>\$ (9)</u>        | <u>\$ 176,674</u> |

As of December 31, 2019, the fair values of available-for-sale marketable securities, by remaining contractual maturity, were as follows (in thousands):

|   |                   |
|---|-------------------|
| Due within one year.....                | \$ 97,816         |
| Due in one year through five years..... | 78,858            |
| Total .....                             | <u>\$ 176,674</u> |

The Company does not believe that any unrealized losses represent other-than-temporary impairments based on its evaluation of available evidence. To determine whether a decline in value is other-than-temporary, the Company evaluates, among other factors: the duration and extent to which the fair value has been less than the carrying value and its intent and ability to retain the marketable securities for a period of time sufficient to allow for any anticipated recovery in fair value.

### 4. Fair Value Measurements

The following tables present information about the Company's financial assets and liabilities that have been measured at fair value on a recurring basis as of December 31, 2019 and 2018, and indicate the fair value hierarchy of the valuation inputs utilized to determine such fair value (in thousands):

|   | Fair Value Measurement as of December 31, 2019 |                   |             |                   |
|---|--|-------------------|-------------|-------------------|
|   | Level 1  | Level 2           | Level 3     | Total             |
| <b>Financial Assets:</b>                  |  |                   |             |                   |
| Cash equivalents:                         |  |                   |             |                   |
| Money market funds.....                   | \$ 588,762                                     | \$ —              | \$ —        | \$ 588,762        |
| Marketable Securities:                    |  |                   |             |                   |
| Corporate debt securities .....           | —  | 80,417            | —           | 80,417            |
| U.S. government treasury securities ..... | —  | 72,473            | —           | 72,473            |
| Commercial paper.....                     | —  | 23,784            | —           | 23,784            |
| Total financial assets.....               | <u>\$ 588,762</u>                              | <u>\$ 176,674</u> | <u>\$ —</u> | <u>\$ 765,436</u> |

|                             | Fair Value Measurement as of December 31, 2018 |             |             |                  |
|-----------------------------|--|-------------|-------------|------------------|
|                             | Level 1  | Level 2     | Level 3     | Total            |
| <b>Financial Assets:</b>    |  |             |             |                  |
| Cash equivalents:           |  |             |             |                  |
| Money market funds.....     | \$ 47,187                                      | \$ —        | \$ —        | \$ 47,187        |
| Total financial assets..... | <u>\$ 47,187</u>                               | <u>\$ —</u> | <u>\$ —</u> | <u>\$ 47,187</u> |

The Company classifies its highly liquid money market funds within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets. The Company classifies its commercial paper, corporate debt securities, and U.S. government treasury securities within Level 2 because they are valued using inputs other than quoted prices that are directly or indirectly observable in the market, including readily available pricing sources for the identical underlying security which may not be actively traded.



## 5. Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following (in thousands):

|  | December 31,<br>2019 | December 31,<br>2018 |
|--|----------------------|----------------------|
| Hosting.....   | \$ 9,180             | \$ 3,356             |
| General prepaid expenses.....                        | 5,700                | 3,607                |
| Other receivables.....                               | 2,578                | 526                  |
| Rent.....  | 821                  | 1,066                |
| Marketing.....                                       | 516                  | 218                  |
| Restricted cash.....                                 | 436                  | —                    |
| Total prepaid expenses and other current assets..... | <u>\$ 19,231</u>     | <u>\$ 8,773</u>      |

## 6. Property and Equipment, Net

Property and equipment, net consisted of the following (in thousands):

|  | December 31,<br>2019 | December 31,<br>2018 |
|--|----------------------|----------------------|
| Computers and equipment.....                         | \$ 7,536             | \$ 4,540             |
| Furniture and fixtures.....                          | 4,804                | 2,621                |
| Leasehold improvements.....                          | 16,517               | 8,554                |
| Capitalized software development costs.....          | 24,630               | 15,000               |
| Total property and equipment.....                    | \$ 53,487            | \$ 30,715            |
| Less: accumulated depreciation and amortization..... | (20,738)             | (9,066)              |
| Total property and equipment, net.....               | <u>\$ 32,749</u>     | <u>\$ 21,649</u>     |

As discussed in Note 2, Basis of Presentation and Summary of Significant Accounting Policies—Internal Use Software Development Costs, the Company capitalizes costs related to the development of computer software for internal use and is included in capitalized software development costs within property and equipment, net.

Depreciation and amortization expense was approximately \$11.6 million, \$5.5 million, and \$2.2 million for the years ended December 31, 2019, 2018 and 2017, respectively.

## 7. Acquisition, Intangible Assets and Goodwill

### 2019 Acquisition

On November 6, 2019, the Company entered into a Stock Purchase Agreement whereby the Company acquired all of the issued and outstanding shares of a target company for \$2.2 million in cash consideration. The acquisition was accounted for as a business combination in accordance with ASC 805, *Business Combinations*. Goodwill resulted primarily from the expectation of integrating and enhancing the Company's current data streaming platform. The preliminary allocation of the purchase price was based on available information and assumptions at the time of the initial valuation and may be subject to change within the measurement period. The results of the operations have been included in the Company's consolidated statements of operations and comprehensive loss since the acquisition date and were not material. Pro forma results of operations for this acquisition have not been presented because it was also not material to the consolidated results of operations.

The aggregate purchase consideration and estimated fair values of the assets acquired and liabilities assumed at the date of acquisition were as follows (in thousands):

|   | <u>Fair Value</u> |
|---|-------------------|
| Fair value of net assets acquired:            |                   |
| Net tangible assets .....                     | \$ 9              |
| Software technology .....                     | 910               |
| Goodwill .....                                | 1,285             |
| Total fair value of net assets acquired ..... | <u>\$ 2,204</u>   |

### ***Madumbo Acquisition***

On September 28, 2018, the Company entered into a Stock Purchase Agreement with Madumbo whereby the Company acquired all of the issued and outstanding shares of Madumbo for \$1.6 million in cash consideration. Madumbo created an artificial intelligence platform that the Company plans to use to strengthen the Company's current product offering. Goodwill was not deductible for tax purposes. Goodwill resulted primarily from the expected integration of Madumbo's platform with the Company's existing product offerings. The acquisition was accounted for as a business combination in accordance with ASC 805, *Business Combinations*. The results of Madumbo's operations have been included in the Company's consolidated statements of operations and comprehensive loss since the acquisition date and were not material. Pro forma results of operations for this acquisition have not been presented because it was also not material to the consolidated results of operations. Transaction costs amounted to approximately \$0.1 million and were expensed as incurred.

The aggregate purchase consideration and estimated fair values of the assets acquired and liabilities assumed at the date of acquisition were as follows (in thousands):

|   | <u>Fair Value</u> |
|---|-------------------|
| Fair value of net assets acquired:            |                   |
| Net tangible assets (liabilities) .....       | \$ (536)          |
| Developed technology .....                    | 825               |
| Goodwill .....                                | 1,334             |
| Total fair value of net assets acquired ..... | <u>\$ 1,623</u>   |

### ***Focusmatic Acquisition***

On March 28, 2017, the Company completed an acquisition of Focusmatic SAS ("Focusmatic"). Focusmatic is a log processing and analytics company that aligns with the Company's goal of improving visibility for its customers IT infrastructure. Goodwill was not deductible for tax purposes. Pursuant to the Agreement and Plan of Merger, the entire ownership of Focusmatic was purchased by the Company in exchange for 2,292,012 shares of the Company's common stock and \$5.4 million of cash consideration. Goodwill resulted primarily from the expected integration of the employee base and product offerings of Focusmatic with the Company. The acquisition was accounted for as a business combination in accordance with ASC 805, *Business Combinations* with the results of Focusmatic's operations included in the consolidated financial statements from the date of acquisition. Results of operations for this acquisition have been included in the Company's consolidated statements of operations and comprehensive loss since the acquisition date and were not material. Pro forma results of operations for this acquisition have not been presented because it was also not material to the consolidated results of operations. Transaction costs amounted to approximately \$0.1 million and were expensed as incurred.

The aggregate purchase consideration and estimated fair values of the assets acquired and liabilities assumed at the date of acquisition were as follows (in thousands):

|   | <u>Fair Value</u> |
|---|-------------------|
| Fair value of purchase consideration:         |                   |
| Cash consideration .....                      | \$ 5,397          |
| Common stock .....                            | 2,015             |
| Total fair value of net assets acquired ..... | <u>\$ 7,412</u>   |

|   | <u>Fair Value</u> |
|---|-------------------|
| Fair value of net assets acquired:            |                   |
| Net tangible assets (liabilities) .....       | \$ (200)          |
| Developed technology .....                    | 1,300             |
| Customer relationships .....                  | 20                |
| Goodwill .....                                | 6,292             |
| Total fair value of net assets acquired ..... | <u>\$ 7,412</u>   |

Intangibles, net consisted of the following (in thousands):

|                              | <u>December 31, 2019</u>     |                                 |                            |                            |
|------------------------------|------------------------------|---------------------------------|----------------------------|----------------------------|
|                              | <u>Gross Carrying Amount</u> | <u>Accumulated Amortization</u> | <u>Net Carrying Amount</u> | <u>Amortization Period</u> |
| Developed technology .....   | \$ 3,046                     | \$ (1,611)                      | \$ 1,435                   | 2-3 years                  |
|                              |                              |                                 |                            |                            |
|                              | <u>December 31, 2018</u>     |                                 |                            |                            |
|                              | <u>Gross Carrying Amount</u> | <u>Accumulated Amortization</u> | <u>Net Carrying Amount</u> | <u>Amortization Period</u> |
| Developed technology .....   | \$ 2,125                     | \$ (837)                        | \$ 1,288                   | 2-3 years                  |
| Customer relationships ..... | 20                           | (20)                            | —                          | 1 year                     |
| Total .....                  | <u>\$ 2,145</u>              | <u>\$ (857)</u>                 | <u>\$ 1,288</u>            |                            |

Intangible amortization expense was approximately \$0.8 million, \$0.5 million and \$0.5 million for the years ended December 31, 2019, 2018 and 2017, respectively. Amortization of developed technology and customer relationships are included in cost of revenue on the Company's consolidated statement of operations and comprehensive loss.

As of December 31, 2019, future amortization expense by year is expected to be as follows (in thousands):

|             | <u>Amount</u>   |
|-------------|-----------------|
| 2020 .....  | \$ 675          |
| 2021 .....  | 501             |
| 2022 .....  | 259             |
| Total ..... | <u>\$ 1,435</u> |

The changes in the carrying amount of goodwill were as follows (in thousands):

|  | <u>Amount</u>   |
|--|-----------------|
| Balance as of December 31, 2017 .....          | \$ 6,292        |
| Madumbo acquisition .....                      | 1,334           |
| Balance as of December 31, 2018 .....          | <u>\$ 7,626</u> |
| 2019 acquisition .....                         | 1,285           |
| Foreign currency translation adjustments ..... | 147             |
| Balance as of December 31, 2019 .....          | <u>\$ 9,058</u> |

## 8. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following (in thousands):

|  | December 31,<br>2019 | December 31,<br>2018 |
|--|----------------------|----------------------|
| Accrued compensation and commissions .....                 | \$ 21,910            | \$ 15,229            |
| Accrued expenses .....                                     | 12,692               | 6,940                |
| Early exercise liability-stock options .....               | 1,776                | 2,931                |
| Payroll and sales taxes .....                              | 1,626                | 1,147                |
| Other tax liability .....                                  | 742                  | 516                  |
| Deferred rent .....  | —                    | 3,527                |
| Total accrued expenses and other current liabilities ..... | <u>\$ 38,746</u>     | <u>\$ 30,290</u>     |

## 9. Commitments and Contingencies

**Lease Commitments**—The Company has entered into various noncancelable operating leases for its facilities expiring between fiscal 2019 and 2025. Certain operating leases contain provisions under which monthly rent escalates over time. When lease agreements contain escalating rent clauses or free rent periods, the Company recognizes rent expense on a straight-line basis over the term of the lease.

Rent expense for the years ended December 31, 2019, 2018 and 2017 was \$16.7 million, \$10.0 million and \$3.8 million, respectively.

During 2019, 2018 and 2017, the Company recorded \$1.0 million, \$0.7 million and \$0.1 million, respectively, in sub-lease income which were recorded as a credit to rent expense.

**Non-Income Tax Matters**—In January 2015, the Company recorded a \$5.0 million contingent Federal payroll tax liability in conjunction with common stock repurchase transactions, as part of a capital raise, with certain of its employees. The potential payroll tax treatment of these transactions was subject to uncertainty, and the contingent payroll tax liability was deemed probable and reasonably estimable. On April 15, 2019, the period of limitations for assessing the contingent Federal payroll tax liability expired and the Company was legally released from being the primary obligor. As a result, the Company recognized a \$5.0 million benefit in the operating expenses section of the consolidated statement of operations during the year ended December 31, 2019.

**401(k) Plan**—The Company sponsors a 401(k) defined contribution plan covering all eligible US employees. Contributions to the 401(k) plan are discretionary. The Company did not make any matching contributions to the 401(k) plan for the years ended December 31, 2019 and 2018.

**Legal Matters**—The Company is involved from time to time in various claims and legal actions arising in the ordinary course of business. While it is not feasible to predict or determine the ultimate outcome of these matters, the Company believes that none of its current legal proceedings will have a material adverse effect on its financial position or results of operations.

**Indemnification**—The Company enters into indemnification provisions under some agreements with other parties in the ordinary course of business, including business partners, investors, contractors, customers, and the Company's officers, directors and certain employees. The Company has agreed to indemnify and defend the indemnified party claims and related losses suffered or incurred by the indemnified party from actual or threatened third-party claim because of the Company's activities or non-compliance with certain representations and warranties made by the Company. It is not possible to determine the maximum potential loss under these indemnification provisions due to the Company's limited history of prior indemnification claims and the unique facts and circumstances involved in each particular provision. To date, losses recorded in the Company's consolidated statements of operations and comprehensive (loss) income in connection with the indemnification provisions have not been material.

## 10. Leases

The Company has entered into various noncancelable operating leases for its facilities expiring between fiscal 2019 and 2025. Certain lease agreements contain an option for the Company to renew a lease for a term of up to five years or an option to terminate a lease early within three years. The Company considers these options, which may be elected at the Company's sole discretion, in determining the lease term on a lease-by-lease basis.

Lease expense for these leases is recognized on a straight-line basis over the lease term, with variable lease payments recognized in the period those payments are incurred.

The components of lease cost recognized within the Company's consolidated statements of operations and comprehensive loss were as follows (in thousands):

|   | <u>Year Ended</u><br><u>December 31, 2019</u> |
|---|---|
| Operating lease cost <sup>(1)</sup> ..... | \$ 13,636                                     |
| Variable lease cost <sup>(2)</sup> .....  | 94  |
| Short-term lease cost .....               | 2,925   |

1) Includes non-cash lease expense of \$10.4 million

2) Primarily related to Consumer Price Index adjustments, common area maintenance and property tax.

Supplemental cash flow information and non-cash activity related to the Company's operating leases are as follows (in thousands):

|  | <u>Year Ended</u><br><u>December 31, 2019</u> |
|--|---|
| Cash paid for amounts included in measurement of lease liabilities.....    | \$ 9,767                                      |
| Operating lease assets obtained in exchange for new lease liabilities..... | 14,618  |

Maturities of lease liabilities by fiscal year for the Company's operating leases are as follows (in thousands):

|  | <u>Amount</u>    |
|--|------------------|
| 2020 .....                               | \$ 14,576        |
| 2021 .....                               | 16,944           |
| 2022 .....                               | 16,731           |
| 2023 .....                               | 14,569           |
| 2024 and beyond .....                    | 4,017            |
| Total lease payments .....               | \$ 66,837        |
| Less: imputed interest .....             | (6,411)          |
| Present value of lease liabilities ..... | <u>\$ 60,426</u> |

As of December 31, 2019, the Company had one additional operating lease that has not yet commenced. This operating lease will commence in fiscal year 2020 with a lease term of six years. Pursuant to the terms of the office lease, the Company will pay \$2.2 million in aggregate through the life of the lease.

Weighted average remaining lease term and discount rate for the Company's operating leases are as follows:

|   | <u>December 31,</u><br><u>2019</u> |
|---|------------------------------------|
| Weighted average remaining lease term (years) ..... | 4.00                               |
| Weighted average discount rate .....                | 4.98%                              |

## 11. Stockholders' Equity (Deficit)

In January 2018, the Company converted the then outstanding shares of non-voting common stock to common stock. The non-voting common stock had the same rights and preferences as common stock except that the non-voting stock did not contain any voting rights.

In March 2019, certain investors proposed a tender offer to purchase shares of the Company's capital stock from certain stockholders at a price of \$15.92 per share, pursuant to an offer to purchase to which the Company was not a party. The Company agreed to waive certain transfer restrictions in connection with, and assist in the administration of, the tender offer. The tender offer was completed in the second quarter of 2019, and an aggregate of 14,366,871 shares of the Company's capital stock were successfully tendered, including 803,481 shares of Preferred stock that converted into an equal number of shares of common stock in conjunction with the sale.

As of December 31, 2019, the Company had authorized 2,000,000,000 shares of Class A common stock and 310,000,000 shares of Class B common stock, each at a par value per share of \$0.00001, of which 64,308,498 shares of Class A common stock and 232,078,452 shares of Class B common stock were issued and outstanding.

At December 31, 2019 and 2018, the Company had reserved shares of common stock for future issuance as follows:

|  | December 31,      |                    |
|--|-------------------|--------------------|
|  | 2019              | 2018               |
| Seed Preferred Stock.....                              | —                 | 19,403,952         |
| Series A Preferred Stock.....                          | —                 | 49,195,632         |
| Series B Preferred Stock.....                          | —                 | 39,619,992         |
| Series C Preferred Stock.....                          | —                 | 30,389,424         |
| Series D Preferred Stock.....                          | —                 | 41,205,912         |
| 2012 and 2019 stock option plans:                      |                   |                    |
| Options and RSU's outstanding.....                     | 37,031,861        | 38,865,057         |
| Shares available for future option and RSU grants..... | 31,729,237        | 69,225             |
| Shares available subject to the 2019 ESPP Plan.....    | 6,725,000         | —                  |
|  | <u>75,486,098</u> | <u>218,749,194</u> |

**Convertible Preferred Stock**—Immediately prior to the completion of the IPO in September 2019, all shares of convertible preferred stock then outstanding were converted into 179,011,431 shares of Class B common stock.

**Class A and Class B Common Stock**—The Company has two classes of common stock, Class A and Class B. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting and conversion. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to ten votes per share. Shares of Class B common stock may be converted into Class A common stock at any time at the option of the stockholder, and are automatically converted upon sale or transfer to Class A common stock, subject to certain limited exceptions.

During the year ended December 31, 2019, 36,464,053 shares of Class B common stock were converted into Class A common stock.

**Employee Stock Purchase Plan**—In September 2019, the Board adopted and approved the 2019 ESPP, which became effective on September 18, 2019. The ESPP initially reserved and authorized the issuance of up to a total of 6,725,000 shares of Class A common stock to participating employees. As of December 31, 2019, 6,725,000 shares of Class A common stock remain available for grant under the ESPP. The initial offering period began on September 18, 2019 and will end on May 15, 2020. On each purchase date, eligible employees will purchase the shares at a price per share equal to 85% of the lesser of (1) the \$27.00 initial public offering price of the Company's Class A common stock or (2) the fair market value of the Company's Class A common stock on the purchase date, as defined in the ESPP.

The Company recognized \$1.2 million of stock-based compensation expense related to the ESPP during the year ended December 31, 2019, beginning upon the IPO in September 2019. Total compensation cost related to the ESPP not yet recognized was approximately \$1.5 million as of December 31, 2019. The weighted average period over which this compensation cost will be recognized is 0.4 years as of December 31, 2019.

As of December 31, 2019, \$3.3 million has been withheld on behalf of employees for a future purchase under the ESPP. There were no purchases for the year ended December 31, 2019 related to the ESPP.

**Stock-Based Compensation**—The Company has two equity incentive plans, the 2012 equity incentive plan (the “2012 Plan”) and the 2019 equity incentive plan (the “2019 Plan”). On September 18, 2019, the Company ceased granting awards under the 2012 Plan, and all shares that remained available for issuance under the 2012 Plan at that time were transferred to the 2019 Plan. Additionally, as of December 31, 2019, there were 36,364,067 shares of Class A common stock issuable upon conversion of Class B common stock underlying options outstanding under the 2012 Plan. Under the 2019 Plan, the Board and any other committee or subcommittee of the Board may grant stock options, stock appreciation rights, restricted stock awards, RSUs and performance-based and other awards, each valued or based on the Company’s Class A common stock, to employees, consultants, and advisors of the Company. Through December 31, 2019, the Company has only issued stock options and RSUs in connection with the 2012 and 2019 Plans. As of December 31, 2019, the Company was authorized to grant awards representing up to 70,296,733 shares under the 2019 Plan and had awards representing 31,729,237 shares of Class A common stock available to grant under the 2019 Plan.

The Company uses the Black-Scholes option pricing model to value stock options. The fair value of each award is recognized on a straight-line basis over the vesting or service period, which is typically four years. The Black-Scholes model requires specified inputs to determine the fair value of stock-based awards, consisting of (i) the expected volatility of the Company’s common stock over the expected option life, (ii) the risk-free interest rate, (iii) the expected dividend yield, and (iv) the expected option life.

The following table summarizes the assumptions used during the years ended December 31, 2019, 2018 and 2017:

|                                  | Year Ended December 31, |                 |                 |
|----------------------------------|-------------------------|-----------------|-----------------|
|                                  | 2019                    | 2018            | 2017            |
| Expected volatility .....        | 38.9% - 39.5%           | 38.4% - 39.0%   | 37.1% - 38.8%   |
| Risk-free interest rate .....    | 1.4% - 2.6%             | 2.6% - 3.0%     | 1.8% - 2.2%     |
| Expected dividend yield .....    | —%                      | —%              | —%              |
| Expected term (in years) .....   | 5.2 - 6.3               | 5.8 - 6.1       | 5.1 - 6.1       |
| Fair value of common stock ..... | \$6.16 - \$38.21        | \$2.23 - \$5.63 | \$0.87 - \$1.02 |

*Expected volatility*—The Company performed an analysis of its peer companies with similar expected lives to develop an expected volatility assumption.

*Expected term*—Derived from the life of the options granted under the option plan and is based on the simplified method which is essentially the weighted average of the vesting period and contractual term.

*Risk-free interest rate*—Based upon quoted market yields for the United States Treasury debt securities.

*Expected dividend yield*—Since the Company has never paid and has no intention to pay cash dividends on common stock, the expected dividend yield is zero.

*Fair value of the common stock*—Prior to the IPO, the fair value of common stock underlying the stock-based awards was determined by the Company’s Board of Directors. The Board of Directors considered numerous objective and subjective factors to determine the fair value of the Company’s common stock at each meeting in which awards were approved. The factors considered included, but were not limited to: (i) the results of contemporaneous independent third-party valuations of the Company’s common stock; (ii) the prices, rights, preferences, and privileges of the Company’s redeemable convertible Preferred Stock relative to those of its common stock; (iii) the lack of marketability of the Company’s common stock; (iv) actual operating and financial results; (v) current business conditions and projections; (vi) the likelihood of achieving a liquidity event, such as an initial public offering or sale of the Company, given prevailing market conditions; and (vii) precedent transactions involving the Company’s shares. Since the Company’s IPO, the fair value of the underlying common stock is determined by the closing price, on the date of grant, of the Company’s Class A common stock, which is traded publicly on The Nasdaq Global Market.

Stock option activity during the years ended December 31, 2019, 2018 and 2017 is as follows:

|                                    | Number Of<br>Options<br>Outstanding | Weighted-<br>Average<br>Exercise Price | Weighted-<br>Average<br>Remaining<br>Contractual Life<br>(in Years) |
|------------------------------------|-------------------------------------|--|---|
| Balance—January 1, 2017.....       | 35,825,160                          | \$ 0.39                                | 8.9   |
| Options granted .....              | 12,841,968                          | \$ 0.89                                |   |
| Options exercised .....            | (2,165,976)                         | \$ 0.21                                |   |
| Options forfeited .....            | (1,623,264)                         | \$ 0.64                                |   |
| Balance—December 31, 2017.....     | 44,877,888                          | \$ 0.53                                | 8.3   |
| Options granted .....              | 11,236,803                          | \$ 1.61                                |   |
| Options exercised .....            | (14,882,622)                        | \$ 0.52                                |   |
| Options forfeited .....            | (2,367,012)                         | \$ 0.79                                |   |
| Balance—December 31, 2018.....     | 38,865,057                          | \$ 0.83                                | 7.9   |
| Options granted .....              | 9,518,730                           | \$ 9.15                                |   |
| Options exercised .....            | (10,546,987)                        | \$ 0.75                                |   |
| Options forfeited .....            | (1,452,033)                         | \$ 2.54                                |   |
| Balance—December 31, 2019.....     | 36,384,767                          | \$ 2.96                                | 7.6   |
| Exercisable—December 31, 2019..... | 22,327,967                          | \$ 2.19                                | 7.0   |

As of December 31, 2019, there were 20,700 shares of Class A common stock and 36,364,067 shares of Class B common stock issuable upon the exercise of options outstanding.

The weighted average grant-date fair value of options granted during 2019, 2018 and 2017 was \$8.69, \$2.48 and \$0.40, respectively. The Company received approximately \$7.9 million, \$7.8 million and \$0.5 million in cash proceeds from options exercised during 2019, 2018 and 2017, respectively. The intrinsic value of options exercised in 2019, 2018 and 2017 was approximately \$121.3 million, \$36.4 million and \$1.5 million, respectively. The aggregate fair value of options vested during 2019, 2018 and 2017 was \$10.8 million, \$3.5 million and \$4.2 million, respectively.

Total compensation cost related to unvested stock options not yet recognized was approximately \$90.5 million and \$28.4 million as of December 31, 2019 and December 31, 2018, respectively. The weighted average period over which this compensation cost related to unvested stock options will be recognized is 2.7 years and 3.4 years as of December 31, 2019 and December 31, 2018, respectively.

The following table summarizes the activity for the Company's unvested RSUs:

|                                   | Shares  | Weighted-Average<br>Fair Value |
|-----------------------------------|---------|--------------------------------|
| Balance at December 31, 2018..... | —       | \$ —                           |
| Granted .....                     | 647,094 | \$ 36.08                       |
| Vested .....                      | —       | \$ —                           |
| Forfeited/canceled .....          | —       | \$ —                           |
| Balance at December 31, 2019..... | 647,094 | \$ 36.08                       |

In November 2019, the Company granted 244,445 restricted shares of Class A common stock, which are subject to service-based vesting conditions over approximately four years. Total compensation cost related to unvested RSUs and restricted shares of common stock not yet recognized was approximately \$30.4 million as of December 31, 2019. The weighted average period over which this compensation cost related to unvested RSUs will be recognized is 3.9 years as of December 31, 2019. The Company expects to settle RSUs with shares of its Class A common stock.



Stock-based compensation expense was included in the consolidated statement of operations as follows (in thousands):

|  | Year Ended December 31, |                 |                 |
|--|-------------------------|-----------------|-----------------|
|  | 2019                    | 2018            | 2017            |
| Cost of revenue .....                                      | \$ 582                  | \$ 287          | \$ 112          |
| Research and development .....                             | 7,972                   | 1,641           | 1,160           |
| Sales and marketing .....                                  | 5,538                   | 1,910           | 977             |
| General and administrative .....                           | 4,942                   | 1,406           | 819             |
| Stock-based compensation, net of amounts capitalized ..... | 19,034                  | 5,244           | 3,068           |
| Capitalized stock-based compensation expense .....         | 201                     | 167             | 248             |
| Total stock-based compensation expense.....                | <u>\$ 19,235</u>        | <u>\$ 5,411</u> | <u>\$ 3,316</u> |

Common stock purchased pursuant to an early exercise of stock options is not deemed to be outstanding for accounting purposes until those shares vest. The consideration received for an exercise of an option is considered to be a deposit of the exercise price and the related dollar amount is recorded as a liability. The shares issued upon the early exercise of these unvested stock option awards, which are reflected as exercises in the table above, are considered to be legally issued and outstanding on the date of exercise. Upon termination of service, the Company may repurchase unvested shares acquired through early exercise of stock options at a price equal to the price per share paid upon the exercise of such options. The Company has recorded liabilities related to early exercises of 1,239,750 shares of common stock and 2,095,656 shares of common stock as of December 31, 2019 and 2018, respectively.

## 12. Income Taxes

**Income Taxes**—For financial reporting purposes, loss before income taxes, includes the following components (in thousands):

|                               | December 31,       |                    |                   |
|-------------------------------|--------------------|--------------------|-------------------|
|                               | 2019               | 2018               | 2017              |
| Domestic .....                | \$ (18,330)        | \$ (11,273)        | \$ (2,498)        |
| Foreign .....                 | 2,354              | 1,033              | 385               |
| Loss before income taxes..... | <u>\$ (15,976)</u> | <u>\$ (10,240)</u> | <u>\$ (2,113)</u> |

Total income taxes allocated to operations for the years ended December 31, 2019, 2018 and 2017 were as follows (in thousands):

| 2019          | Current         | Deferred        | Total         |
|---------------|-----------------|-----------------|---------------|
|               | Federal.....    | \$ —            | \$ —          |
| State.....    | 126             | —               | 126           |
| Foreign ..... | 967             | (359)           | 608           |
| Total.....    | <u>\$ 1,093</u> | <u>\$ (359)</u> | <u>\$ 734</u> |
| <b>2018</b>   |                 |                 |               |
| Federal.....  | \$ —            | \$ —            | \$ —          |
| State.....    | (127)           | —               | (127)         |
| Foreign ..... | 559             | 90              | 649           |
| Total.....    | <u>\$ 432</u>   | <u>\$ 90</u>    | <u>\$ 522</u> |
| <b>2017</b>   |                 |                 |               |
| Federal.....  | \$ 41           | \$ —            | \$ 41         |
| State.....    | 60              | —               | 60            |
| Foreign ..... | 477             | (121)           | 356           |
| Total.....    | <u>\$ 578</u>   | <u>\$ (121)</u> | <u>\$ 457</u> |

**Tax Rate Reconciliation**—Income tax expense was \$0.7 million, \$0.5 million and \$0.5 million for the years ended December 31, 2019, 2018 and 2017, respectively, and differed from the amounts computed by applying the U.S. federal statutory income tax rate of 21%, 21% and 34% for the years ended December 31, 2019, 2018 and 2017, respectively, to pretax loss from operations as a result of the following (in thousands):

|   | December 31,  |               |               |
|---|---------------|---------------|---------------|
|   | 2019          | 2018          | 2017          |
| Income tax expense at federal statutory rate.....                               | \$ (3,355)    | \$ (2,151)    | \$ (719)      |
| Nondeductible expenses .....  | (1,049)       | 1,289         | 735           |
| State taxes (net of federal benefit).....                                       | 100           | (100)         | 60            |
| Impacts of United States tax reform—rate change and mandatory repatriation..... | —             | —             | 4,353         |
| Change in valuation allowance.....  | 5,043         | 1,052         | (4,146)       |
| Uncertain tax positions.....  | 23            | 241           | 366           |
| Foreign taxes .....   | 92            | 191           | (146)         |
| Other.....  | (120)         | —             | (46)          |
| Total .....   | <u>\$ 734</u> | <u>\$ 522</u> | <u>\$ 457</u> |

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act makes broad and complex changes to the U.S. tax code that affected the Company’s financial results for the year ended December 31, 2017, including, but not limited to: (1) requiring a one-time transition tax (payable over eight years) on certain un-repatriated earnings of foreign subsidiaries; (2) a future reduction of the U.S. federal corporate tax rate from 34% to 21% effective January 1, 2018, that reduced the current value of the Company’s deferred tax assets and liabilities; and (3) bonus depreciation that allows for full expensing of qualified property placed in service after September 27, 2017. In addition, the Tax Act establishes new tax laws that may affect the Company’s financial results for the years ending after December 31, 2017, including, but not limited to: (1) a reduction of the U.S. federal income tax rate from 34% to 21%; (2) limitation of the deduction for interest expense; (3) a general elimination of U.S. federal income taxes on dividends from foreign subsidiaries; (4) a new provision designed to tax global intangible low-taxed income; (5) limitations on the deductibility of certain executive compensation; and (6) limitations on the use of Foreign Income Tax Credit to reduce the Company’s income tax liability.

Pursuant to the Staff Accounting Bulletin published by the SEC on December 22, 2017, addressing the challenges in accounting for the effects of the Tax Act in the period of enactment, companies reported provisional amounts for those specific income tax effects of the Tax Act for which the accounting was incomplete but a reasonable estimate could be determined. Those provisional amounts were subject to adjustment during a measurement period of up to one year from the enactment date (a “measurement-period adjustment”). Pursuant to this guidance, the estimated impact of the Tax Act was based on a preliminary review of the new tax law and projected future financial results and was subject to revision based upon further analysis and interpretation of the Tax Act and to the extent that actual results differed from projections available at that time.

In 2018, the Company completed its accounting with respect to the Tax Act and did not make any measurement-period adjustments to the initial tax expense of \$4.0 million recorded in 2017. The accounting is summarized below:

- **Reduction of U.S. Federal Corporate Tax Rate:** The Tax Act reduced the corporate tax rate to 21%, effective January 1, 2018. Consequently, the Company recorded a decrease related to deferred tax assets and liabilities with a corresponding net adjustment to deferred income tax expense for the year ended December 31, 2017 of \$4.0 million. In addition, the valuation allowance was reduced by \$4.0 million, as the Company is in a full valuation allowance position for the U.S. Deferred Tax Asset position. The Company did not make any measurement-period adjustments related to this item in 2018. The Company’s accounting for this element of the Tax Act is complete.
- **One-Time Mandatory Deemed Repatriation Tax:** The one-time mandatory deemed repatriation tax is imposed on previously untaxed accumulated and current earnings and profits of the Company’s foreign subsidiaries. The Company was able to reasonably estimate the one-time mandatory deemed repatriation tax and recorded an initial provisional tax obligation, with a corresponding adjustment to income tax expense for the year ended December 31, 2017, which did not have a material impact. The Company did not make any measurement-period adjustments related to this item in 2018. The Company’s accounting for this element of the Tax Act is complete.

- Valuation Allowances: The Company must assess whether its valuation allowance analyses are affected by the various aspects of the Tax Act. During 2017, the Company released \$4.0 million of valuation allowance corresponding with the reduction of the associated U.S. deferred tax assets. The Company did not make any measurement-period adjustments related to this item in 2018. The Company's accounting for this element of the Tax Act is complete.
- Global Intangible Low-Taxed Income (GILTI) Policy Election: The FASB allows companies to adopt an accounting policy to either recognize deferred tax for GILTI or treat such tax cost as a current period expense when incurred. The Company has adopted an accounting policy to treat taxes due on GILTI as a current period expense.

**Components of Deferred Taxes**—The tax effects of temporary differences that give rise to the deferred tax assets and deferred tax liabilities at December 31, 2019 and 2018 are presented below (in thousands):

|   | December 31,       |                   |
|---|--------------------|-------------------|
|   | 2019               | 2018              |
| Deferred tax assets:                          |                    |                   |
| Net operating losses (federal and state)..... | \$ 14,631          | \$ 7,448          |
| Stock-based compensation.....                 | 2,085              | 1,668             |
| Federal withholding tax reserve.....          | 815                | 1,550             |
| Internal use software.....                    | 1,746              | 725               |
| Lease liability.....                          | 10,440             | —                 |
| Other.....                                    | 1,297              | 2,091             |
| Total deferred tax assets.....                | <u>\$ 31,014</u>   | <u>\$ 13,482</u>  |
| Less: valuation allowance.....                | (15,205)           | (9,730)           |
| Net deferred tax assets.....                  | <u>\$ 15,809</u>   | <u>\$ 3,752</u>   |
| Deferred tax liabilities:                     |                    |                   |
| Commissions.....                              | \$ (6,514)         | \$ (2,796)        |
| Right of use asset.....                       | (9,210)            | —                 |
| Other.....                                    | (85)               | (956)             |
| Total deferred tax liabilities.....           | <u>\$ (15,809)</u> | <u>\$ (3,752)</u> |
| Net deferred tax assets/liabilities.....      | <u>\$ —</u>        | <u>\$ —</u>       |

The Company accounts for income taxes using an asset and liability method and deferred income tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets and liabilities are expected to be realized or settled. The Company's deferred tax assets and liabilities are comprised primarily of federal and state net operating loss carryforwards and basis differences for financial reporting and tax purposes of certain assets and liabilities. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based upon the weight of all available evidence, which includes the historical operating performance and the recorded cumulative losses in prior fiscal periods, management does not believe as of December 31, 2019 and 2018 that it is more likely than not that the Company will realize its deferred tax assets. As a result, a valuation allowance of \$15.2 million and \$9.7 million has been provided at December 31, 2019 and 2018, respectively. The valuation allowance changed by \$5.5 million and \$1.2 million at December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, the Company has net operating loss carryforwards for federal tax purposes of approximately \$56.6 million and \$28.0 million, respectively, which is available to offset federal taxable income. The federal net operating loss carryforwards generated at December 31, 2019 and prior will begin to expire in 2031, if not utilized. Net operating losses generated at December 31, 2018 and after have an indefinite carryforward period but are subject to an 80% of taxable income limitation. The Company has approximately \$42.0 million and \$24.2 million of post-apportioned net operating loss carryforwards as of December 31, 2019 and 2018, respectively for various state tax purposes. The state net operating loss carryforwards will begin to expire in 2029, if not utilized.

Utilization of the net operating losses may be subject to an annual limitation provided for in the Internal Revenue Code of 1986, as amended, under Section 382 and similar state codes. The Company has prepared an analysis to determine whether its net operating losses may be limited under such provisions. It has been determined that any annual limitation would not result in the expiration of net operating loss carryforwards before utilization.

In general, it is the practice and intention of the Company to reinvest the earnings of its non-U.S. subsidiaries in those operations. Historically, the Company has not made a provision for U.S. income tax with respect to accumulated earnings of foreign subsidiaries where the foreign investment of such earnings is essentially permanent in duration. Generally, such amounts would become subject to U.S. taxation upon the remittance of dividends and under certain other circumstances. The Company has not provided U.S. taxes on unremitted earnings of its foreign subsidiaries as it asserts permanent reinvestment on any accumulated earnings and profits.

Consistent with the provisions of ASC 740, *Income Taxes*, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

The following table shows the changes in the gross amount of unrecognized tax benefits as of December 31, 2019, 2018 and 2017 (in thousands):

|  | December 31,  |               |               |
|--|---------------|---------------|---------------|
|  | 2019          | 2018          | 2017          |
| Beginning balance.....   | \$ 920        | \$ 563        | \$ —          |
| Increases based on tax positions during the current period ..... | —             | 357           | 563           |
| Ending balance.....  | <u>\$ 920</u> | <u>\$ 920</u> | <u>\$ 563</u> |

The total amount of unrecognized tax benefits that, if recognized would impact the effective tax rate would be \$0.5 million and \$0.8 million for the years ended December 31, 2019 and 2018, respectively.

The Company's policy for classifying interest and penalties associated with unrecognized income tax benefits is to include such items in income tax expense. The total amount of interest and penalties associated with unrecognized income tax benefits is \$0.4 million and \$0.4 million for the years ended December 31, 2019 and 2018, respectively.

Although it is reasonably possible that certain unrecognized tax benefits may increase or decrease within the next 12 months due to tax examination changes, settlement activities, expirations of statute of limitations, or the impact on recognition and measurement considerations related to the results of published tax cases or other similar activities, the Company does not anticipate any significant changes to unrecognized tax benefits over the next 12 months.

The Company files income tax returns in the U.S. federal jurisdiction, various state jurisdictions and in various international jurisdictions. Tax years 2014 and forward generally remain open for examination for federal and state tax purposes. The Company is currently under audit in the U.S., a major tax jurisdiction, for the 2017 tax year. To the extent utilized in future years' tax returns, net operating loss carryforwards at December 31, 2019 and 2018 will remain subject to examination until the respective tax year is closed.

### 13. Net (Loss) Income Per Share

Basic and diluted net income (loss) per common share is presented in conformity with the two-class method required for participating securities.

The following table presents the calculation of basic and diluted net (loss) income per share (in thousands, except per share data):

|   | Year Ended December 31, |                    |                    |                   |      |  |
|---|-------------------------|--------------------|--------------------|-------------------|------|--|
|   | 2019                    |                    | 2018               |                   | 2017 |  |
|   | Class A                 | Class B            |                    |                   |      |  |
| Basic net loss per share:   |                         |                    |                    |                   |      |  |
| Numerator:  |                         |                    |                    |                   |      |  |
| Net loss .....  | \$ (1,149)              | \$ (15,561)        | \$ (10,762)        | \$ (2,570)        |      |  |
| Denominator:  |                         |                    |                    |                   |      |  |
| Weighted average shares used in calculating net loss per share, basic .....                     | 9,611                   | 130,262            | 70,951             | 61,321            |      |  |
| Basic net loss per share .....  | <u>\$ (0.12)</u>        | <u>\$ (0.12)</u>   | <u>\$ (0.15)</u>   | <u>\$ (0.04)</u>  |      |  |
| Diluted net loss per share:   |                         |                    |                    |                   |      |  |
| Numerator:  |                         |                    |                    |                   |      |  |
| Allocation of distributed loss for basic computation .....                                      | \$ (1,149)              | \$ (15,561)        | \$ (10,762)        | \$ (2,570)        |      |  |
| Reallocation of undistributed loss as a result of conversion of Class B to Class A shares ..... | (15,561)                | —                  | —                  | —                 |      |  |
| Allocation of undistributed loss .....  | <u>\$ (16,710)</u>      | <u>\$ (15,561)</u> | <u>\$ (10,762)</u> | <u>\$ (2,570)</u> |      |  |
| Denominator:  |                         |                    |                    |                   |      |  |
| Number of shares used in basic calculation .....  | 9,611                   | 130,262            | 70,951             | 61,321            |      |  |
| Weighted average effect of diluted securities:  |                         |                    |                    |                   |      |  |
| Conversion of Class B to Class A common shares outstanding .....                                | 130,262                 | —                  | —                  | —                 |      |  |
| Number of shares used in diluted calculation .....  | <u>139,873</u>          | <u>130,262</u>     | <u>70,951</u>      | <u>61,321</u>     |      |  |
| Diluted net loss per share .....  | <u>\$ (0.12)</u>        | <u>\$ (0.12)</u>   | <u>\$ (0.15)</u>   | <u>\$ (0.04)</u>  |      |  |

Potentially dilutive securities that were not included in the diluted per share calculations because they would be anti-dilutive were as follows (in thousands):

|  | Year Ended December 31, |                |                |
|--|-------------------------|----------------|----------------|
|  | 2019                    | 2018           | 2017           |
| Convertible Preferred Stock .....  | —                       | 179,815        | 179,815        |
| Shares subject to outstanding stock options and restricted stock units ..... | 37,032                  | 38,865         | 44,877         |
| Unvested early exercised stock options .....                                 | 1,240                   | 2,096          | 263            |
| Shares subject to the 2019 ESPP Plan .....                                   | 353                     | —              | —              |
| Total .....  | <u>38,625</u>           | <u>220,776</u> | <u>224,955</u> |

### 14. Subsequent Events

In January 2020, the Company entered into an agreement with Microsoft Azure to purchase an aggregate of at least \$21.0 million of cloud services over the course of three years through January 2023.

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## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

## **Item 9A. Controls and Procedures**

### ***Evaluation of Disclosure Controls and Procedures***

We maintain “disclosure controls and procedures,” as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2019. Based on the evaluation of our disclosure controls and procedures as of December 31, 2019, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

### ***Management's Report on Internal Control over Financial Reporting***

This Annual Report on Form 10-K does not include a report of management’s assessment regarding internal control over financial reporting or an attestation report of our independent registered public accounting firm due to a transition period established by the rules of the SEC for newly public companies.

### ***Changes in Internal Control Over Financial Reporting***

There was no change in our internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### ***Inherent Limitations on Effectiveness of Controls***

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## **Item 9B. Other Information**

None.

## PART III

### **Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this Item (other than as set forth below) will be included in the 2020 Proxy Statement to be filed with the SEC within 120 days after the end of our fiscal year ended December 31, 2019, or the 2020 Proxy Statement, and is incorporated herein by reference.

We have adopted a Code of Conduct that applies to all our employees, officers and directors. The Code of Conduct is available on our website at [www.investors.datadoghq.com](http://www.investors.datadoghq.com). The nominating and corporate governance committee of our board of directors is responsible for overseeing the Code of Conduct and must approve any waivers of the Code of Conduct for employees, executive officers and directors. We expect that any amendments to the Code of Conduct, or any waivers of its requirements, will be disclosed on our website, as required by applicable law or the listing standards of Nasdaq. Our website is not incorporated by reference into this Annual Report on Form 10-K, and you should not consider information on our website to be part of this Annual Report on Form 10-K.

### **Item 11. Executive Compensation**

The information required by this Item will be included in the 2020 Proxy Statement and is incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this Item will be included in the 2020 Proxy Statement and is incorporated herein by reference.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this Item will be included in the 2020 Proxy Statement and is incorporated herein by reference.

### **Item 14. Principal Accounting Fees and Services**

The information required by this Item will be included in the 2020 Proxy Statement and is incorporated herein by reference.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules

#### (a) Documents filed as part of this report

##### (1) All financial statements

##### Index to Consolidated Financial Statements

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| Report of Independent Registered Public Accounting Firm.....   | 56   |
| Consolidated Balance Sheets as of December 31, 2019 and 2018 .....   | 57   |
| Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017 .....   | 58   |
| Consolidated Statements of Comprehensive Loss for the years ended December 31, 2019, 2018 and 2017 .....   | 58   |
| Consolidated Statements of Convertible Preferred Stock and Stockholders' Equity (Deficit) for the years ended December 31, 2019, 2018 and 2017 ..... | 60   |
| Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017 .....   | 61   |
| Notes to Consolidated Financial Statements.....  | 62   |

##### (2) Financial Statement Schedules

All financial schedules have been omitted because the required information is either presented in the consolidated financial statements filed as part of this Annual Report on Form 10-K or the notes thereto or is not applicable or required.

##### (3) Exhibits

| Exhibit<br>Number | Description  | Incorporated by Reference |            |         |                       | Filed<br>Herewith |
|-------------------|--|---------------------------|------------|---------|-----------------------|-------------------|
|                   |  | Form                      | File No.   | Exhibit | Filing Date           |                   |
| 3.1               | Amended and Restated Certificate of Incorporation of Datadog, Inc.   | 8-K                       | 001-39051  | 3.1     | September 23,<br>2019 |                   |
| 3.2               | Amended and Restated Bylaws of Datadog, Inc.   | S-1                       | 333-233428 | 3.4     | August 23,<br>2019    |                   |
| 4.1               | Form of Class A Common Stock Certificate.  | S-1/A                     | 333-233428 | 4.1     | September 9,<br>2019  |                   |
| 4.2               | Description of Securities.   |                           |            |         |                       | X                 |
| 10.1              | Fourth Amended and Restated Investor Rights Agreement, dated December 28, 2015.                                | S-1                       | 333-233428 | 10.1    | August 23,<br>2019    |                   |
| 10.2#             | Datadog, Inc. 2012 Equity Incentive Plan, and terms of agreements thereunder.                                  | S-1                       | 333-233428 | 10.2    | August 23,<br>2019    |                   |
| 10.3#             | Datadog, Inc. 2019 Equity Incentive Plan and terms of agreements thereunder.                                   | S-1/A                     | 333-233428 | 10.3    | September 9,<br>2019  |                   |
| 10.4#             | Datadog, Inc. 2019 Employee Stock Purchase Plan.   | S-1/A                     | 333-233428 | 10.4    | September 9,<br>2019  |                   |
| 10.5#             | Form of Indemnity Agreement entered into by and between Datadog, Inc. and each director and executive officer. | S-1/A                     | 333-233428 | 10.5    | September 9,<br>2019  |                   |
| 10.6#             | Offer Letter, by and between Datadog, Inc. and Olivier Pomel, dated May 20, 2011.                              | S-1/A                     | 333-233428 | 10.6    | September 9,<br>2019  |                   |



|         |   |       |            |       |                   |   |
|---------|---|-------|------------|-------|-------------------|---|
| 10.7#   | Offer Letter, by and between Datadog, Inc. and David Obstler, dated August 28, 2018.  | S-1/A | 333-233428 | 10.7  | September 9, 2019 |   |
| 10.8#   | Offer Letter, by and between Datadog, Inc. and Laszlo Kopits, dated February 27, 2017.  | S-1/A | 333-233428 | 10.8  | September 9, 2019 |   |
| 10.9    | Agreement of Sub-Sub-Sublease, by and between Datadog, Inc. and Ideeli Inc., dated April 14, 2016.  | S-1   | 333-233428 | 10.9  | August 23, 2019   |   |
| 10.10   | Agreement of Sub-Sublease, by and between Datadog, Inc. and BT Americas Inc., dated September 18, 2017.   | S-1   | 333-233428 | 10.10 | August 23, 2019   |   |
| 10.11   | Sublease, by and between Datadog, Inc. and Covington & Burling LLP, dated July 19, 2018.  | S-1   | 333-233428 | 10.11 | August 23, 2019   |   |
| 10.12#  | Non-Employee Director Compensation Policy.  | S-1/A | 333-233428 | 10.12 | September 9, 2019 |   |
| 10.13#  | Form of Change of Control and Severance Agreement.  | S-1/A | 333-233428 | 10.13 | September 9, 2019 |   |
| 21.1    | List of Subsidiaries of Datadog, Inc.   |       |            |       |                   | X |
| 23.1    | Consent of Deloitte & Touche LLP, independent registered public accounting firm.  |       |            |       |                   | X |
| 24.1    | Power of Attorney (incorporated by reference to the signature pages of this Annual Report on Form 10-K).  |       |            |       |                   | X |
| 31.1    | Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |       |            |       |                   | X |
| 31.2    | Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |       |            |       |                   | X |
| 32.1*   | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |       |            |       |                   | X |
| 32.2*   | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |       |            |       |                   | X |
| 101.INS | XBRL Instance Document  |       |            |       |                   | X |
| 101.SCH | XBRL Taxonomy Extension Schema Document   |       |            |       |                   | X |

|         |   |   |
|---------|---|---|
| 101.CAL | XBRL Taxonomy Extension Calculation<br>Linkbase Document  | X |
| 101.DEF | XBRL Taxonomy Extension Definition<br>Linkbase Document   | X |
| 101.LAB | XBRL Taxonomy Extension Label<br>Linkbase Document        | X |
| 101.PRE | XBRL Taxonomy Extension Presentation<br>Linkbase Document | X |

# Indicates management contract or compensatory plan.

\* This certification is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

**Item 16. Form 10-K Summary**

None.

## SIGNATURES

Pursuant 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.

### DATADOG, INC.

Date: February 25, 2020

By: /s/ Olivier Pomel

Name: Olivier Pomel

Title: Chief Executive Officer and Director

### POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Olivier Pomel and Alexis Lê-Quôc, and each one of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in their name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <u>Signature</u>                                | <u>Title</u>  | <u>Date</u>       |
|---|---|-------------------|
| <u>/s/ Olivier Pomel</u><br>Olivier Pomel       | Chief Executive Officer and Director<br>(Principal Executive Officer)   | February 25, 2020 |
| <u>/s/ David Obstler</u><br>David Obstler       | Chief Financial Officer<br>(Principal Financial and Accounting Officer) | February 25, 2020 |
| <u>/s/ Alexis Le-Quôc</u><br>Alexis Le-Quôc     | President, Chief Technology Officer and Director                        | February 25, 2020 |
| <u>/s/ Michael Callahan</u><br>Michael Callahan | Director  | February 25, 2020 |
| <u>/s/ Matthew Jacobson</u><br>Matthew Jacobson | Director  | February 25, 2020 |
| <u>/s/ Dev Ittycheria</u><br>Dev Ittycheria     | Director  | February 25, 2020 |
| <u>/s/ Julie Richardson</u><br>Julie Richardson | Director  | February 25, 2020 |
| <u>/s/ Shardul Shah</u><br>Shardul Shah         | Director  | February 25, 2020 |

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# Executive Leadership

**Olivier Pomel**

CEO & Co-Founder

**Alexis Lê-Quôc**

CTO & Co-Founder

**Amit Agarwal**

Chief Product Officer

**David Obstler**

Chief Financial Officer

**Dan Fougere**

Chief Revenue Officer

**Laszlo Kopits**

General Counsel & Secretary

**Armelle de Madre**

Chief People Officer

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# Board of Directors

**Olivier Pomel**

CEO & Co-Founder

**Alexis Lê-Quôc**

CTO & Co-Founder

**Michael Callahan**

Co-Founder, Awake Security

**Dev Ittycheria**

President & CEO, MongoDB

**Matt Jacobson**

General Partner,  
ICONIQ Capital

**Julie Richardson**

Board Member

**Shardul Shah**

Partner, Index Ventures

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## Common Stock Listing

Listed: NASDAQ Global Market  
Symbol: DDOG

## Transfer Agent and Registrar

American Stock Transfer & Trust Company  
6201 15th Avenue  
Brooklyn, NY 11219

## Independent Accountants

Deloitte & Touche LLP  
30 Rockefeller Plaza  
41st Floor  
New York, NY 10112

## Investor Relations

For copies of this report or other financial information, please visit our website or contact:

Datadog Investor Relations  
IR@datadoghq.com

Website: ir.datadoghq.com

## Corporate Headquarters

Datadog  
620 8th Ave  
45th Floor  
New York, NY 10018

Website: datadoghq.com



**DATADOG**