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Proxy Statement and  
Annual Report

**2020**





March 25, 2020

To Our Stockholders:

You are cordially invited to attend the 2020 Annual Meeting of Stockholders (the "Annual Meeting") of SailPoint Technologies Holdings, Inc. ("SailPoint") at the offices of Vinson & Elkins L.L.P., 2801 Via Fortuna, Suite 100, Austin, Texas 78746, on May 5, 2020, at 12:30 p.m. Central Time.

The matters expected to be acted upon at the meeting are described in the accompanying Notice of Annual Meeting of Stockholders and proxy statement. You are entitled to vote at the Annual Meeting and any adjournments, continuations or postponements of the Annual Meeting only if you were a stockholder as of the close of business on March 6, 2020.

Thank you for being a SailPoint stockholder. We look forward to seeing you at the Annual Meeting.

Sincerely,

A handwritten signature in dark ink that reads "Mark D. McClain".

Mark McClain

Chief Executive Officer and Director

Your vote is important. Whether or not you can attend the meeting, please read the enclosed proxy statement carefully, and then cast your vote as soon as possible over the Internet, by telephone, or by completing and returning the enclosed proxy card so that your shares are represented at the Annual Meeting. Your vote will mean that you are represented at the Annual Meeting regardless of whether you attend in person. Returning the proxy does not deprive you of your right to attend the meeting or to vote your shares in person.





**SAILPOINT TECHNOLOGIES HOLDINGS, INC.  
11120 FOUR POINTS DRIVE, SUITE 100  
AUSTIN, TEXAS 78726**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

To Our Stockholders:

NOTICE IS HEREBY GIVEN that the 2020 Annual Meeting of Stockholders of SailPoint Technologies Holdings, Inc. (the "Annual Meeting") will be held at the offices of Vinson & Elkins L.L.P., 2801 Via Fortuna, Suite 100, Austin, Texas 78746, on May 5, 2020, at 12:30 p.m. Central Time, to consider and vote upon the following proposals:

1. To elect two Class III directors to hold office until the 2023 annual meeting of stockholders or until their successors are duly elected and qualified;
2. To ratify the selection by the Audit Committee of our Board of Directors of Grant Thornton LLP to serve as our independent registered public accounting firm for the fiscal year ending December 31, 2020;
3. To approve, on an advisory basis, our named executive officer compensation; and
4. Such other matters as may properly come before the Annual Meeting or any adjournment(s) or postponement(s) thereof.

Beginning on or about March 25, 2020, we will send to our stockholders a Notice of Internet Availability of Proxy Materials (the "Notice") with instructions on how to access our proxy materials over the Internet and how to vote. The Notice also provides instructions on how to obtain paper copies if preferred.

We are monitoring coronavirus (COVID-19) developments and the related recommendations and protocols issued by public health authorities and federal, state and local governments, and we are sensitive to the public health and travel concerns that our stockholders may have. In the event we determine it is necessary or appropriate to postpone the Annual Meeting or hold the Annual Meeting virtually, we will announce this decision in advance in a press release and post details on our website, which will also be filed with the SEC.

Only stockholders of record at the close of business on March 6, 2020 are entitled to notice of, and to vote at, the Annual Meeting or any adjournment or postponement thereof. A list of the names of stockholders entitled to vote at the Annual Meeting will be available for ten days prior to the Annual Meeting for examination by any stockholder for any purpose germane to the Annual Meeting between the hours of 9:00 a.m. and 5:00 p.m., Central Time, at our headquarters at 11120 Four Points Drive, Suite 100, Austin, Texas 78726. This list will also be available for such purposes during the Annual Meeting at the place of the Annual Meeting or, in the event that the Annual Meeting is held virtually, at a website to be provided in the announcement notifying stockholders of the change in meeting format.

By Order of the Board of Directors,

A handwritten signature in black ink, appearing to read "Chris Schmitt".

Christopher G. Schmitt  
Secretary  
Austin, Texas  
March 25, 2020

**Your vote is important. Whether or not you expect to attend the meeting, please vote over the Internet, by telephone, or by completing and promptly returning the enclosed proxy card so that your shares may be represented at the meeting.**

**IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON MAY 5, 2020: THIS PROXY STATEMENT FOR THE 2020 ANNUAL MEETING OF STOCKHOLDERS AND OUR ANNUAL REPORT TO STOCKHOLDERS FOR THE YEAR ENDED DECEMBER 31, 2019 ARE AVAILABLE AT [WWW.PROXYDOCS.COM/SAIL](http://WWW.PROXYDOCS.COM/SAIL).**

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**SAILPOINT TECHNOLOGIES HOLDINGS, INC.**  
**11120 FOUR POINTS DRIVE, SUITE 100**  
**AUSTIN, TEXAS 78726**

**PROXY STATEMENT FOR THE 2020 ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON MAY 5, 2020**

**THE MEETING**

The Board of Directors (the “Board”) of SailPoint Technologies Holdings, Inc., a Delaware corporation (“SailPoint,” the “Company” or “we”), is soliciting proxies for use at the 2020 Annual Meeting of Stockholders (the “Annual Meeting”) to be held at the offices of Vinson & Elkins L.L.P., 2801 Via Fortuna, Suite 100, Austin, Texas 78746, on May 5, 2020, at 12:30 p.m. Central Time. The Notice of Internet Availability of Proxy Materials was first furnished to stockholders on or about March 25, 2020. Electronic copies of this Proxy Statement and our Annual Report to Stockholders for the year ended December 31, 2019 (our “2019 Annual Report”) are available at [www.proxydocs.com/SAIL](http://www.proxydocs.com/SAIL).

We are monitoring coronavirus (COVID-19) developments and the related recommendations and protocols issued by public health authorities and federal, state and local governments, and we are sensitive to the public health and travel concerns that our stockholders may have. In the event we determine it is necessary or appropriate to postpone or hold the Annual Meeting virtually, we will announce this decision in advance.

**Voting Rights, Quorum and Required Vote**

Only holders of record of our common stock at the close of business on March 6, 2020 (the “Record Date”) will be entitled to vote at the Annual Meeting. At the close of business on the Record Date, we had 90,042,879 shares of common stock outstanding and entitled to vote. Holders of our common stock are entitled to one vote for each share held as of the Record Date. Holders of our common stock do not have the right to cumulative voting. A quorum is required for our stockholders to conduct business at the Annual Meeting. The holders of a majority of the outstanding voting power of all shares of our common stock entitled to vote at the meeting, present in person or represented by proxy, shall constitute a quorum at the Annual Meeting. Abstentions and “broker non-votes” (described below) will be counted in determining whether there is a quorum.

For Proposal No. 1 – Election of Directors, directors will be elected by a plurality of the votes of the shares of our common stock present in person or represented by proxy at the Annual Meeting and entitled to vote in the election of directors, which means that the two nominees receiving the highest number of “for” votes will be elected. Withheld votes and broker non-votes will have no effect on Proposal No. 1.

Proposal No. 2 – Ratification of Appointment of Independent Registered Public Accounting Firm requires the affirmative vote of the majority of voting power of common stock present in person or represented by proxy at the Annual Meeting and entitled to vote thereon. Abstentions will count the same as votes against Proposal No. 2.

Proposal No. 3 – Advisory Vote on our Named Executive Officer Compensation requires the affirmative vote of the majority of voting power of common stock present in person or represented by proxy at the Annual Meeting and entitled to vote thereon. Abstentions and broker non-votes will count the same as votes against Proposal No. 3.

**Voting Your Shares**

If you are a registered holder of our common stock, meaning that you hold our common stock directly (not through a bank, broker or other nominee), you may vote in person at the Annual Meeting, by telephone or electronically through the Internet by following the instructions included on your Notice of Internet Availability of Proxy Materials or your proxy card, or by completing, dating, signing and promptly returning your proxy card. All

signed, returned proxies that are not revoked will be voted in accordance with the instructions contained thereon. Signed proxies that give no instructions as to how they should be voted on a particular proposal at the Annual Meeting will be counted as votes “for” the election of each of the Class III director nominees presented by the Board under Proposal No. 1, as votes “for” Proposal No. 2, and as votes “for” Proposal No. 3.

If your shares of our common stock are held through a bank, broker or other nominee, you are considered the “beneficial owner” of those shares held in “street name.” You may be able to vote by telephone or electronically through the Internet (i.e., if those options are made available to you by your bank, broker or other nominee) in accordance with the voting instructions provided by that nominee. You may also vote by completing, dating, signing and promptly returning the voting instruction form sent by that nominee. You must obtain a legal proxy from the nominee that holds your shares if you wish to vote in person at the Annual Meeting. If you do not provide voting instructions to your broker in advance of the Annual Meeting, New York Stock Exchange (“NYSE”) rules grant your broker discretionary authority to vote on “routine” proposals. Where a proposal is not “routine,” a broker who has received no instructions from its clients does not have discretion to vote its clients’ uninstructed shares on that proposal, and the unvoted shares are referred to as “broker non-votes.” For the Annual Meeting, Proposals No. 1 and No. 3 *are not* considered “routine” proposals, and therefore, brokers cannot exercise discretionary authority regarding such proposals for beneficial owners who have not returned voting instructions. Proposal No. 2 *is* considered a “routine” proposal, and therefore, brokers can exercise discretionary authority regarding this proposal for beneficial owners who have not returned voting instructions.

In the event that sufficient votes in favor of the proposals are not received by the date of the Annual Meeting, the Chairman of the Annual Meeting may adjourn the Annual Meeting to permit further solicitations of proxies.

The telephone and Internet voting procedures are designed to authenticate stockholders’ identities, to allow stockholders to give their voting instructions and to confirm that stockholders’ instructions have been recorded properly. Stockholders voting via the telephone or Internet should understand that there may be costs associated with telephonic or electronic access, such as usage charges from telephone companies and Internet access providers, which must be borne by the stockholder.

### **Expenses of Solicitation**

The expenses of any solicitation of proxies to be voted at the Annual Meeting will be paid by the Company. Following the original distribution of the proxies and other soliciting materials, the Company and its directors, officers and other employees (for no additional compensation) may also solicit proxies in person, by telephone or e-mail. Following the original distribution of the proxies and other soliciting materials, the Company will request that banks, brokers and other nominees forward copies of the proxy and other soliciting materials to persons for whom they hold shares of common stock and request authority for the exercise of proxies. We will reimburse banks, brokers and other nominees for reasonable charges and expenses incurred in forwarding soliciting materials to their clients.

### **Revocability of Proxies**

Any person who validly submits a proxy has the power to revoke it prior to the Annual Meeting or at the Annual Meeting prior to the vote. A proxy may be revoked by a writing delivered to the Company stating that the proxy is revoked, by a subsequent proxy that is submitted via telephone or Internet, by a subsequent proxy that is signed by the person who signed the earlier proxy and is delivered before or at the Annual Meeting, or by attendance at the Annual Meeting and voting in person. If you are a beneficial owner and wish to change any of your previously provided voting instructions, you must contact your bank, broker or other nominee directly.

### **Electronic Delivery of Proxy Materials to Stockholders**

Beginning on or about March 25, 2020, we mailed to our stockholders a Notice of Internet Availability of Proxy Materials with instructions on how to access our proxy materials over the Internet and how to vote. If you received such Notice and would prefer to receive paper copies of the proxy materials, or if you received paper copies of the proxy materials and would prefer to receive a notice for future annual meetings, you may notify us by telephone, e-mail or mail at the respective telephone number, e-mail address or mailing address provided on the Notice.



## **Delivery of Documents to Stockholders Sharing an Address**

Because many stockholders hold shares of our common stock in multiple accounts or share an address with other stockholders, stockholders may receive duplicate mailings of proxy materials. Stockholders may avoid receiving duplicate mailings as follows:

- *Stockholders of Record.* If your shares are registered in your own name and you are interested in consenting to the delivery of a single set of proxy materials, you may contact Mediant Communications, Inc. (“Mediant”) by telephone at 1-866-648-8133, by Internet at [www.investorelections.com/SAIL](http://www.investorelections.com/SAIL), or by email at [paper@investorelections.com](mailto:paper@investorelections.com).
- *Beneficial Stockholders.* If your shares are not registered in your own name, the bank, broker or other nominee that holds your shares may have asked you to consent to the delivery of a single set of proxy materials if there are other SailPoint stockholders who share an address with you. If you currently receive more than one copy of the proxy materials at your household and would like to receive only one copy in the future, you should contact your nominee.

If you consent to the delivery of a single set of proxy materials but later decide that you would prefer to receive a separate copy of the proxy materials for each stockholder sharing your address, then please notify Mediant or your nominee, as applicable, and they will promptly deliver the additional proxy materials.

If you wish to receive a separate copy of the proxy materials for each stockholder sharing your address in the future, you may also contact Mediant by telephone at 1-866-648-8133, by Internet at [www.investorelections.com/SAIL](http://www.investorelections.com/SAIL), or by email at [paper@investorelections.com](mailto:paper@investorelections.com) if you are a stockholder of record, or you may contact your broker nominee if you are a beneficial stockholder.

## PROPOSAL NO. 1 – ELECTION OF DIRECTORS

The Board is presently comprised of seven members, who are divided into three classes, designated as Class I, Class II and Class III. One class of directors is elected by the stockholders at each annual meeting to serve a three-year term. Class I directors consist of Mark D. McClain and Tracey E. Newell; Class II directors consist of Cam McMartin, Heidi M. Melin and James M. Pflaging; and Class III directors consist of William G. Bock and Michael J. Sullivan.

Class III directors standing for re-election at the Annual Meeting are Messrs. Bock and Sullivan. Class I directors will stand for re-election at the 2021 annual meeting of stockholders, and Class II directors will stand for re-election at the 2022 annual meeting of stockholders.

Each of the nominees for election to Class III is currently a director of the Company. If elected at the Annual Meeting, each of the nominees would serve for three years and until his successor is duly elected and qualified, or until such director's earlier death, resignation or removal. Each of the nominees has indicated his willingness to serve as a member of the Board, if re-elected. If any of the nominees is unable to serve or will not serve (a contingency which the Board does not expect to occur), the proxies will be voted for a substitute nominee chosen by the Board. In the alternative, the stockholders may vote for just the remaining nominees, leaving a vacancy that may be filled at a later date by the Board, or the Board may reduce the size of the Board. At the Annual Meeting, proxies cannot be voted for a greater number of individuals than the number of nominees named in this Proxy Statement (which is two).

The names of the nominees for election as Class III directors at the Annual Meeting and of the incumbent Class I and Class II directors, and certain information about them, including their ages as of the Record Date, are included below.

<u>Name</u>	<u>Class</u>	<u>Age</u>	<u>Position</u>	<u>Year Appointed</u>	<u>Term Expiration</u>	<u>Expiration of Term for which Nominated</u>
<b>Director Nominees</b>						
William G. Bock	III	69	Chairman of the Board	2017	2020	2023
Michael J. Sullivan	III	55	Director	2017	2020	2023
<b>Continuing Directors</b>						
Mark D. McClain	I	57	Chief Executive Officer and Director	2017	2021	—
Tracey E. Newell	I	53	Director	2019	2021	—
Cam McMartin	II	63	Director	2019	2022	—
Heidi M. Melin	II	54	Director	2019	2022	—
James M. Pflaging	II	57	Director	2017	2022	—

Kenneth (Chip) J. Virnig, II served as a director and as a member of our Compensation Committee and our Cybersecurity Committee until his resignation from the Board, the Compensation Committee and the Cybersecurity Committee in March 2019.

### Nominees for Election as Class III Directors

**William G. Bock** has served on the board of directors of Silicon Laboratories Inc. (NASDAQ: SLAB) (“Silicon Labs”), a provider of silicon, software and solutions for the Internet of Things, internet infrastructure, industrial, consumer and automotive markets, since 2011. In addition, he currently serves on the board of directors of SolarWinds (NYSE: SWI). From 2013 to his retirement in 2016, Mr. Bock served as the President of Silicon Labs. He also served Silicon Labs as Senior Vice President of Finance and Administration and Chief Financial Officer from 2006 to 2011. Prior to joining Silicon Labs, Mr. Bock participated in the venture capital industry, principally as a partner with CenterPoint Ventures, and previously held senior executive positions with various venture-backed companies. Mr. Bock began his career with Texas Instruments (NASDAQ: TXN). Mr. Bock holds a B.S. in Computer Science from Iowa State University and an M.S. in Industrial Administration from Carnegie Mellon University. The Board believes that Mr. Bock's extensive financial and industry experience as well as his prior board experience qualify him to serve as a director.

**Michael J. Sullivan** served as the Chief Financial Officer at Ping Identity (NYSE: PING), an identity security company, from March 2013 until his retirement in December 2016, and his tenure there culminated in the successful sale of Ping Identity to Vista Equity Partners. Prior to joining Ping, Mr. Sullivan spent 12 years as the Executive Vice President and Chief Financial Officer of IHS Inc. (now IHS Markit Ltd.), a business information services company (NASDAQ: INFO, formerly NYSE: IHS), which he helped take public and where he worked closely with the audit committee of its board of directors. Prior to joining IHS, Mr. Sullivan spent three years with the Coors Brewing Company (NYSE: TAP), a consumer-packaged goods company, directing the corporate accounting function and leading corporate planning and analysis efforts. He began his career with Price Waterhouse, LLP in New York and Denver, managing the firm's participation in more than 30 domestic and international mergers and acquisitions, working with a variety of financial and strategic buyers. Mr. Sullivan also served in Price Waterhouse's audit practice, managing financial audits and audit committee representation for both public and private companies. In addition, Mr. Sullivan has served on the boards of directors and chaired the audit committees of two private equity-backed portfolio companies: Vertafore (a SaaS company), from April 2011 to December 2013, and SNL Financial (a business information services company), from December 2011 to April 2014. Mr. Sullivan holds a B.A. in Business Administration and Accounting from the University of Iowa. The Board believes that Mr. Sullivan's extensive management, financial and industry experience as well as his prior board and audit committee experience qualify him to serve as a director.

### **Continuing Directors**

**Mark D. McClain** co-founded SailPoint in December 2005 and has served as our Chief Executive Officer and on the Board since that time. He has 20 years of experience developing and leading innovative technology companies that have operated in the identity management market. In 2000, he founded Waveset Technologies, a pioneer in the identity management market. Following the acquisition of Waveset by Sun Microsystems ("Sun") in 2003, Mr. McClain served as Vice President of Software Marketing for Sun. His career also includes experience in international sales and marketing with HP (NYSE: HPQ) and IBM Tivoli Systems. Mr. McClain holds a B.A. in Economics from Point Loma Nazarene University and an M.B.A. from the University of California, Los Angeles. The Board believes that Mr. McClain's industry expertise and his daily insight into corporate matters as our Chief Executive Officer qualify him to serve as a director.

**Cam McMartin** served as our Chief Operating Officer from May 2019 until his retirement in December 2019 and as our Chief Financial Officer from 2011 to May 2019. Mr. McMartin formerly served as Managing Director and Chief Financial Officer for CenterPoint Ventures, a \$425 million venture capital group. Before CenterPoint Ventures, Mr. McMartin held senior financial management positions with a number of corporations, including Chief Financial Officer at Convex Computer (NYSE: CNX) and Senior VP, Operations at Dazel. Mr. McMartin holds a B.A. in Business Administration from Trinity University and an M.B.A. from the University of Michigan. The Board believes that Mr. McMartin's extensive industry and Company experience, along with his financial and cybersecurity expertise, qualify him to serve as a director.

**Heidi M. Melin** has served as the Chief Marketing Officer of Workfront Inc., a cloud-based company that develops enterprise work management software, since February 2018. From June 2013 to January 2018, Ms. Melin served as the Chief Marketing Officer of Plex Systems, Inc., a cloud Enterprise Resource Planning ("ERP") technology company that delivers plant floor-focused ERP to manufacturers. From May 2012 to March 2013, Ms. Melin served as Senior Vice President and Chief Marketing Officer at Eloqua, Inc., a provider of innovative marketing automation and revenue performance management solutions that was later acquired by Oracle Corporation. She served as Executive Vice President and Chief Marketing Officer at Taleo Corporation, a cloud-based talent management platform, from May 2011 to April 2012. From September 2007 to February 2011, Ms. Melin served as Senior Vice President and Chief Marketing Officer at Polycom, Inc., a global leader in voice and video collaboration solutions. From June 2005 to June 2007, Ms. Melin was the Chief Marketing Officer at Hyperion Solutions Corporation. She also previously served on the board of directors and the human resources committee of Accelrys, Inc., a public reporting company prior to its acquisition by Dassault Systèmes SA, from July 2013 to April 2014. Ms. Melin holds a B.A. in Political Science and Organizational Psychology from Willamette University. The Board believes that Ms. Melin's extensive marketing and industry experience as well as her prior board experience qualify her to serve as a director.

**Tracey E. Newell** has served as President of Global Field Operations at Informatica LLC, an enterprise cloud data management company, since July 2018 and is responsible for worldwide field sales, alliances, channels and

sales operations, and customer success. Ms. Newell also served as a member of the Informatica board of directors from June 2016 to June 2018. Prior to joining Informatica, Ms. Newell was Executive Vice President of global field operations at Proofpoint, an enterprise security software and solutions company, from August 2013 until June 2018. Before Proofpoint, from July 2011 to August 2013, Ms. Newell was Executive Vice President, Global Sales at Polycom. She has also held sales leadership positions at Juniper Networks and at Cisco WebEx. Ms. Newell holds a B.A. in Business Economics from the University of California, Santa Barbara. The Board believes that Ms. Newell's management and extensive industry experience as well as her prior board experience qualify her to serve as a director.

**James M. Pflaging** is the sole Managing Partner at Cynergy Partners Inc., a cybersecurity advisory firm he founded in March 2018, where he works closely with technology companies and investors to identify, acquire, and build companies and advises boards of directors and executives on assessing risk and improving their cyber governance. Currently, he serves on the board of directors of several private technology companies. Prior to founding Cynergy Partners, from January 2012 to March 2018, Mr. Pflaging was employed by The Chertoff Group, a security advisory firm that provides risk management, business strategy and merger and acquisition advisory services. While employed by The Chertoff Group, from April 2014 until March 2018, Mr. Pflaging was a Principal, a member of its Operating Committee and responsible for its strategy practice, and, beginning in 2017, he assumed leadership for its technology vertical. Mr. Pflaging has over 30 years of Silicon Valley experience, including 15 years as CEO of cybersecurity and data management companies. Mr. Pflaging holds a B.S. in Commerce with dual concentrations in Finance and Marketing from the University of Virginia. The Board believes that Mr. Pflaging's management and extensive industry experience qualify him to serve as a director.

#### **Vote Required**

The two nominees who receive the greatest number of "FOR" votes will be elected as Class III directors. Any shares that are not voted, whether by abstention, broker non-votes or otherwise, will not affect the election of directors.

Holders of proxies solicited by this Proxy Statement will vote the proxies received by them as directed on the proxy card or, if no direction is given, then "FOR" the election of the nominees named in this Proposal No. 1.

<b>The Board recommends a vote "FOR" the election of each of the director nominees.</b>
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## **CORPORATE GOVERNANCE**

### **Composition of the Board**

In accordance with our charter and bylaws, the Board is divided into three classes with staggered three-year terms. At each annual meeting of stockholders, directors will be elected to succeed the class of directors whose terms have expired. Our charter provides that the authorized number of directors will be fixed by the affirmative vote of the directors then in office, and newly created directorships and vacancies may be filled by the Board.

### **Director Independence**

The Board has undertaken a review of the independence of each director. Based on information provided by each director concerning his or her background, employment and affiliations, the Board has determined that none of our directors (other than Messrs. McClain and McMartin) have relationships that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of our directors (other than Messrs. McClain and McMartin) is “independent” as that term is defined under the listing standards of the NYSE. In addition, the Board previously determined that Mr. Virnig, who served on the Board until his resignation in March 2019, had no relationships that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and was “independent” as that term is defined under the listing standards of the NYSE during the time he served on the Board. In making these determinations, the Board considered the current and prior relationships that each non-employee director has with the Company and all other facts and circumstances the Board deemed relevant in determining their independence and eligibility to serve on the committees of the Board, including the transactions involving them described in the section titled “Certain Relationships and Related Party Transactions.”

### **Leadership Structure of the Board of Directors**

The offices of Chairman of the Board and Chief Executive Officer are presently separated. Our bylaws and corporate governance guidelines, which do not require the separation of our Chairman of the Board and Chief Executive Officer positions, allow the Board to determine the board leadership structure that is appropriate for us at any given point in time, taking into account the dynamic demands of our business, our senior executive personnel and other factors.

The Board believes that the separation of the Chairman of the Board and Chief Executive Officer roles currently provides the most efficient and effective leadership model for the Company as it encourages free and open dialogue regarding competing views and provides for strong checks and balances. Specifically, the balance of powers among our Chief Executive Officer and Chairman of the Board facilitates the active participation of our independent directors and enables our Board to provide more effective oversight of management.

Pursuant to our corporate governance guidelines, if the offices of Chairman of the Board and Chief Executive Officer are combined, the Board shall have a lead director (the “Lead Director”) designated by the independent directors to provide, in conjunction with the Chairman of the Board and Chief Executive Officer, leadership and guidance to the Board. The Lead Director would serve as a liaison between the Chairman of the Board and the independent directors and preside at all meetings of the Board at which the Chairman of the Board is not present, unless the other directors determine otherwise. Additionally, the Lead Director would coordinate the nature, quality, quantity and timeliness of, and have the authority to approve, information sent to the Board in advance of meetings, would also have the authority to approve the agendas for meetings and would have such other responsibilities as are described in our corporate governance guidelines and as designated from time to time by the Board.

### **Communications by Stockholders and Other Interested Parties with the Board**

Stockholders and other interested parties may contact any individual director, the Lead Director (if any), the Chairman of the Board, the Board as a group, or a committee or subset of the Board by sending mail to: Board of Directors, SailPoint Technologies Holdings, Inc., 11120 Four Points Drive, Suite 100, Austin, Texas 78726, Attention: Corporate Secretary; by e-mail at [investor@sailpoint.com](mailto:investor@sailpoint.com); or by telephone at (512) 664-8916.

All such concerns will be forwarded to the appropriate director or directors for review and will be simultaneously reviewed and addressed by the Company's General Counsel. The status of all outstanding concerns will be reported to the Board on a quarterly basis. The Board or the Audit Committee may direct special treatment, including the retention of outside advisors or counsel, for any concern addressed to them. The Company will not take any adverse action, and will not tolerate any retaliation, against any person for asking questions or making good faith reports of possible violations of law, Company policy or the Company's code of business conduct and ethics.

## Board Committees

The Board has established four standing committees: the Audit Committee, the Compensation Committee, the Nominating and Corporate Governance Committee and the Cybersecurity Committee. The composition, duties and responsibilities of each of these committees are described below. Each of these committees reports to the Board as provided in the applicable committee charter, as they deem appropriate and as the Board may request. The Board may establish such other committees as it deems appropriate from time to time.

The following table provides information on the Board's current committee memberships.

Name	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee	Cybersecurity Committee
William G. Bock	X	X	X	
Cam McMartin				X
Heidi M. Melin		Chair		X
Tracey E. Newell		X	Chair	
James M. Pflaging	X		X	Chair
Michael J. Sullivan	Chair			X

Our corporate governance guidelines, along with our code of business conduct and ethics and the charters for our Audit, Compensation, Nominating and Corporate Governance and Cybersecurity Committees, are available on our website at [investors.sailpoint.com/leadership-and-governance/governance-documents](http://investors.sailpoint.com/leadership-and-governance/governance-documents). Stockholders may also obtain copies of these documents upon written request to SailPoint Technologies Holdings, Inc., Attn: Investor Relations, 11120 Four Points Drive, Suite 100, Austin, Texas 78726 or by e-mail to [investor@sailpoint.com](mailto:investor@sailpoint.com).

### Audit Committee

Each member of the Audit Committee is financially literate, as required by the NYSE listing standards. In addition, the Board has determined that Messrs. Bock, Pflaging and Sullivan each qualifies as an "audit committee financial expert" within the meaning of Item 407(d) of Regulation S-K promulgated under the Securities Act of 1933, as amended (the "Securities Act"). The Board has also determined that Messrs. Bock, Pflaging and Sullivan each meets the additional independence standards of the NYSE and the Securities Exchange Commission (the "SEC") applicable to members of audit committees.

The Audit Committee, which operates under a written charter that satisfies the applicable rules and regulations of the SEC and the listing standards of the NYSE, is, among other things, responsible for:

- 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;
- discussing the scope and results of the audit with the independent registered public accounting firm, and reviewing, with management and the independent registered public accounting firm, 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; and
- approving or, as required, pre-approving, all audit and all permissible non-audit services, other than de minimis non-audit services, to be performed by the independent registered public accounting firm.

### ***Compensation Committee***

The Board has determined that each member of the Compensation Committee meets the additional independence standards of the NYSE and SEC applicable to members of compensation committees. The Compensation Committee, which operates under a written charter, is, among other things, responsible for:

- reviewing and approving the goals and objectives relating to the compensation of our executive officers, including any long-term incentive components of our compensation programs;
- evaluating the performance of our executive officers in light of the goals and objectives of our compensation programs and determining each executive officer's compensation based on such evaluation;
- assessing and advising the board of directors regarding succession planning for the CEO, and consulting with the CEO on succession planning for our executive officers;
- reviewing the operation and efficacy of our executive compensation programs in light of their goals and objectives;
- reviewing and assessing risks arising from our compensation programs;
- reviewing and recommending to the board of directors the appropriate structure and amount of compensation for our directors;
- reviewing and approving, subject, if applicable, to stockholder approval, material changes in our employee benefit plans; and
- establishing and periodically reviewing policies for the administration of our equity compensation plans.

The Compensation Committee has complete authority to retain and terminate outside counsel, compensation consultants, or other experts or consultants, as it deems appropriate, including complete authority to approve their fees and other retention terms. However, the Compensation Committee may only select such outside counsel, compensation consultants, or other experts or consultants after taking into consideration all factors relevant to that entity or person's independence from management, including the factors enumerated in the applicable exchange rules.

The Compensation Committee has retained Compensia, Inc. ("Compensia") to provide independent compensation consulting support. Compensia has provided market information on compensation trends and practices and makes compensation recommendations based on competitive data of a peer group of companies. Compensia is also available to perform special projects at the Compensation Committee's request. Compensia provides analyses and recommendations that inform the Compensation Committee's decisions but does not decide or approve any compensation actions. As needed, the Compensation Committee may also consult with Compensia on other compensation-related matters. Compensia reports exclusively to the Compensation Committee and does not provide any additional services to the Company. The Compensation Committee has assessed the independence of Compensia pursuant to applicable SEC and NYSE rules and concluded that Compensia's work for the Compensation Committee does not raise any conflict of interest.

The Compensation Committee may form and delegate authority to subcommittees and may delegate authority to one or more designated members of the Compensation Committee. The Compensation Committee may delegate to one or more executive officers the authority to make grants of equity-based compensation to eligible individuals who are not executive officers and to administer the Company's equity-based compensation plans. Any executive

officer to whom the Compensation Committee grants such authority must regularly report to the Compensation Committee grants so made and the Compensation Committee may revoke any delegation of authority at any time.

### ***Nominating and Corporate Governance Committee***

The Board has determined that each member of the Nominating and Corporate Governance Committee meets the independence standards of the NYSE. The Nominating and Corporate Governance Committee, which operates under a written charter, is, among other things, responsible for:

- identifying, evaluating and recommending qualified nominees to serve on the Board;
- considering and making recommendations to the Board regarding the composition of the committees of the Board;
- instituting plans or programs for the continuing education of the Board and orientation of new directors;
- developing and making recommendations to the Board regarding corporate governance guidelines and matters; and
- overseeing periodic evaluations of the Board's performance, including committees of the Board and management.

### ***Cybersecurity Committee***

The Cybersecurity Committee, which operates under a written charter, is, among other things, responsible for reviewing and advising on the following matters:

- the effectiveness of our cybersecurity programs and our practices for identifying, assessing and mitigating cybersecurity risks across our products, services and business operations;
- our controls, policies and guidelines to prevent, detect and respond to cyber attacks or data breaches involving our products, services and business operations;
- our security strategy and technology planning processes;
- the safeguards used to protect the confidentiality, integrity, availability and resiliency of our products, services and business operations;
- our cyber crisis preparedness, security breach and incident response plans, communication plans, and disaster recovery and business continuity capabilities;
- our compliance with applicable information security and data protection laws and industry standards; and
- our cybersecurity budget, investments, training and staffing levels to ensure they are sufficient to sustain and advance successful cybersecurity and industry compliance programs.

### **Risk Oversight**

The Board is responsible for overseeing our risk management process. The Board focuses on our general risk management strategy and the most significant risks facing us and oversees the implementation of risk mitigation strategies by management. The Board is also apprised of particular risk management matters in connection with its general oversight and approval of corporate matters and significant transactions.

The Board does not have a standing risk management committee, but rather we administer this oversight function directly through the Board as a whole. In particular, the Board is responsible for monitoring and assessing strategic risk exposure. Such responsibility is facilitated in part by the Audit Committee, which receives reports from management, the internal audit team, and the Company's independent registered public accounting firm; the Compensation Committee, which assesses and monitors whether any of our compensation policies and programs



have the potential to encourage unnecessary risk-taking; the Nominating and Corporate Governance Committee, which monitors the effectiveness of our corporate governance guidelines; and the Cybersecurity Committee, which oversees our policies, plans and programs relating to cybersecurity and data protection risks associated with our products, services and business operations.

Our management is responsible for day-to-day risk management. This oversight includes identifying, evaluating and addressing potential risks that may exist at the enterprise, strategic, financial, operational, compliance or reporting levels.

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

We have adopted a written code of business conduct and ethics that applies to our directors, officers and other employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. We have posted a current copy of the code on our website at [investors.sailpoint.com/leadership-and-governance/governance-documents](http://investors.sailpoint.com/leadership-and-governance/governance-documents). In addition, we intend to post on our website all disclosures that are required by law or the NYSE listing standards concerning any amendments to, or waivers from, any provision of the code.

### **Director Recommendations**

#### ***Director Qualification Standards and Selection Criteria***

The Nominating and Corporate Governance Committee, in recommending director candidates, and the Board, in nominating director candidates, will evaluate candidates in accordance with the qualification standards set forth in our corporate governance guidelines. Pursuant to our corporate governance guidelines, directors should possess the highest personal and professional ethics, integrity and values and be committed to representing the long-term interests of our stockholders. They also should be intelligent, inquisitive and objective in thought and have practical wisdom and mature judgment and a willingness to gain an understanding of the Company, its competitive position in its industry and its business strategy. Directors must be willing to devote sufficient time to carrying out their duties and responsibilities effectively and should be committed to serving on the Board for an extended period of time. Along with the selection criteria described above, some of the other qualifications that the Nominating and Corporate Governance Committee considers include, without limitation, independence, diversity, skills, education, expertise, business acumen, length of service, understanding of the Company and industry and other commitments. While we do not have a formal diversity policy for directors, the Nominating and Corporate Governance Committee generally considers the diversity of director candidates in terms of knowledge, gender, experience, background, skills, expertise and other demographic factors.

#### ***Stockholder Nominations***

The Nominating and Corporate Governance Committee will consider director candidates recommended by stockholders in the same manner it considers other candidates, but it has no obligation to recommend such candidates. A stockholder that wants to recommend a candidate for election to the Board should send a recommendation in writing to SailPoint Technologies Holdings, Inc., c/o Corporate Secretary, 11120 Four Points Drive, Suite 100, Austin, Texas 78726. Such recommendation should describe the candidate's qualifications and other relevant biographical information and provide confirmation of the candidate's consent to serve as director.

Stockholders may also nominate directors at an annual meeting by adhering to the advance notice procedure described under "Submission of Stockholder Proposals" elsewhere in this Proxy Statement.

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

In addition to the incumbent members of the Compensation Committee identified in the table above, Mr. Virnig served on the Compensation Committee in 2019 until his retirement in March 2019. None of the members of the Compensation Committee in 2019 was an officer or employee of the Company in 2019, nor have they ever been an officer or employee of the Company. None of our executive officers currently serves, or in the past year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on the Board or Compensation Committee.

## **Family Relationships**

There are no family relationships among any of our directors or executive officers.

## **Board and Annual Meetings**

The Board meets on a regularly scheduled basis during the year to review significant developments affecting the Company and to act on matters requiring their approval. It also holds special meetings when important matters require action between regularly scheduled meetings. During 2019, the Board held eight meetings. The Audit Committee held fourteen meetings, the Compensation Committee held six meetings, the Nominating and Corporate Governance Committee held five meetings, and the Cybersecurity Committee held four meetings in 2019. Each incumbent director attended at least 75% of the aggregate number of meetings held by the Board and the committees of the Board for the period for which such director served on the Board or committee(s), if applicable, during 2019.

The Board regularly holds executive sessions of the independent directors. If independent, the Chairman of the Board presides over such executive sessions. If the Chairman of the Board is not independent, the Lead Director presides over such executive sessions. Such executive sessions do not include employee directors or directors who do not qualify as independent under NYSE and SEC rules.

The Company's directors are encouraged to attend our annual meetings of stockholders, but we do not currently have a policy relating to directors' attendance at these meetings. Each then-current member of the Board attended our 2019 Annual Meeting of Stockholders.

## PROPOSAL NO. 2 – RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected Grant Thornton LLP (“Grant Thornton”) to be the Company’s independent registered public accounting firm for the fiscal year ending December 31, 2020, and recommends that the stockholders vote for ratification of such appointment. Grant Thornton has been engaged as our independent registered public accounting firm since 2010. As a matter of good corporate governance, the Audit Committee has requested the Board to submit the selection of Grant Thornton as the Company’s independent registered public accounting firm for fiscal year 2020 to the Company’s stockholders for ratification. In the event of a negative vote on such ratification, the Audit Committee will reconsider its selection. We expect representatives of Grant Thornton to be present at the Annual Meeting. They will have the opportunity to make a statement at the Annual Meeting if they desire to do so and will be available to respond to appropriate questions.

### Audit and Related Fees

The following table sets forth the aggregate fees billed for various professional services rendered by Grant Thornton:

	2019	2018
Audit Fees (1).....	\$ 3,075,953	\$ 2,909,088
Audit-Related Fees.....	\$ —	\$ —
Tax Fees.....	\$ —	\$ —
All Other Fees.....	\$ —	\$ —
Total Fees.....	\$ 3,075,953	\$ 2,909,088

- (1) Consists of fees for the annual audit and quarterly reviews and financial reporting consultations. For fiscal year 2019, this category also includes fees for services incurred in connection with our offering of convertible senior notes. For fiscal year 2018, this category also includes fees for services in connection with SEC registration statements.

### Pre-Approval Policy

The charter of the Audit Committee requires that the Audit Committee review the estimated fees of Grant Thornton’s audit, audit-related, tax and other permitted non-audit services and requires that the Audit Committee, or a member thereof with designated authority, pre-approve any services provided to the Company by Grant Thornton. All of the services listed in the above table for fiscal year 2019 were approved in accordance with the charter and policies of the Audit Committee.

### Vote Required

Approval of this proposal requires the affirmative vote of a majority of voting power of common stock present in person or represented by proxy at the Annual Meeting and entitled to vote thereon. Abstentions will count the same as votes against this Proposal No. 2.

Holders of proxies solicited by this Proxy Statement will vote the proxies received by them as directed on the proxy card or, if no direction is given, then “FOR” the ratification of the appointment of Grant Thornton LLP in this Proposal No. 2.

**The Board recommends a vote “FOR”  
the ratification of the appointment of Grant Thornton LLP.**

### **PROPOSAL NO. 3 – ADVISORY VOTE TO APPROVE NAMED EXECUTIVE OFFICER COMPENSATION**

Pursuant to Section 14A of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and consistent with the overwhelming support of our stockholders at our 2019 Annual Meeting of Stockholders to hold such vote annually, we are providing our stockholders with the opportunity to cast a non-binding advisory vote on a resolution to approve the compensation of our Named Executive Officers as disclosed in this Proxy Statement. Stockholders are being asked to vote on the following resolution:

**RESOLVED**, that the stockholders approve the compensation of SailPoint’s Named Executive Officers as disclosed in its Proxy Statement for the 2020 Annual Meeting of Stockholders pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, the compensation tables and other executive compensation disclosures.

The Compensation Discussion and Analysis section of this Proxy Statement and the accompanying tables and narrative provide a comprehensive review of our executive compensation program, objectives, factors and rationale. We urge you to read this disclosure before voting on this non-binding proposal. As described in detail in such disclosure, our executive compensation program is designed to attract and retain highly competent, motivated executives and reward them for superior performance, consistent with creating long-term stockholder value. The Compensation Committee believes that our executive compensation program, with its balance of guaranteed salary, performance-based cash bonuses and time-vesting equity awards promote retention and reward sustained performance that is aligned with long-term stockholder interests.

While this vote on executive compensation is non-binding and solely advisory in nature, the Board and the Compensation Committee will review and consider the voting results when making future decisions regarding our executive compensation program. We expect that the next stockholder advisory vote to approve Named Executive Officer compensation will occur at our 2021 Annual Meeting of Stockholders.

#### **Vote Required**

Approval of this proposal requires the affirmative vote of a majority of voting power of common stock present in person or represented by proxy at the Annual Meeting and entitled to vote thereon. Abstentions and broker non-votes will count the same as votes against this Proposal No. 3.

Holders of proxies solicited by this Proxy Statement will vote the proxies received by them as directed on the proxy card or, if no direction is given, then “FOR” this Proposal No. 3.

<p><b>The Board recommends a vote “FOR” the resolution approving, on a non-binding advisory basis, our named executive officer compensation.</b></p>
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## EXECUTIVE OFFICERS

The following table provides information regarding our executive officers.

Name	Age	Position
Mark McClain	57	Chief Executive Officer and Director
Jason Ream	48	Chief Financial Officer
Matt Mills	62	Chief Revenue Officer
Juliette Rizkallah	53	Chief Marketing Officer

The narrative disclosure below provides information about the business experience of certain of our executive officers. See “Proposal No. 1 — Election of Directors — Continuing Directors” for such information about Mr. McClain.

**Jason Ream** has served as our Chief Financial Officer since June 2019. Prior to joining the Company, Mr. Ream served as Chief Financial Officer of Mitrastech Holdings, Inc., a provider of legal and compliance software solutions, since June 2018. From April 2016 to March 2018, Mr. Ream served as Chief Financial Officer of Relativity ODA, LLC, a provider of e-discovery software solutions. Mr. Ream also held various positions at SolarWinds, Inc., a provider of IT infrastructure management software, from April 2009 to April 2016, including Executive Vice President and Chief Financial Officer from October 2013 to April 2016, Vice President of Growth Strategy from October 2012 to October 2013, and Vice President, Tools from December 2011 to October 2012. Prior to joining SolarWinds, Mr. Ream worked for J.P. Morgan as an executive director in investment banking from July 2006 to January 2009. From July 1999 to July 2006, he held various roles in investment banking at UBS, Piper Jaffray, and Credit Suisse First Boston. Mr. Ream holds an A.B. in mathematics from Amherst College.

**Matt Mills** has served as our Chief Revenue Officer since August 2019 and brings more than 30 years of experience to this role. Before joining SailPoint, Mr. Mills was the chief executive officer of MapR Technologies, an enterprise software company, from October 2015 until February 2018. Immediately prior to that, he spent twenty years at Oracle Corporation, most recently as Senior Vice President North America Sales, where he oversaw more than 8,000 employees and was responsible for \$4.5 billion in annual revenues. Since September 2018, Matt has served as board member and advisor to various early-stage SaaS companies. Mr. Mills holds a B.A. in English from Ferris State University in Michigan.

**Juliette Rizkallah** has served as our Chief Marketing Officer since August 2015. Ms. Rizkallah formerly served as Vice President of Global Marketing at Check Point Software Technologies, an information security technology company, from March 2008 until June 2015. Prior to Check Point Software Technologies, Ms. Rizkallah held executive positions with a number of corporations, including Oracle Corporation, CA Technologies and SAP SE. Ms. Rizkallah holds a B.A. from École Supérieure de Commerce de Paris (E.S.C.P.) in Paris, France and an M.B.A. from Harvard Business School.

## EXECUTIVE COMPENSATION

### Compensation Discussion and Analysis

This Compensation Discussion and Analysis (“CD&A”) provides a discussion of the compensation philosophy and objectives underlying our executive compensation program and how we evaluated and set executive compensation for 2019. This CD&A is intended to provide qualitative information concerning how 2019 compensation was earned and awarded to our Named Executive Officers. Further, it identifies the most significant factors relevant to our 2019 executive compensation decisions and gives context to the data presented in the compensation tables included below in this Proxy Statement.

The term “executive officers” means our senior executives who are each listed above in “Executive Officers” as an executive officer. The term “Named Executive Officers” means the executive officers identified in the table below, each of whom were considered “executive officers” as of December 31, 2019 or as of the date of their respective resignation, as applicable.

Named Executive Officer	Title
Mark McClain	Chief Executive Officer
Jason Ream	Chief Financial Officer
Howard Greenfield (1)	Former Chief Revenue Officer
Andrew Kahl (2)	Chief Customer Officer
Cam McMartin (3)	Former Chief Operating Officer
Matt Mills	Chief Revenue Officer

- (1) Mr. Greenfield resigned from his position as Chief Revenue Officer effective as of July 31, 2019.
- (2) Mr. Kahl has announced his intent to resign from his position as Chief Customer Officer effective March 31, 2020.
- (3) Mr. McMartin served as our Chief Financial Officer during the 2019 fiscal year until June 10, 2019, at which time he was appointed the Chief Operating Officer. Mr. McMartin resigned from his position as Chief Operating Officer effective as of December 31, 2019 but began providing services as a director of our board effective January 1, 2020.

### Executive Summary

This CD&A executive summary describes key features of our executive compensation program and summarizes the 2019 cash and equity incentive compensation and other benefits received by our Named Executive Officers. Please read the complete CD&A and remaining compensation sections for further details regarding the matters summarized below.

### Executive Compensation Program Overview

Our executive compensation program is designed to attract and retain highly competent, motivated executives and reward them for superior performance, consistent with creating long-term stockholder value. It consists of a mix of three primary components, described below, which we believe appropriately rewards our executive officers for their overall contribution to company performance, contains a substantial portion of at-risk, performance-based compensation, incorporates our financial and operational results and aligns our executives’ interests with those of our stockholders with the ultimate objective of increasing long-term stockholder value.

The three primary components of our executive compensation program are:

Primary Compensation Components	Overview
<b>Base Salary</b>	Competitive base salaries are established at a level necessary to retain the individual executive’s services, and to reward and motivate individual performance.
<b>Annual Cash Incentive</b>	An annual cash incentive award serves to focus our executives on achievement of pre-established annual financial targets. The ultimate payment amount is based on a combination of non-GAAP operating income and new bookings (as described below)

for our Named Executive Officers other than Messrs. Greenfield and Mills, whose annual cash incentives were based solely upon new bookings.

**Long-Term Equity Incentive** A long-term incentive plan and stock ownership guidelines serve to align our executives with longer term performance achievement and stockholder returns over time. The long-term incentive approach currently consists of a combination of restricted stock units (“RSUs”) and stock options vesting over time. Ownership and holding requirements are based on a designated multiple of each executive’s base salary.

### *Compensation Program Design and Governance Policies*

In addition to our three primary components of executive compensation, our executive compensation program includes other features that we believe are consistent with strong governance practices, including:

#### **What We Do**

- **Simple and Transparent Compensation Program:** Maintain a simple and transparent executive compensation program that is understandable both to stockholders and employees and that is not overly complex or subject to constantly changing features
- **Significant At-Risk, Variable Compensation Aligned with Performance:** A significant percentage of annual compensation is at-risk, variable and performance-based
- **Rigorous Target Setting:** Rigorous performance targets for non-GAAP Operating Income and new bookings
- **Multi-Year Equity Vesting:** Four-year vesting for all executive equity awards
- **Balanced Mix of Compensation:** Balance of short-term performance-based cash compensation and long-term equity awards
- **Balanced Mix of Equity Awards:** Named Executive Officers are granted a mix of RSUs and stock options vesting over time
- **Independent Compensation Consultant:** Engagement by the Compensation Committee of an independent compensation consultant to assist with the Compensation Committee’s regular review of our executive compensation program
- **Stock Ownership Guidelines:** Executive stock ownership guidelines and holding requirements

#### **What We Do Not Do**

- **No Gross-Ups:** No tax gross-ups upon a change in control
- **No Perquisites:** We do not offer any supplemental executive perquisites
- **No Repricing Options:** We have never repriced stock options and will not reprice stock options without stockholder approval
- **No Dividends Paid on Unvested Equity:** No prospective payment of dividends on unvested equity awards
- **No Hedging or Pledging Stock:** Insider Trading Policy that prohibits, among other things, hedging and pledging transactions relating to our stock

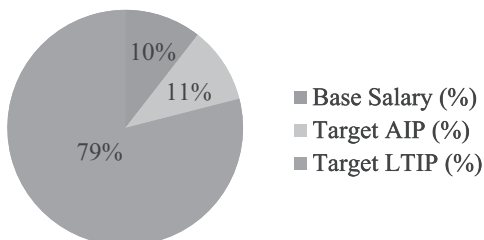
### *2019 Executive Compensation Pay Mix*

As shown in the chart below, targeted direct compensation for our CEO was 89% at-risk and variable compensation that is aligned with our performance, while targeted direct compensation for our other Named Executive Officers was 86% at-risk and variable compensation that is aligned with our performance. These percentages include targeted annual cash incentives for 2019 and the grant date value of the RSU and stock option awards granted to our Named Executive Officers in 2019. The stock option award portion of these figures is

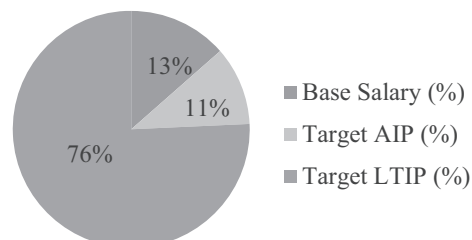


inherently performance-based because they only provide value to the recipients if the price of our stock increases following the date of grant of the awards.

**2019 Direct Compensation Components - CEO**



**2019 Direct Compensation Components – Average of Other NEOs (1)**



(1) Based on annualized compensation amounts and targets for NEOs who did not serve for the full year in 2019.

### *2020 Executive Compensation Program Changes*

In 2019 and early 2020, as part of its annual process, the Compensation Committee reviewed our executive compensation program to ensure it continues to achieve the goals of the program and remains competitive. Based on its review, the Compensation Committee approved a change in the relative mixture of equity awards to the Company's executive officers from 50% RSUs and 50% stock options to 65% RSUs and 35% stock options, which change is effective beginning with the grants made in the 2020 year. For other employees the relative mixture remains either 25% stock options and 75% RSUs or 100% RSUs. In previous years, a significant portion of the aggregate equity awards to our Named Executive Officers were designed as stock options because the Compensation Committee viewed stock options as inherently performance based due to the fact that stock options will only have value to employees to the extent our stock price increases. In connection with its general review of our equity program, however, the Compensation Committee determined that the change to an increased percentage of RSU awards will have the effect of better attracting, retaining and incentivizing our executive officers to grow the business in a way that increases stockholder value. Additionally, certain changes, discussed below, were made to the peer group to be used to inform 2020 compensation. The Compensation Committee did not make any material changes to the 2020 executive compensation program other than those discussed above.

In connection with our 2019 Annual Meeting of Stockholders, our stockholders voted in favor of an annual advisory vote to approve our executive compensation. Consistent with that vote, we have determined that it is advisable to conduct the advisory vote on executive compensation on an annual basis. We expect that the results of such advisory vote this year and going forward will become one of the factors that we consider on an annual basis when determining the design of our compensation program for our Named Executive Officers.

### *Executive Compensation Philosophy and Objectives*

Our executive compensation program is designed to reward our executive officers for their overall contribution to company performance, including the achievement of specific annual goals. The executive compensation program also seeks to align executive officers' interest with those of our stockholders by rewarding performance that meets or exceeds established goals, with the ultimate objective of increasing long-term stockholder value. Specifically, the program is designed to:

- Retain and attract a highly competent, motivated team of employees appropriately aligned with the long-term interests of our stockholders;
- Encourage behavior that will enhance both current year performance and long-term growth of stockholder value;
- Provide as part of our total compensation base salary, the opportunity for a cash incentive and the opportunity for a mix of RSUs and stock options with four-year vesting schedules;



- Require achievement of minimum performance thresholds prior to any cash incentive compensation being earned;
- Provide competitive programs of health, welfare and retirement benefits to all employees on an equivalent basis; and
- Make equity ownership and retention guidelines for executives and directors a key component to ensure alignment with long-term stockholder interests.

### ***Setting Executive Compensation for 2019 and Establishing Our 2019 Peer Group***

The Compensation Committee retained Compensia as its independent compensation consultant to review and provide advice and recommendations with respect to the Company's executive officer compensation program and assist the Compensation Committee in determining whether any elements or amounts of the existing compensation program should be modified from time to time.

Consistent with Compensia's recommendation, the 2019 equity award mixture for our senior officers (including our Named Executive Officers) was 50% stock options and 50% RSUs (based on value rather than number of shares). For our Named Executive Officers, a targeted dollar amount was established for the 2019 awards. The number of RSUs to be granted was determined by using 50% of such aggregate award value divided by the 30-trading-day average closing stock price from the date of grant. The number of stock options granted was determined by dividing 50% of the aggregate award value by the 30-trading-day average price of stock from the date of grant and then multiplying by 2.

In November 2018, Compensia proposed a peer group for use in the comparisons discussed above for the 2019 compensation year. The Compensation Committee reviewed and evaluated the proposed peer group in adopting a peer group consisting of the following 18 companies in our industry with comparable revenues and market capitalization:

#### **Peer Group Used for Determining 2019 Compensation**

- |                |                     |
|----------------|---------------------|
| • 8 x 8        | • Okta              |
| • Apptio       | • Paylocity Holding |
| • Benefitfocus | • Proofpoint        |
| • BlackLine    | • Q2 Holdings       |
| • Ellie Mae    | • Qualys            |
| • Five9        | • Rapid 7           |
| • HubSpot      | • SPS Commerce      |
| • Imperva      | • Varonis Systems   |
| • New Relic    | • Zendesk           |

In October 2019, the Compensation Committee reviewed the peer group used for 2019 compensation decisions and made certain changes effective for compensation decisions made in 2020. Apptio, Ellie Mae, Imperva, HubSpot, Okta, Proofpoint and Zendesk were removed and replaced with Alarm.com Holdings, Appian, LivePerson, MobileIron, Talend, Workiva and Yext. Apptio, Ellie Mae and Imperva were removed because they were acquired during 2019, HubSpot and Okta were removed because their respective market capitalization was above the target range deemed to be comparable to our market capitalization, and Proofpoint and Zendesk were removed because their respective revenues were above the target range deemed to be comparable to our revenues.

### ***Key Elements of Our 2019 Executive Compensation Program***

The following table highlights the key elements of our 2019 executive compensation program and the primary purpose of each element. Each element set forth in the table below is discussed in further detail in this CD&A.

<b>Element</b>	<b>Objectives and Basis</b>	<b>Key Features</b>
<b>Base Salary</b>	<ul style="list-style-type: none"> <li>Competitive base salaries are established at a level necessary to retain the individual executive's services, and to reward and motivate individual performance.</li> </ul>	<ul style="list-style-type: none"> <li>Varies by executive based upon individual skills, experience, responsibilities of the position, performance and other factors.</li> </ul>
<b>Annual Cash Incentive</b>	<ul style="list-style-type: none"> <li>Focus our executives on achievement of pre-established annual financial targets.</li> <li>Align executive officers' interests with those of our stockholders by promoting strong annual results.</li> <li>Retain executive officers by providing competitive compensation.</li> </ul>	<ul style="list-style-type: none"> <li>Cash incentive based on achievement of non-GAAP operating income and new bookings targets.</li> <li>Actual payout can vary from 0% to 150% of the target amount.</li> </ul>
<b>Long-Term Equity Incentive</b>	<ul style="list-style-type: none"> <li>Link a significant portion of each executive officer's compensation to longer term performance achievement and stockholder returns.</li> <li>Provide ownership opportunities which promote retention and enable us to attract and motivate our executive officers.</li> <li>Retain executive officers through multi-year vesting of equity grants.</li> </ul>	<ul style="list-style-type: none"> <li>Utilizes RSUs and stock options at a ratio of 2 stock options for each RSU granted in 2019.</li> <li>RSUs granted in 2019 vest in annual installments over a four-year period of continued service. Stock options vest (and RSUs granted after 2019 will vest) 25% after one year and then 1/48 per month for the following 36 months.</li> </ul>

The Compensation Committee has the authority to use its business judgment to provide for discretionary bonuses to the extent individual performance would warrant additional amounts.

#### ***Base Salary***

Each Named Executive Officer's base salary is a fixed component of annual compensation for performing specific job duties and functions. The Board makes adjustments to the base salary rates of the Named Executive Officers upon consideration of any factors that it deems relevant, including but not limited to: (i) any increase or decrease in the executive's responsibilities, (ii) the executive's job performance, and (iii) the level of compensation paid to executives of other companies with which we compete for executive talent, as estimated based on publicly available information and the experience of members of the Board and our Chief Executive Officer.

Base salaries are reviewed annually by our Compensation Committee, taking into account peer group comparisons and guidance from Compensia. The Compensation Committee assesses the individual skills, performance, experience, responsibilities and time in position of each Named Executive Officer. Below are the 2019 annual base salaries for our Named Executive Officers. Base salaries for 2018 and 2019 are reported as of December 31 of each year.

Name	Base Salary	
	2019 Annual Base Salary	2018 Annual Base Salary
Mark McClain	\$ 400,000	\$ 400,000
Jason Ream	\$ 350,000	\$ — (1)
Howard Greenfield	\$ 350,000	\$ 350,000
Andrew Kahl	\$ 300,000	\$ — (1)
Cam McMartin	\$ 375,000	\$ 350,000
Matt Mills	\$ 375,000	\$ — (1)

- (1) Information for 2018 is not included because such person was not a named executive officer of the Company during 2018.

#### *Annual Incentive Compensation and Process for Setting Performance Objectives*

Our Compensation Committee establishes performance targets on an annual basis with respect to our Named Executive Officers. As in prior years, the target bonus amounts (“target”) under our incentive plans for 2019 awards were based on a percentage of each executive’s base salary for 2019. Each of our Named Executive Officers, with the exception of Messrs. Greenfield and Mills, participate in our corporate bonus plan. Messrs. Greenfield and Mills participate in our sales incentive plan, performance of which is based solely on new bookings, given their strategic importance to our worldwide sales team.

The Compensation Committee asked Compensia to compare the target annual incentive potentially payable to our executive officers to the target (and maximum) annual incentive bonus of similarly situated executives within our peer group. The Compensation Committee reviewed the target (and maximum) annual incentive bonus of our Named Executive Officers, taking into account Compensia’s comparison, and increased each of their target (and maximum) annual incentive bonuses. For 2019, the Compensation Committee established a target bonus amount of 100% of base salary for each of Messrs. McClain, Greenfield and Mills, 60% of base salary for each of Messrs. McMartin and Ream and 40% of base salary for Mr. Kahl. For participants in the corporate bonus plan, the Compensation Committee established a threshold level of 50% of their target levels and a maximum level of 150% of their target level.

For 2019, non-GAAP operating income and new bookings were each weighted 50% towards the total bonus that could be potentially earned within the corporate bonus plan.

Non-GAAP operating income is calculated as income from operations on a GAAP basis excluding (i) stock-based compensation expense and (ii) amortization of acquired intangibles. The Compensation Committee believes that non-GAAP operating income, while still a non-GAAP measure, is an appropriate measure for our corporate bonus plan because our management uses non-GAAP operating income to clarify and enhance our understanding of past performance and future prospects. In addition, our management uses this non-GAAP financial measure to compare our performance to that of prior periods for trend analysis and for budgeting and planning purposes. This non-GAAP financial measure may not provide information that is directly comparable to that provided by other companies in our industry because they may calculate non-GAAP operating income differently than we do. In addition, there are limitations in using non-GAAP financial measures because they are not prepared in accordance with GAAP and exclude expenses that may have a material impact on our reported financial results. The presentation of non-GAAP financial information is not meant to be considered in isolation or as a substitute for the directly comparable financial measures prepared in accordance with GAAP.

The definition of new bookings for purposes of our annual bonus plans is inclusive of bookings for (a) license agreements, both perpetual and term, and the related initial maintenance and (b) SaaS agreements. New bookings does not include (x) maintenance and SaaS renewal agreements and (y) professional services. Term license and SaaS agreements are generally multi-year arrangements. Our new bookings target assumed a three-year contract duration for all term licenses and SaaS agreements. The new bookings attainment calculation is based on the actual duration of contracted term license and SaaS agreements (but capped at three years for purposes of the attainment calculation). In addition, the initial maintenance portion of our new bookings target is based on an assumed ratio of standard and premium maintenance bookings, based on the historical mix of agreements. The actual attainment is based on the realized mix which can vary based on customer preferences in a given period.

The table below summarizes the metrics and targets under our 2019 corporate bonus plan and sales incentive plan:

AIP Metric	Weighting		Rigor of Target-Setting
	Corporate Bonus Plan	Sales Incentive Plan	
<i>Non-GAAP Operating Income</i>	50%	0%	In establishing non-GAAP operating income targets and minimum and maximum thresholds for 2019, as in prior years, the Compensation Committee reviewed key business drivers of non-GAAP operating income and the opportunities and risks for each of these drivers to establish rigorous threshold, target, and maximum non-GAAP operating income levels.
<i>New Bookings</i>	50%	100%	In setting the new bookings target (and minimum and maximum thresholds for the corporate bonus plan) for 2019, the Compensation Committee established a target that was greater than the new bookings necessary to achieve the Company's target revenue for 2019. The same new bookings goal was used under both our corporate bonus plan and sales incentive plan.

The following table provides the 2019 target multiple, as well as potential payments which could have been made upon the achievement of a threshold, target or maximum level of performance for each of our Named Executive Officers:

#### 2019 Target Annual Incentive Opportunities

Name	2019 Target Award (% of Base Salary)	2019 Threshold: 50% of Target Award (\$ (1))	2019 Target: 100% of Target Award (\$)	2019 Maximum: 150% of Target Award (\$)
Mark McClain	100	\$ 200,000	\$ 400,000	\$ 600,000
Jason Ream	60	\$ 105,000	\$ 210,000	\$ 315,000
Howard Greenfield (2)	100	N/A	\$ 350,000	N/A
Andrew Kahl	40	\$ 60,000	\$ 120,000	\$ 180,000
Cam McMartin	60	\$ 168,750	\$ 337,500	\$ 506,250
Matt Mills (2)	100	N/A	\$ 375,000	N/A

- (1) To the extent the non-GAAP operating income threshold is not achieved, no bonus is payable regardless of bookings performance pursuant to the corporate bonus plan.
- (2) The sales incentive plan does not set threshold or maximum levels of performance. Messrs. Greenfield's and Mills's bonuses were designed to be calculated by multiplying their respective personal commission rates by actual new bookings performance, with no minimum or maximum threshold performance levels. Mr. Greenfield received a \$121,321 commission and Mr. Mills received a \$62,500 commission as a result of their respective actual new bookings performance during 2019.

No annual incentive bonuses were paid to the Named Executive Officers under the corporate bonus plan for 2019 because the Company did not satisfy the performance criteria that were required for payout.

#### Long-Term Equity-Based Awards

We intend for a significant portion of our total compensation provided to our executive officers to consist of equity-based compensation, and the SailPoint Technologies Holdings, Inc. 2017 Long Term Incentive Plan (the "LTIP") provides for the grant of a variety of equity-based awards. The LTIP is intended to promote our long-term success and increase long-term stockholder value by attracting, motivating and retaining our non-employee directors, officers and other employees. Additionally, to better align our executive officers' long-term interests with those of our stockholders, the LTIP does not allow for the repricing of stock options after they are awarded unless approved by our stockholders.

Following our initial public offering, we began granting RSUs, for which no purchase price is paid. RSUs granted in 2019 vest and will be settled in shares of our common stock in four substantially equal annual

installments beginning in the year following the year of grant (the first vesting date is roughly a year following the date of grant but may be slightly longer than a year to provide for vesting on dates likely to be in an open trading window to allow for transactions in vesting awards to cover any tax withholding). Stock options also vest (and RSUs granted after 2019 will vest) over a four-year period. One-fourth of the stock options (and the 2020 RSUs) vests on the one-year anniversary of the date of grant, or thereabout, and the remainder of the awards vest in substantially equal monthly installments over the remaining three-year period.

As indicated above, in 2019 Named Executive Officers were granted equity based on a specified dollar amount where 50% of the grant date amount will consist of RSUs and 50% will consist of stock options. The number of RSUs awarded was calculated by dividing half of the overall award value by the 30 day average price of stock from the date of grant, and the number of Options issued was calculated by dividing half of the overall award value by the 30 day average price of stock from the date of grant and then multiplying that amount by 2.

At the direction of the Compensation Committee, Compensia conducts an annual market analysis of peer company executive compensation, which is then supplemented with additional market information specific to each executive officer's role and responsibilities. In setting target equity compensation levels for 2019, the Compensation Committee considered pay practices at a group of peer companies (i.e., the peer companies identified above) that were selected based on relative annual revenue, market capitalization and industry, among other criteria. In addition to reviewing and analyzing competitive market data, for incumbent officers, the Compensation Committee considered then-current values of unvested equity (with the objective of ensuring it is sufficient to retain executives in a highly competitive market), the relationship of annual target compensation among external and internal peers, individual performance over the prior year and expected impact of each individual over the vesting period of the new grant. For officers who were hired during 2019 (i.e., Messrs. Kahl, Mills and Ream), the Compensation Committee considered the competitive market data, the relationship of annual target compensation among internal peers and the equity value necessary to attract and retain the officers.

The target equity award value set for each Named Executive Officer for the 2019 year is as follows:

<b>Name</b>	<b>2019 Equity Award Target Value</b>
Mark McClain	\$ 3,000,000
Jason Ream	\$ 2,500,000
Howard Greenfield	\$ 1,100,000
Andrew Kahl	\$ 1,450,000
Cam McMartin	\$ 1,500,000
Matt Mills	\$ 3,250,000

#### *Stock Ownership Guidelines and Holding Requirements*

The Compensation Committee has adopted stock ownership guidelines pursuant to which covered persons (including our Named Executive Officers) are prohibited from selling or disposing of any shares of our common stock unless and until the covered person holds an aggregate value of our common stock (or equivalents recognized under our policy) equal to, in the case of Mr. McClain, three times his annual base salary, and, in the case of our other Named Executive Officers, one times their annual base salary. Our guidelines also apply to our non-employee directors who are required to hold an aggregate value of our common stock (or equivalents recognized under our policy) equal to three times their annual cash retainer. Common stock owned directly or indirectly are considered under our guidelines. Unexercised stock options and unvested RSUs do not count towards ownership requirements. Covered persons may sell shares to pay the exercise price under stock options or satisfy tax withholding obligations with respect to equity awards generally without violating our guidelines. Covered persons are allowed five years to achieve the ownership requirement and are not prohibited from selling shares that would cause them to fall below their applicable threshold until that period has lapsed. Each of our Named Executive Officers is still within the five-year transition period.

### *Insider Trading Policy; Prohibitions Against Hedging and Pledging*

In addition to addressing other customary topics, our Insider Trading Policy prohibits company employees, including officers, and directors from engaging in certain transactions, including transactions in company or subsidiary debt securities, short sales of company securities, publicly-traded options, any hedging transactions (generally, any transaction that will hedge or offset, or is designed to hedge or offset, any decrease in the market value of our common stock) and margin accounts and pledged securities. This policy does not allow for any exception (e.g., waivers that provide for pre-clearance or pre-approval) to the above provisions.

### *Other Benefits*

*Retirement and Health and Welfare* — We offer the same types of retirement, health and welfare benefits to all of our employees, including to our executive officers as part of our total executive compensation package. Our programs are designed to be competitive and cost-effective. It is our objective to provide core benefits, including medical, retirement, life insurance, and paid time off to all our employees and executive officers. Benefits programs are reviewed on a periodic basis by comparing against companies with which we directly compete, reviewing published survey information, and obtaining advice from various third-party benefits consultants.

We currently maintain a retirement plan intended to provide benefits under Section 401(k) of the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”), where employees, including our Named Executive Officers, are allowed to contribute portions of their base compensation to a tax-qualified retirement account. We do not provide matching or profit-sharing contributions under the plan.

*Employee Stock Purchase Plan* — In addition to the LTIP, we sponsor an Employee Stock Purchase Plan (the “ESPP”). The ESPP provides eligible employees with the opportunity to purchase shares of our common stock conveniently through periodic payroll deductions at a reduced price. The ESPP is generally intended to qualify as an “employee stock purchase plan” under Section 423 of the Internal Revenue Code and, therefore, is open to employees generally.

*Severance Pay Plan* — In 2018, our Board adopted the Severance Pay Plan pursuant to which our senior leadership team of the Company, as identified by the Compensation Committee and including the Named Executive Officers, is eligible to receive certain severance benefits upon a qualifying termination of employment. Additional information regarding the Severance Pay Plan is set forth below under “Potential Payments upon Termination or Change in Control.” Prior to our IPO, Mr. McClain had received a Senior Management and Restricted Stock Agreement, which contained certain provisions governing his employment and potential severance benefits. Following our adoption of the Severance Pay Plan, we amended Mr. McClain’s individual agreement in order to remove any provisions that were duplicative or inconsistent with the Severance Pay Plan. The potential severance benefits that Mr. McClain could receive upon certain qualifying terminations will not be solely governed by the Severance Pay Plan.

*Perquisites* — It is our policy to not grant perquisites to our named executive officers as a matter of good practice, although the Compensation Committee reserves the right to grant perquisites in the future if it finds that doing so furthers its compensation goals and objectives.

### *Tax Deductibility of Certain Executive Compensation*

Section 162(m) of the Internal Revenue Code limits the tax deductibility of annual compensation paid to certain executives to \$1 million. During fiscal year 2019, our annual incentive compensation and equity awards were not subject to the deduction limitations of Section 162(m) of the Internal Revenue Code due to a transition period applicable to issuers that have recently completed an initial public offering, therefore the deductibility of our executive compensation program was not a significant factor in our decisions for the 2019 year.

### *Compensation Risk Assessment*

In accordance with the requirements of Item 402(s) of Regulation S-K, to the extent that risks may arise from our compensation policies and practices for our employees that are reasonably likely to have a material adverse effect on us, we are required to discuss our policies and practices for compensating our employees (including our



employees that are not Named Executive Officers) as they relate to our risk management practices and risk-taking incentives. We have determined that our compensation policies and practices for our employees, including our Named Executive Officers, are not reasonably likely to have a material adverse effect on us. Our Compensation Committee routinely assesses our compensation policies and practices and takes this consideration into account as part of its review.

### **Compensation Committee Report**

*The following report of the Compensation Committee of the Board does not constitute soliciting material and should not be deemed filed or incorporated by reference into any future filings under the Securities Act or the Exchange Act, except to the extent we specifically incorporate this report by reference.*

The Compensation Committee of the Board of Directors has reviewed and discussed with management the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K and contained in this Proxy Statement. Based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

THE COMPENSATION COMMITTEE

Heidi M. Melin, Chair

William G. Bock

Tracey E. Newell

### **Important Note Regarding Compensation Tables**

The following compensation tables have been prepared pursuant to SEC rules. Although some amounts (e.g., salary and non-equity incentive plan compensation) represent actual dollars paid to an executive, other amounts are estimates based on certain assumptions about future circumstances (e.g., payments upon termination of an executive's employment) or they may represent dollar amounts recognized for financial statement reporting purposes in accordance with accounting rules, but do not represent actual dollars received by the executive (e.g., dollar values of stock awards and option awards). The footnotes and other explanations to the Summary Compensation table and the other tables herein contain important estimates, assumptions and other information regarding the amounts set forth in the tables and should be considered together with the quantitative information in the tables.

## Executive Compensation Tables

The following table sets forth information regarding compensation for each of our Named Executive Officers for 2017 through 2019, to the extent that the executive was a Named Executive Officer for such year.

### 2019 Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards \$(1)	Option Awards \$(1)	Non-Equity Incentive Plan Compensation \$(2)	All other Compensation (\$)	Total (\$)
Mark McClain, Chief Executive Officer	2019	\$ 400,000	\$ —	\$ 1,699,576	\$ 1,459,215	\$ —	\$ —	\$ 3,558,791
	2018	\$ 375,000	\$ —	\$ —	\$ —	\$ 228,945	\$ —	\$ 603,945
	2017	\$ 330,000	\$ —	\$ 3,253,110(3)	\$ 1,076,000	\$ 214,914	\$ —	\$ 4,874,024
Jason Ream Chief Financial Officer (4)	2019	\$ 196,875	\$ —	\$ 1,051,229	\$ 872,839	\$ —	\$ —	\$ 2,120,943
Howard Greenfield, Former Chief Revenue Officer	2019	\$ 204,167	\$ —	\$ 623,175	\$ 535,043	\$ 121,321	\$ 1,100,000(5)	\$ 2,583,706
	2018	\$ 350,000	\$ 10,575(6)	\$ —	\$ —	\$ 283,845	\$ —	\$ 644,420
	2017	\$ 300,000	\$ —	\$ 1,266,197(7)	\$ 600,893	\$ 295,892	\$ —	\$ 2,462,982
Andrew Kahl Chief Customer Officer (4)	2019	\$ 295,455	\$ 40,000(8)	\$ 821,448	\$ 705,288	\$ —	\$ —	\$ 1,862,191
Cam McMartin, Chief Operating Officer	2019	\$ 366,383	\$ —	\$ 849,773	\$ 729,607	\$ —	\$ 1,250,000(9)	\$ 3,195,763
	2018	\$ 325,000	\$ —	\$ —	\$ —	\$ 135,061	\$ —	\$ 460,061
	2017	\$ 287,500	\$ 100,000	\$ 1,411,694(10)	\$ 538,000	\$ 158,433	\$ —	\$ 2,495,627
Matt Mills Chief Revenue Officer (4)	2019	\$ 123,438	\$ —	\$ 1,639,929	\$ 1,310,749	\$ 62,500	\$ —	\$ 3,136,616

- (1) Amounts shown do not reflect compensation actually received by the Named Executive Officers. Rather, the amounts represent the aggregate grant date fair value of awards granted to the Named Executive Officer in 2019, 2018 and 2017, in each case computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 ("ASC Topic 718"), with the exception that the amount shown assumes no forfeitures. A discussion of the assumptions used in the calculation of these amounts is included in Note 2 in the annual consolidated financial statements included in our 2019 Annual Report.
- (2) With respect to 2018 amounts, reflects amounts for services provided in 2018 pursuant to our annual cash incentive programs, which were paid to our Named Executive Officers during the first quarter of 2019. For 2018, Messrs. McClain and McMartin participated in our corporate bonus plan, and Mr. Greenfield participated in our sales incentive plan. As previously noted within the CD&A, none of our Named Executive Officers received payments from our corporate bonus plan for fiscal year 2019, although Messrs. Greenfield and Mills did receive commissions under the sales incentive plan for individual performance during 2019.
- (3) Amounts reported reflect a modification of outstanding restricted stock awards to convert performance vesting conditions to service based vesting conditions in connection with our initial public offering. Pursuant to ASC Topic 718 and SEC rules, the full grant date fair value of the award on the date of modification is reportable, resulting in an additional \$2,053,110 associated with equity awards previously granted in 2014.
- (4) Messrs. Ream, Kahl and Mills were not Named Executive Officers during 2017 or 2018, and therefore, this table does not provide compensation data for them for 2017 or 2018.
- (5) Amount reported represents severance pay to Mr. Greenfield, which is described in more detail within the section below titled "Potential Payments Upon Termination or Change in Control."
- (6) Amount reported represents a discretionary bonus awarded to Mr. Greenfield.
- (7) Amounts reported reflect a modification of outstanding restricted stock awards to convert performance vesting conditions to service based vesting conditions in connection with our initial public offering. Pursuant to ASC Topic 718 and SEC rules, the full grant date fair value of the award on the date of modification is reportable, resulting in an additional \$716,201 associated with equity awards previously granted in 2014.
- (8) Amount represents a sign-on bonus paid to Mr. Kahl.
- (9) Amount reported represents severance pay to Mr. McMartin, which is described in more detail within the section below titled "Potential Payments Upon Termination or Change in Control."



(10) Amounts reported reflect a modification of outstanding restricted stock awards to convert performance vesting conditions to service based vesting conditions in connection with our initial public offering. Pursuant to ASC Topic 718 and SEC rules, the full grant date fair value of the award on the date of modification is reportable, resulting in an additional \$811,694 associated with equity awards previously granted in 2014.

### 2019 Grants of Plan Based Awards

The following table reflects the various target values of the annual incentive plan award granted to each of our Named Executive Officers in 2019, as well as the number of RSUs and stock options granted to each of our Named Executive Officers in 2019.

Name	Grant Type	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1)			All Other Stock Awards: Number of Shares of Stock or Units (2)	Grant Date Fair Value of Stock and Option Awards (3)
			Threshold (\$)	Target (\$)	Maximum (\$)		
Mark McClain	Annual Cash Bonus	—	\$ 200,000	\$ 400,000	\$ 600,000	—	\$ —
	Stock Option Grant	2/7/2019	\$ —	\$ —	—	113,646	\$ 1,459,215
	RSU Grant	2/7/2019	\$ —	\$ —	—	56,823	\$ 1,699,576
Jason Ream	Annual Cash Bonus	—	\$ 105,000	\$ 210,000	\$ 315,000	—	\$ —
	Stock Option Grant	6/10/2019	\$ —	\$ —	—	119,731	\$ 872,839
	RSU Grant	6/10/2019	\$ —	\$ —	—	59,865	\$ 1,051,229
Howard Greenfield	Annual Cash Bonus	—	N/A	\$ 350,000	N/A	—	\$ —
	Stock Option Grant	2/7/2019	\$ —	\$ —	—	41,670	\$ 535,043
	RSU Grant	2/7/2019	\$ —	\$ —	—	20,835	\$ 623,175
Andrew Kahl	Annual Cash Bonus	—	\$ 60,000	\$ 120,000	\$ 180,000	—	\$ —
	Stock Option Grant	2/7/2019	\$ —	\$ —	—	54,929	\$ 705,288
	RSU Grant	2/7/2019	\$ —	\$ —	—	27,464	\$ 821,448
Cam McMartin	Annual Cash Bonus	—	\$ 168,750	\$ 337,500	\$ 506,250	—	\$ —
	Stock Option Grant	2/7/2019	\$ —	\$ —	—	56,823	\$ 729,607
	RSU Grant	2/7/2019	\$ —	\$ —	—	28,411	\$ 849,773
Matt Mills	Annual Cash Bonus	—	N/A	\$ 375,000	N/A	—	\$ —
	Stock Option Grant	9/3/2019	\$ —	\$ —	—	149,288	\$ 1,310,749
	RSU Grant	9/3/2019	\$ —	\$ —	—	74,644	\$ 1,639,929

- (1) The amounts reported represent the minimum, target, and maximum bonus amounts for each applicable Named Executive Officer under our corporate bonus plan for 2019 and the target values for Messrs. Greenfield and Mills. For more information about our bonus plans, see “Annual Incentive Compensation and Process for Setting Performance Objectives” and “2019 Target Annual Incentive Opportunities.” No annual incentive bonuses were paid to the Named Executive Officers under the corporate bonus plan for 2019 because the Company did not satisfy the performance criteria that were required for payout.
- (2) The stock options and RSU awards were granted pursuant to the LTIP. Options and RSUs generally vest over a four-year period. Options generally expire after a period of ten years from grant date. The Named Executive Officer must remain employed with us throughout each vesting period. For more information about our LTIP, see “Long-Term Equity-Based Awards.”
- (3) The amounts reported represent the aggregate fair value of each stock option and RSU awarded to the Named Executive Officers during 2019. These amounts have been calculated in accordance with ASC Topic 718. The assumptions we used to value these awards are described in Note 12 “Stock Option and Stock-Based Compensation” in our consolidated financial statements included in our 2019 Annual Report and do not necessarily correspond to the actual economic value that may be recognized by the Named Executive Officer.

### Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table

Our annual incentive plans are described in greater detail above in our CD&A. With respect to our annual incentive plans, the treatment of awards, in the event of certain terminations of employment and/or upon the occurrence of a change in control, is described below under “Potential Payments Upon Termination or Change in Control.”

## 2019 Outstanding Equity Awards at Year End

The following table reflects information regarding outstanding equity-based awards held by our Named Executive Officers as of December 31, 2019.

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options Exercisable (#)(1)	Number of Securities Underlying Unexercised Options Unexercisable (#)(2)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(3)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(4)
Mark McClain	104,166	95,834(5)	\$ 12.00	11/16/2027	106,823(6)	\$ 2,521,023
	—	113,646	\$ 29.92	2/7/2029	—	—
Jason Ream	—	119,731	\$ 17.56	6/10/2029	59,865(7)	\$ 1,412,814
Howard Greenfield (8)	—	—	\$ —	—	—	\$ —
Andrew Kahl	—	54,929	\$ 29.92	2/7/2029	27,464 (9)	\$ 648,150
Cam McMartin	52,083	47,917(5)	\$ 12.00	11/16/2027	53,411(10)	\$ 1,260,500
Matt Mills	—	149,288	\$ 21.97	9/3/2029	74,644 (11)	\$ 1,761,598

- (1) Stock options reported in this column were fully vested and exercisable by the named executive officer as of 12/31/2019.
- (2) Except as noted in Note 5 below, the stock options reported in this column are subject to time-based vesting schedules where 25% of the total award becomes vested in 2020 on the one-year anniversary of the initial 2019 grant date. The remaining vesting takes place at the rate of 1/48 of the total award vesting each month for the remaining 36 months.
- (3) The stock awards reported in this column are subject to time-based vesting conditions. The treatment of these awards upon certain termination and change in control events is described below under “—Additional Narrative Disclosure—Potential Payments upon Termination or Change in Control.”
- (4) Calculated based on the closing price of our common stock on December 31, 2019, which was \$23.60 per share.
- (5) Represents stock options granted in connection with our initial public offering, vesting in substantially equal monthly installments (of 1/48<sup>th</sup> of the original award) through November 16, 2021.
- (6) 50,000 shares are RSUs granted in connection with our initial public offering that will vest and be settled in two substantially equal annual installments on November 20, 2020 and 2021. The remaining 56,823 shares vest 25% annually in four equal amounts beginning February 28, 2020.
- (7) These shares vest 25% annually in four equal amounts beginning May 20, 2020.
- (8) Pursuant to Mr. Greenfield’s Separation Agreement (described further below), he forfeited all outstanding equity awards in connection with his termination of employment in July 2019.
- (9) These shares vest 25% annually in four equal amounts beginning February 28, 2020.
- (10) 25,000 of these shares are RSUs granted in connection with our initial public offering and will vest and be settled in two substantially equal annual installments on November 20, 2020 and 2021. The remaining 28,411 shares vest 25% annually in four equal amounts beginning February 28, 2020.
- (11) These shares vest 25% annually in four equal amounts beginning August 20, 2020.

## 2019 Option Exercises and Stock Vested

The table below sets forth information regarding the option exercises and the vesting of outstanding awards under our LTIP during 2019 for each of our named executive officers.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)(1)	Value Realized on Exercise (\$)(2)	Number of Shares Acquired on Vesting (#) (1)	Value Realized on Vesting (\$) (2)
Mark McClain	—	—	159,375	4,133,000
Jason Ream	—	—	—	—
Howard Greenfield	69,444	899,534	46,875	1,230,000
Andrew Kahl	—	—	—	—
Cam McMartin	—	—	65,625	1,697,500
Matt Mills	—	—	—	—

- (1) The number of shares acquired is reported on a gross basis. We withheld the necessary number of shares of common stock in order to satisfy withholding taxes from stock option exercises and stock awards, thus the Named Executive Officers actually received a lower number of shares of our common stock than the numbers reported in this table.
- (2) The value realized on exercise or vesting is calculated based upon the applicable closing market price of the number of shares acquired (on a gross basis) on the applicable vesting date for each award. It does not represent cash amounts received.

## No Pension Benefits or Nonqualified Deferred Compensation Plan

We do not sponsor or maintain any plans that provide for specified retirement payments or benefits, such as tax-qualified defined benefit plans or supplemental executive retirement plans nor a nonqualified deferred compensation plan.

## Potential Payment Upon Termination or Change in Control

Our Named Executive Officers are entitled to payments, benefits, and accelerated vesting of certain equity awards upon a termination of employment under certain circumstances and, in certain limited cases, additional equity may vest if such termination is following a change in control. These potential payments and benefits are provided pursuant to the terms of our Severance Pay Plan. We believe our Severance Pay Plan is an important retention for us as a component of our overall executive compensation program. It helps attract and retain skilled professionals in our industry, and allows management to focus its attention and energy on our business without any distractions regarding the effects of any potential change in control. We do not provide tax gross-ups upon a change in control.

The following paragraphs describe the termination entitlements under the terms of our Severance Pay Plan that were applicable to all Named Executive Officers as of December 31, 2019. In connection with Mr. Greenfield's separation from service during 2019, we entered into a Separation Agreement that governed his separation benefits, which is described further below. The subsequent tables quantify the future potential benefits payable pursuant to our Severance Pay Plan upon qualifying terminations.

Unless otherwise specified in an individual participation agreement, upon a termination without "Cause" or, in the case of Mr. McClain, a resignation for "Good Reason," that does not occur during the "Protection Period," a participant in the Plan will be eligible to receive the following benefits:

- a lump sum cash payment equal to 50% of such person's annual base salary (or 100% of annual base salary for Mr. McClain); and
- continuation coverage for the individual and his or her spouse and eligible dependents under our group health plans pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, for six months (or twelve months for Mr. McClain) at active employee rates, unless such coverage is earlier terminated in accordance with the terms of the Plan.

Unless otherwise specified in an individual participation agreement, upon a termination without Cause or a resignation for Good Reason during the period beginning three months prior to a “Change in Control” and ending on the one-year anniversary following such Change in Control (the “Protection Period”), then the participant will be eligible to receive the following benefits

- a lump sum cash payment equal to 100% of such person’s annual base salary (or 150% of annual base salary for Mr. McClain);
- continuation coverage for the individual and his or her spouse and eligible dependents under our group health plans pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, for twelve months (or eighteen months for Mr. McClain) at active employee rates, unless such coverage is earlier terminated in accordance with the terms of the Plan; and
- accelerated vesting of all outstanding equity compensation awards, with performance-based awards vesting at the greater of actual performance as of the date of the termination of employment or target performance.

“Cause” means a termination following a vote of either the Board for Mr. McClain or the Compensation Committee for our other Named Executive Officers to dismiss the employee due to his or her (a) conviction of a felony; (b) engagement in any other act of fraud, intentional misrepresentation, moral turpitude, misappropriation or embezzlement, illegality or unlawful harassment which would materially adversely affect our business or reputation or would expose us to a risk of material civil or criminal legal damages, liabilities or penalties; (c) repeated willful failure to follow the reasonable directives of the Board in connection with our business affairs; (d) material breach or violation of any material agreement with us or our policies; or (e) willful and deliberate non-performance of duty; provided, however, that any termination under clauses (c), (d) or (e) will be subject to a thirty-day cure period.

“Good Reason” means that, after complying with certain notification and cure periods, the employee resigns from employment after we, without the employee’s prior written consent, either: (a) reduce the employee’s base salary in any material respect (other than certain across-the-board salary reductions); (b) fail to pay any material incentive compensation to which the employee is actually entitled under a written agreement; (c) make a material reduction in the employee’s job responsibilities so as to constitute a *de facto* demotion (other than a mere change in title or reporting relationship in connection with a change in control); or (d) relocate the employee’s principal place of work outside of a 25-mile radius of the employee’s current principal place of work without the employee’s prior written approval.

“Change in Control” means (a) the acquisition of more than 50% of the total fair market value or total voting power of the Company by any person or group; (b) the acquisition of 30% or more of the total voting power of the Company by any person or group or a change in the majority of the members of our Board, in each case, in any 12-month period; or (c) the acquisition of 40% or more of the total gross fair market value of all the assets of the Company by any person or group in any 12-month period. The Severance Pay Plan incorporates the definition of Change in Control used in our LTIP, which definition is intended to constitute a change in the ownership, effective control or substantial portion of our assets within the meaning of Section 409A of the Internal Revenue Code.

#### *Potential Termination and Change in Control Benefits Table*

The following table illustrates an estimated amount of compensation or other benefits potentially payable to each of our Named Executive Officers as of December 31, 2019 that could be triggered upon termination of such executive’s employment under various scenarios. We have assumed that all salary payments or any expenses the executive may be due have been paid currently. Any amount ultimately received will vary based on a variety of factors, including the reason for such executive’s termination of employment, the date of such executive’s termination of employment, and the executive’s age upon termination of employment. The amounts shown assume that such termination was effective as of December 31, 2019, and, therefore, are estimates of the amounts that would have been paid to such executives upon their termination. Actual amounts to be paid can only be determined at the time of such executive’s termination from the company. Mr. Greenfield is not included in the table as he received benefits in connection with his separation from service during the 2019 year, described below.

	No Change in Control			Change in Control (1)			Death (\$)	Disability (\$)
	Voluntary Termination (\$)	For Cause Termination (\$)	Termination Without Cause or for Good Reason (2) (\$)	For Cause Termination (\$)	Termination Without Cause or for Good Reason (\$)			
Mark McClain								
Cash Severance (3)	\$ 0	\$ 0	\$ 400,000	\$ 0	\$ 600,000	\$ 0	\$ 0	
Unvested Equity (4)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,632,697	\$ 0	\$ 0	
Medical Benefits (5)	\$ 0	\$ 0	\$ 8,985	\$ 0	\$ 17,970	\$ 0	\$ 0	
Estimated Total	\$ 0	\$ 0	\$ 408,985	\$ 0	\$ 4,250,668	\$ 0	\$ 0	
Jason Ream								
Cash Severance (3)	\$ 0	\$ 0	\$ 175,000	\$ 0	\$ 350,000	\$ 0	\$ 0	
Unvested Equity (4)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,135,989	\$ 0	\$ 0	
Medical Benefits (5)	\$ 0	\$ 0	\$ 13,469	\$ 0	\$ 26,938	\$ 0	\$ 0	
Estimated Total	\$ 0	\$ 0	\$ 188,469	\$ 0	\$ 2,512,927	\$ 0	\$ 0	
Andrew Kahl								
Cash Severance (3)	\$ 0	\$ 0	\$ 150,000	\$ 0	\$ 300,000	\$ 0	\$ 0	
Unvested Equity (4)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 648,150	\$ 0	\$ 0	
Medical Benefits (5)	\$ 0	\$ 0	\$ 13,469	\$ 0	\$ 26,938	\$ 0	\$ 0	
Estimated Total	\$ 0	\$ 0	\$ 163,469	\$ 0	\$ 975,088	\$ 0	\$ 0	
Matt Mills								
Cash Severance (3)	\$ 0	\$ 0	\$ 187,500	\$ 0	\$ 375,000	\$ 0	\$ 0	
Unvested Equity (4)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 2,004,937	\$ 0	\$ 0	
Medical Benefits (5)	\$ 0	\$ 0	\$ 9,434	\$ 0	\$ 18,869	\$ 0	\$ 0	
Estimated Total	\$ 0	\$ 0	\$ 196,934	\$ 0	\$ 2,398,806	\$ 0	\$ 0	

- (1) As provided by the Severance Pay Plan, all unvested equity-based awards vest in connection with a change in control only if the Named Executive Officer is terminated within the Protection Period without Cause or for Good Reason.
- (2) Only Mr. McClain is entitled to benefits upon a termination for Good Reason outside of the Protection Period.
- (3) Calculation of benefits for various termination scenarios is described in the narrative preceding this table.
- (4) Values are calculated based on the closing price of our common stock of \$23.60 on December 31, 2019. The value for the acceleration of stock option awards is calculated as the difference between the closing price of our common stock of \$23.60 on December 31, 2019 and the exercise price per share of the award multiplied by the number of shares vesting.
- (5) Calculated based on the premiums payable to elect benefit continuation coverage by the Named Executive Officer pursuant to the Consolidated Omnibus Budget Reconciliation Act of 1985, (COBRA) for six or twelve months, as applicable, and for the actual level of group medical, dental and vision coverage in effect as of December 31, 2019.

#### *Separation Agreements with Messrs. Greenfield and McMartin*

On April 19, 2019, we entered into a Separation Agreement with Mr. Greenfield, pursuant to which Mr. Greenfield received a lump sum cash payment in the amount of \$1,100,000 and medical benefit payments in the amount of \$12,476, which was equal to six months of insurance coverage pursuant to COBRA. On November 27, 2019, we entered into a Separation Agreement with Mr. McMartin, pursuant to which Mr. McMartin received a lump sum cash payment in the amount of \$1,250,000 and medical benefit payments in the amount of \$6,252, which was equal to six months of insurance coverage pursuant to COBRA.

In exchange for the foregoing payments and benefits, Messrs. Greenfield and McMartin each agreed to certain customary waivers and releases for our benefit. Their separation agreements also contain customary provisions relating to, among other things, confidentiality, cooperation, non-disparagement and non-defamation, return of information and reaffirmation of prior employment and intellectual property agreements. Additionally, for a period of one year from their respective termination dates, Messrs. Greenfield and McMartin may not, directly or indirectly, employ, hire or solicit to hire any of our current employees, or solicit, encourage or otherwise assist any of our current employees to leave our company. This non-solicit obligation is in addition to their pre-existing obligations to us.

## DIRECTOR COMPENSATION

### 2019 Director Compensation Program

The Compensation Committee is responsible for recommending to the Board the form and amount of compensation for non-employee directors.

For 2019, our non-employee directors were entitled to receive a cash retainer and committee and chairmanship fees payable in cash on a quarterly basis and an annual award of RSUs as provided below:

Annual cash retainer	\$ 30,000
Additional annual cash retainer for the Chairman of the Board	\$ 20,000
Additional annual cash retainer for Chairman of the Audit Committee	\$ 20,000
Additional cash retainer for members of the Audit Committee	\$ 10,000
Additional cash retainer for the Chairman of the Compensation Committee	\$ 12,000
Additional annual cash retainer for members of the Compensation Committee	\$ 6,000
Additional annual cash retainer for Chairman of the Nominating and Corporate Governance Committee	\$ 7,500
Additional cash retainer for members of the Nominating and Corporate Governance Committee	\$ 3,750
Annual cash retainer for Chairman of the Cybersecurity Committee	\$ 10,000
Annual cash retainer for members of the Cybersecurity Committee	\$ 5,000
Annual equity retainer of RSUs	\$ 170,000

In August 2019, the Compensation Committee recommended, and the Board approved, an increase in the value of the annual equity retainer of RSUs for non-employee directors from \$170,000 to \$180,000, effective beginning at the Annual Meeting. We also reimburse all reasonable out-of-pocket expenses incurred by directors in connection with the performance of their duties as directors, including travel expenses relating to their attendance at meetings of the Board or any committee thereof and up to \$5,000 per year for director education expenses.

The Compensation Committee has adopted stock ownership guidelines pursuant to which covered persons (including our non-employee directors) are prohibited from selling or disposing of any shares of our common stock unless and until the covered person holds an aggregate value of our common stock (or equivalents recognized under our policy) equal to, in the case of our non-employee directors, three times their annual cash retainer for service on the Board. Common stock owned directly or indirectly is considered under our guidelines but unvested RSUs do not count toward the ownership requirement. Covered persons are allowed five years to achieve the ownership requirement and are not prohibited from selling shares that would cause them to fall below their applicable threshold until that period has lapsed.

The following table reflects information regarding our director compensation for the year ended December 31, 2019.

Name	Fees Earned or Paid in Cash (\$)	Unit Awards (1)	Total (\$)
William G. Bock	\$ 80,106	\$ 172,211	\$ 252,318
Heidi M. Melin	\$ 44,456	\$ 228,969	\$ 273,426
Tracey E. Newell	\$ 33,125	\$ 198,768	\$ 231,893
James M. Pflaging	\$ 53,750	\$ 172,211	\$ 225,962
Michael J. Sullivan	\$ 56,750	\$ 172,211	\$ 228,962
Kenneth (Chip) J. Virnig, II (2)	\$ 10,250	\$ —	\$ 10,250

- (1) Reflects the aggregate grant date fair value of the 6,051 RSUs granted to each of the non-employee directors, except Mr. Virnig, on May 6, 2019, computed in accordance with ASC Topic 718, determined without regard to forfeitures. Such awards represent the non-employee directors' only outstanding stock awards as of December 31, 2019 and will become vested and nonforfeitable on May 6, 2020, subject to the director's continued service. Also includes 2,360 RSUs granted to Ms. Melin on January 4, 2019 and 957 RSUs granted to Ms. Newell on March 27, 2019, representing a pro-rated award for service through the 2019 Annual Meeting of Stockholders, valued at the respective grant date fair values. These two pro-rated awards vested on May 2, 2019. See Note 2 to our audited consolidated financial statements in our 2019 Annual Report for a discussion of the assumptions used in determining the ASC Topic 718 grant date fair value of these awards.
- (2) 5,145 shares under Mr. Virnig's previously issued and unvested RSUs were accelerated in connection with his resignation from the Board in March 2019. All other unvested awards were forfeited by Mr. Virnig in connection with his resignation.

## **CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

Since January 1, 2019, other than the compensation arrangements, including employment, termination of employment and change in control arrangements, discussed in the sections titled “Executive Compensation” and “Director Compensation,” there have been no transactions in which:

- we have been or are to be a participant;
- the amount involved exceeded or is expected to exceed \$120,000; and
- any of our directors, executive officers or holders of more than 5% of our outstanding capital stock, or any immediate family member of, or person sharing the household with, any of these individuals or entities, had or will have a direct or indirect material interest.

### **Policies and Procedures for Related Party Transactions**

The Board has adopted a formal written policy providing that the Audit Committee will be responsible for reviewing “related party transactions,” which are generally transactions, arrangements or relationships (or any series of similar transactions, arrangements or relationships) to which we are a party, in which the aggregate amount involved exceeds or may be expected to exceed \$120,000 and in which a related person has, had or will have a direct or indirect material interest. For purposes of this policy, a related person is defined as a director, executive officer, nominee for director or greater than 5% beneficial owner of our capital stock, in each case since the beginning of the most recently completed year, and any of their immediate family members. In determining whether to approve or ratify any such transaction, the Audit Committee will take into account, among other factors it deems appropriate, (i) whether the transaction is on terms no less favorable than terms generally available to unaffiliated third parties under the same or similar circumstances and (ii) the extent of the related party’s interest in the transaction.



## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information with respect to the beneficial ownership of our common stock, as of the Record Date, for:

- each of our Named Executive Officers;
- each of our current directors;
- all of our current directors and executive officers as a group; and
- each person known by us to be the beneficial owner of more than 5% of our common stock.

We have determined beneficial ownership in accordance with the rules of the SEC, and thus it represents sole or shared voting or investment power with respect to our securities. Unless otherwise indicated below, to our knowledge, the persons and entities named in the table have sole voting and sole investment power with respect to all shares of common stock and sole voting and no investment power with respect to all shares of unvested restricted stock that they beneficially own, subject to community property laws where applicable. The information does not necessarily indicate beneficial ownership for any other purpose, including for purposes of Sections 13(d) and 13(g) of the Securities Act.

We have based our calculation of the percentage of beneficial ownership on 90,042,879 shares of our common stock outstanding as of the Record Date. We have deemed shares issuable pursuant to RSUs that vest within 60 days of the Record Date and shares of our common stock subject to stock options that are currently exercisable or exercisable within 60 days of the Record Date to be outstanding and to be beneficially owned by the person holding the restricted stock unit or stock option for the purpose of computing the percentage ownership of that person. We did not deem these shares outstanding, however, for the purpose of computing the percentage ownership of any other person. Unless otherwise indicated, the address of each beneficial owner listed in the table below is c/o SailPoint Technologies Holdings, Inc., 11120 Four Points Drive, Suite 100, Austin, Texas 78726.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned	
	Number	Percentage
<b>Named Executive Officers and Directors</b>		
Mark McClain (1) .....	2,401,536	2.7%
Jason Ream .....	—	*
Howard Greenfield (2) .....	45,209	*
Andrew Kahl (3) .....	41,649	*
Cam McMartin (4) .....	142,824	*
Matt Mills .....	—	*
William G. Bock (5) .....	83,296	*
Heidi M. Melin (6) .....	2,360	*
Tracey E. Newell (7) .....	957	*
James M. Pflaging (8) .....	160,514	*
Michael J. Sullivan (9) .....	14,204	*
All directors and executive officers as a group (10 people) .....	2,977,024	3.4%
<b>Other 5% Stockholders</b>		
The Vanguard Group (10) .....	7,970,448	8.9%
BlackRock, Inc. (11) .....	6,274,353	7.0%

\* Represents beneficial ownership of less than 1% of the outstanding shares of our common stock.

- (1) Consists of 1,199,562 shares of common stock and 153,980 shares of common stock subject to stock options that are currently exercisable or exercisable within 60 days of the Record Date held directly by Mr. McClain, 915,994 shares of common stock held by the McClain Charitable Remainder Unitrust, 44,000 shares of common stock held by the McClain RHD 2015 Trust, 44,000 shares of common stock held by the McClain ADM 2015 Trust and 44,000 shares of common stock held by the McClain GMM 2015 Trust. Mr. McClain is a co-trustee for each of the McClain Charitable Remainder Unitrust, McClain RHD 2015 Trust, McClain ADM 2015 Trust and McClain GMM 2015 Trust. As such, Mr. McClain may



be deemed to have shared voting and investment power with respect to all of the shares of common stock held by such trusts.

- (2) Mr. Greenfield resigned from the Company effective as of July 31, 2019. Amount reflects shares beneficially owned by Mr. Greenfield as of July 31, 2019.
- (3) Consists of 25,628 shares of common stock and 16,021 shares of common stock subject to stock options that are currently exercisable or exercisable within 60 days of the Record Date held directly by Mr. Kahl.
- (4) Consists of 142,824 shares of common stock and 0 shares of common stock subject to stock options that are currently exercisable or exercisable within 60 days of the Record Date held directly by Mr. McMartin.
- (5) Consists of 83,296 shares of common stock and 0 shares of common stock issuable pursuant to RSUs that vest within 60 days of the Record Date held directly by Mr. Bock.
- (6) Consists of 2,360 shares of common stock and 0 shares of common stock issuable pursuant to RSUs that vest within 60 days of the Record Date held directly by Ms. Melin.
- (7) Consists of 957 shares of common stock and 0 shares of common stock issuable pursuant to RSUs that vest within 60 days of the Record Date held directly by Ms. Newell.
- (8) Consists of 9,551 shares of common stock and 0 shares of common stock issuable pursuant to RSUs that vest within 60 days of the Record Date held directly by Mr. Pflaging and 157,014 shares of common stock held by the MMJ Living Trust. Mr. Pflaging is a co-trustee of the MMJ Living Trust. As such, Mr. Pflaging may be deemed to have shared voting and investment power with respect to all of the shares of common stock and shared voting power but no investment power with respect to all of the shares of restricted stock held by the MMJ Living Trust.
- (9) Consists of 14,204 shares of common stock and 0 shares of common stock issuable pursuant to RSUs that vest within 60 days of the Record Date held directly by Mr. Sullivan.
- (10) Pursuant to a Schedule 13G/A filed on February 12, 2020, by The Vanguard Group (“Vanguard”), Vanguard has sole voting power with respect to 178,736 shares, sole dispositive power with respect to 7,789,590 shares, shared voting power with respect to 11,530 shares and shared dispositive power with respect to 180,858 shares. The address for Vanguard is 100 Vanguard Boulevard, Malvern, Pennsylvania 19355. Vanguard Fiduciary Trust Company, a wholly owned subsidiary of Vanguard, is the beneficial owner of 169,328 shares of common stock as a result of its serving as the investment manager of collective trust accounts. Vanguard Investments Australia, Ltd., a wholly owned subsidiary of Vanguard, is the beneficial owner of 20,938 shares of common stock as a result of its serving as the investment manager of Australian investment offerings.
- (11) Pursuant to a Schedule 13G/A filed on February 10, 2020, by BlackRock, Inc. (“BlackRock”), BlackRock has sole voting power with respect to 6,128,644 shares, sole dispositive power with respect to 6,274,353 shares, shared voting power with respect to 0 shares and shared dispositive power with respect to 0 shares. The address for BlackRock is 55 East 52nd Street, New York, New York 10055.

## CEO PAY RATIO

We believe executive pay should be internally consistent and equitable to motivate our employees to create stockholder value. We are committed to internal pay equity, and our Compensation Committee monitors the relationship between the pay that our executive officers receive and the pay that our non-managerial employees receive. The Compensation Committee reviewed a comparison of Chief Executive Officer total compensation to that of our median employee for 2019. The compensation for our Chief Executive Officer in 2019 was approximately 17 times the compensation of our median employee.

We identified the median employee by examining the 2019 base salary (which we believe is a consistently applied compensation measure) for all individuals, excluding our Chief Executive Officer, who were employed by us on December 31, 2019. We included all employees, whether employed on a full-time or part-time basis and including our employees located outside the U.S. For employees located outside the U.S., we converted salary amounts from local currency to U.S. dollars using currency conversion rates effective on December 31, 2019. We also annualized the compensation for any employees that were not employed by us for all of 2019. With the exception of the foregoing, we did not make any other assumptions, adjustments, or estimates with respect to determining base salaries.

After identifying the median employee using base salary, we calculated annual total compensation for such employee using the same methodology we use for our Named Executive Officers as set forth in the “Summary Compensation Table,” above. The total compensation during 2019 for our Chief Executive Officer, Mark D. McClain, as set forth above in the Summary Compensation Table, was \$3,558,791. The total compensation during 2019 for our median employee, using the same methodology, was \$215,664. This results in a ratio of our Chief Executive Officer’s annual total compensation to our median employee’s annual total compensation of approximately 17:1. For additional information concerning Mr. McClain’s compensation, see “Executive Compensation—Executive Compensation Tables—2019 Summary Compensation Table.”

## EQUITY COMPENSATION PLAN INFORMATION

The following table reflects, as of December 31, 2019, information regarding compensation plans (including individual compensation arrangements) under which equity securities of the Company are authorized for issuance.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights (1)	Number of securities remaining for future issuance under equity compensation plans
Equity compensation plans approved by security holders	—	\$ —	—
Equity compensation plans not approved by security holders (2)	3,611,493 (3)	\$ 20.05	11,967,224 (4)
<b>Total</b>	<b>3,611,493</b>	<b>\$ 20.05</b>	<b>11,967,224</b>

- (1) The weighted-average exercise price does not take into account restricted stock units because restricted stock units do not have an exercise price upon vesting.
- (2) Consists of shares issued and issuable pursuant to four plans: the LTIP, the ESPP, our Amended and Restated 2015 Stock Option and Grant Plan (the “2015 Option Plan”) and our 2015 Stock Incentive Plan (the “2015 Incentive Plan” and, together with the 2015 Option Plan, the “2015 Plans”). The LTIP and ESPP were adopted by the Board and our stockholders prior to and in connection with our initial public offering in November 2017. A description of the material terms of the LTIP, ESPP and 2015 Plans is available in our prospectus dated November 16, 2017, filed with the SEC pursuant to Rule 424(b)(4) of the Securities Act under the heading “Executive Compensation—Additional Narrative Disclosure” and in Note 8 to the Unaudited Consolidated Financial Statements. The 2015 Plans are materially consistent with the LTIP, except that the 2015 Option Plan permits the issuance of options only and the 2015 Incentive Plan, which is an omnibus plan similar to the LTIP, allows for the issuance of options to eligible participants in Israel compliant with Section 102 of the Israeli Tax Ordinance, and is currently used primarily for that purpose.
- (3) Includes 1,753,665 shares of common stock issuable upon exercise of outstanding stock options and 1,857,828 restricted stock units settleable in shares of the Company’s common stock.

- (4) Of these shares, 2,101,612 shares remained available for issuance under the ESPP, 8,909,549 shares remained available for issuance under the LTIP, 605,936 remained available for issuance under the 2015 Option Plan and 350,127 remained available 2015 Incentive Plan. These shares are in addition to the shares reserved for issuance pursuant to outstanding awards included in the first column.

## AUDIT COMMITTEE REPORT

*The following report of the Audit Committee of the Board does not constitute soliciting material and should not be deemed filed or incorporated by reference into any future filings under the Securities Act or the Exchange Act, except to the extent we specifically incorporate this report by reference.*

Management has the primary responsibility for establishing and maintaining adequate internal financial controls, for preparing the financial statements and for the public reporting process. Grant Thornton LLP (“Grant Thornton”), the Company’s independent registered public accounting firm, is responsible for expressing opinions on the conformity of the Company’s audited financial statements with generally accepted accounting principles.

The Audit Committee has reviewed and discussed with management and Grant Thornton the Company’s audited consolidated financial statements for the fiscal year ended December 31, 2019. The Audit Committee has also discussed with Grant Thornton the matters required to be discussed by Auditing Standard No. 1301, Communications with Audit Committees, as adopted by the Public Company Accounting Oversight Board (the “PCAOB”).

The Audit Committee also received the written disclosures and the letter from Grant Thornton that are required by applicable requirements of the PCAOB regarding Grant Thornton’s communications with the Audit Committee concerning independence and has discussed with Grant Thornton its independence. On the basis of the foregoing, the Audit Committee concluded that Grant Thornton is independent from the Company, its affiliates and management.

Based upon its review of the Company’s audited financial statements and the discussions noted above, the Audit Committee recommended to the Board of Directors that the Company’s audited consolidated financial statements for the fiscal year ended December 31, 2019 be included in the Company’s Annual Report on Form 10-K for such fiscal year, which was filed with the SEC.

This report has been furnished by the members of the Audit Committee.

### THE AUDIT COMMITTEE

Michael J. Sullivan, Chair

William G. Bock

James M. Pflaging

## **DELINQUENT SECTION 16(A) REPORTS**

Section 16(a) of the Exchange Act requires that our directors, executive officers and persons who beneficially own more than 10% of our common stock to file reports regarding ownership and changes in ownership of our common stock with the SEC and NYSE. These persons are also required by SEC regulation to furnish the Company with copies of all such reports they file. Based solely on our review of such reports and any written representations from such reporting persons, we believe that except as set forth below, all required Section 16 reports were timely filed during 2019 by our directors, executive officers and beneficial owners of more than 10% of our common stock.

During 2019, each of Messrs. Greenfield, Pflaging and Sullivan, Ms. Melin and Newell and Thomas Beck submitted one untimely report on Form 4, each which reported a single transaction, and Mr. Bock submitted two untimely reports, each which reported a single transaction. In February 2020, each of Messrs. McClain, Mills and Ream, Eric Domagalski and Ms. Rizkallah submitted one untimely report on Form 4, each which reported a single transaction.

## **SUBMISSION OF STOCKHOLDER PROPOSALS**

Stockholder proposals submitted pursuant to SEC Rule 14a-8 for inclusion in the Company's proxy statement and form of proxy relating to the Company's 2021 Annual Meeting of Stockholders must be received by the Company at the principal executive offices of the Company no later than the close of business on November 25, 2020.

In accordance with our bylaws, stockholder proposals and director nominations that are not intended to be included in the Company's proxy statement must be received, in writing, by the Secretary of the Company at the principal executive offices of the Company not later than the close of business on the 90th day nor earlier than the close of business on the 120th day prior to the first anniversary of the prior year's annual meeting to be properly brought before an annual meeting of stockholders; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 70 days after such anniversary date, or if no annual meeting was held in the preceding year, notice by the stockholder must be so delivered not earlier than the close of business on the 120th day prior to such annual meeting and not later than the close of business on the later of the 90th day prior to such annual meeting or the tenth 10th day following the day on which public announcement of the date of such meeting is first made by the Company. Thus, assuming the 2021 Annual Meeting of Stockholders will be held no more than 30 days before nor more than 70 days after the first anniversary date of the 2020 Annual Meeting, if the Company does not receive notice of such a proposal or nomination between January 5, 2021 and February 4, 2021, it will be considered "untimely," and the presiding officer at the 2021 Annual Meeting may properly use his or her discretionary authority to declare that such proposal or nomination was not properly brought before the meeting and therefore shall not be transacted.

Any matter so submitted must comply with the other provisions of our bylaws and be submitted in writing to the Secretary at the principal executive offices of the Company.

## **OTHER BUSINESS**

The Board does not presently intend to bring any other business before the Annual Meeting, and, to the knowledge of the Board, no matters are to be brought before the Annual Meeting except as specified in the Notice of the Annual Meeting. As to any business that may properly come before the Annual Meeting, however, it is intended that proxies will be voted in respect thereof in accordance with the judgment of the persons voting such proxies.

Whether or not you expect to attend the Annual Meeting, please vote as soon as possible over the Internet or by telephone, or by completing and returning the enclosed proxy card, so that your shares are represented at the Annual Meeting.

## WHERE YOU CAN FIND MORE INFORMATION

The Company files annual, quarterly and current reports, proxy statements and other information with the SEC under the Exchange Act. We make available free of charge on or through our Internet website, *investors.sailpoint.com*, our reports and other information filed with or furnished to the SEC and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The SEC's Internet website, *www.sec.gov*, also contains reports, proxy statements and other information about issuers, like us, who file electronically with the SEC.

**We will provide, without charge, on the written request of any stockholder, a copy of our 2019 Annual Report, including the financial statements and the financial statement schedules required to be filed with the SEC pursuant to Rule 13a-1. Stockholders should direct such requests to Mediant by e-mail at *paper@investorelections.com*, by telephone at (866) 648-8133 or online at *www.investorelections.com/SAIL*.**



**ADDITIONAL INFORMATION REGARDING THE  
ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON TUESDAY, MAY 5, 2020**

**Change of Location**

The following Notice of Change of Location supplements and relates to the original Notice of Annual Meeting and proxy statement (the "Proxy Statement") of SailPoint Technologies Holdings, Inc. (the "Company"), dated March 25, 2020, furnished to stockholders of the Company in connection with the solicitation of proxies by the Board of Directors of the Company for use at the 2020 Annual Meeting of Stockholders to be held on Tuesday, May 5, 2020.

**Audit and Related Fees Correction**

The Company's Audit Fees, as well as the Total Fees, for 2019 as disclosed in the Audit and Related Fees section of the Proxy Statement are each hereby restated to reflect the corrected amount of \$2,021,560. All other figures and disclosures in this section of the Proxy Statement, including the Board's recommendation to vote "FOR" the ratification of the appointment of Grant Thornton LLP, remain unchanged.

This Supplement is being filed with the Securities and Exchange Commission and is being made available to stockholders of the Company on or about April 13, 2020.

**THIS SUPPLEMENT, INCLUDING THE FOLLOWING NOTICE, SHOULD BE  
READ IN CONJUNCTION WITH THE PROXY STATEMENT.**





SailPoint Technologies Holdings, Inc.  
11120 Four Points Drive, Suite 100  
Austin, Texas 78726

**NOTICE OF CHANGE OF LOCATION OF  
ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON MAY 5, 2020**

To Our Stockholders:

Due to the escalating public health impact of the coronavirus outbreak (COVID-19), and in light of recent guidance from the Centers for Disease Control and Prevention and other federal, state and local public health authorities, NOTICE IS HEREBY GIVEN that the location of the 2020 Annual Meeting of Stockholders (the "Annual Meeting") of SailPoint Technologies Holdings, Inc. (the "Company") has been changed to a virtual meeting-only format instead of an in-person meeting in Austin, Texas. The Annual Meeting will still be held on Tuesday, May 5, 2020 at 12:30 p.m., Central Time, as previously announced. However, you will no longer be able to physically attend the Annual Meeting.

As described in the proxy materials for the Annual Meeting previously distributed, you are entitled to participate in the Annual Meeting if you were a stockholder of the Company as of the close of business on March 6, 2020, the record date, or hold a legal proxy for the Annual Meeting provided by your bank, broker, or other holder of record. To attend and participate in the Annual Meeting, you will need to register in advance at [www.proxydocs.com/SAIL](http://www.proxydocs.com/SAIL) (the "Meeting Website") prior to the deadline of 5:00 p.m. Eastern Time on Friday, May 1, 2020. You will be required to enter the control number found on your proxy card, voting instruction form or notice you previously received. Upon completing your registration, you will receive further instructions via email, including your unique links that will allow you to access the meeting, review the list of stockholders entitled to vote and submit questions during the meeting. We encourage you to log on 15 minutes prior to the start time of the meeting. If you have difficulty accessing the Annual Meeting through the Meeting Website, please call the technical support number provided.

You may vote and ask questions during the Annual Meeting by following the instructions available on the Meeting Website at the time of the Annual Meeting. Whether or not you plan to attend the Annual Meeting, we urge you to vote and submit your proxy in advance of the Annual Meeting by one of the methods described in the proxy materials for the Annual Meeting. A list of stockholders entitled to vote at the Annual Meeting will be available for ten days prior to the Annual Meeting for examination by any stockholder for any purpose germane to the Annual Meeting between the hours of 9:00 a.m. and 5:00 p.m., Central Time, at our headquarters at 11120 Four Points Drive, Suite 100, Austin, Texas 78726. This list will also be available for such purposes during the Annual Meeting at the link to be provided upon your registration for the Annual Meeting. The proxy card included with the proxy materials previously distributed will not be updated to reflect the change in location and may continue to be used to vote your shares in connection with the Annual Meeting.

By Order of the Board of Directors,

A handwritten signature in dark ink, appearing to read "Chris Schmitt", written over a light blue circular stamp.

Christopher G. Schmitt  
Secretary  
Austin, Texas  
April 13, 2020

**Access to the Annual Meeting on May 5, 2020 at 12:30 p.m. Central Time is available at [www.proxydocs.com/SAIL](http://www.proxydocs.com/SAIL).**

You may access our Proxy Materials, including our 2019 Annual Report and 2020 Proxy Statement, at [www.proxydocs.com/SAIL](http://www.proxydocs.com/SAIL).

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

**FORM 10-K**

(Mark One)

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

For the fiscal year ended 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 001-38297**

**SailPoint Technologies Holdings, Inc.**

(Exact name of Registrant as specified in its Charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)  
  
11120 Four Points Drive, Suite 100,  
Austin, TX  
(Address of principal executive offices)

47-1628077  
(I.R.S. Employer  
Identification No.)  
  
78726  
(Zip Code)

Registrant's telephone number, including area code: **(512) 346-2000**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value \$0.0001 per share	SAIL	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ 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 emerging growth company. See the definition 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 checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input 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 ☒

On June 28, 2019, the last business day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of the common stock, par value \$0.0001 per share, held by non-affiliates of the Registrant was approximately \$1.7 billion, based upon the closing price on the New York Stock Exchange on such date.

The registrant had 89,736,026 shares of common stock outstanding as of February 17, 2020.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive proxy statement for its 2020 Annual Meeting of Stockholders (the "Proxy Statement"), to be filed within 120 days of the Registrant's fiscal year ended December 31, 2019, are incorporated by reference in Part III of this Annual Report on Form 10-K (this "Form 10-K"). Except with respect to information specifically incorporated by reference in this Form 10-K, the Proxy Statement is not deemed to be filed as part of this Form 10-K.

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## **SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. All statements of historical fact included in this Annual Report on Form 10-K regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these words or other similar terms or expressions.

You should not rely upon forward-looking statements as predictions of future events or place undue reliance thereon. We have based the forward-looking statements contained in this Annual Report on Form 10-K primarily on our current expectations and projections, in light of currently available information, about future events and trends that we believe may affect our business, financial condition, results of operations and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described in the section titled “Risk Factors” and elsewhere in this Annual Report on Form 10-K. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Annual Report on Form 10-K. We cannot assure you that the results, events and circumstances reflected in the forward-looking statements will 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. We undertake no obligation to update any forward-looking statements made in this Annual Report on Form 10-K to reflect events or circumstances after the date of this Annual Report on Form 10-K or to reflect new information or the occurrence of unanticipated events, except as required by law. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make.

## PART I

### ITEM 1. BUSINESS

#### Our Vision

Our fundamental belief is that identity is power. Our mission is to enable enterprises to grow and innovate, securely and efficiently. To do so, we have created our open identity platform that empowers users and governs their access to applications and data across complex, hybrid information technology (“IT”) environments.

#### Overview

SailPoint Technologies Holdings, Inc. (“SailPoint,” “the Company” or “we”) is the leading provider of enterprise identity governance solutions. Our team of visionary industry veterans launched SailPoint to empower our customers to efficiently and securely govern the digital identities of employees, contractors, business partners, software bots and other human and non-human users, and manage their constantly changing access rights to enterprise applications and data. Our SailPoint Predictive Identity platform provides organizations with critical visibility into who *currently* has access to which resources, who *should* have access to those resources, and *how* that access is being used. We offer both software and software as a service (“SaaS”) solutions, which provide organizations with the intelligence required to empower users and govern their access to systems, applications and data across hybrid IT environments, spanning on-premises, cloud and mobile applications and file storage platforms. We help customers enable their businesses with more agile and innovative IT, streamline delivery of access to their businesses, enhance their security posture and better meet compliance and regulatory requirements. Our customers include many of the world’s largest and most complex organizations, including commercial enterprises, financial institutions and governments.

Organizations globally are investing in technologies such as cloud computing and mobility to improve employee productivity, business agility and competitiveness. Today, enterprise environments are more open and interconnected with their business partners, contractors, vendors and customers. Business users have driven a dramatic increase in the number of applications and amount of data that organizations need to manage, much of which sits beyond the traditional network perimeter. Because of these trends, the attack surface is expanding while well-funded cyber attackers have significantly increased the frequency and sophistication of their attacks. As a result, IT professionals need to manage and secure increasingly complex hybrid IT environments within these extended enterprises.

Attackers frequently target the identity vector as it allows them to leverage user identities to gain access to high-value systems and data while concealing their activity and movements within an organization’s IT infrastructure. The consequences of a data breach can be extremely damaging, with organizations facing significant costs to remediate the breach and repair brand and reputational damage. In addition, governments and regulatory bodies have increased efforts to protect users and their data with a new wave of regulatory and compliance measures that are further burdening organizations and levying severe penalties for non-compliance. As a result of these trends, enterprises are struggling to efficiently manage and secure their digital identities.

We believe that our SailPoint Predictive Identity platform is a critical, foundational layer of a modern cyber security strategy. Its open architecture allows it to complement and build upon traditional perimeter- and endpoint-centric security solutions, which on their own are increasingly insufficient to secure organizations, and their applications and data. We deliver a user-centric security platform that combines identity and data governance solutions to form a holistic view of the enterprise. In combination with our technology partners, we create identity awareness throughout our customers’ environments by providing valuable insights into, and incorporating information from, a broad range of enterprise software and security solutions. Our governance platform provides a system of record for digital identities across our customers’ IT environments while allowing them to remain agile and competitive. Our adaptable solutions integrate seamlessly into existing technology stacks, allowing organizations to maximize the value of their technology investments. Our professionals work closely with customers throughout the implementation lifecycle, from documentation to development to integration.

Our solutions address the complex needs of global enterprises and mid-market organizations. Our go-to-market strategy consists of both direct sales and indirect sales through resellers, such as Optiv, and system integrators. Our mature system integrator channel includes global consultants such as Accenture, Deloitte, Ernst & Young (“EY”), KPMG and PricewaterhouseCoopers (“PwC”), all of whom have dedicated SailPoint practices, with some dating back more than nine years. As of December 31, 2019, 1,469 customers across a wide variety of industries were using our products to enable and secure digital identities across the globe.

## Our Growth Strategy

Key investments we are making to drive growth include:

- ***Driving new customer growth within existing geographic markets.*** Based on data from S&P Global Market Intelligence, we believe we have penetrated approximately 2% of over 65,000 companies in the countries where we have customers today. As a result, there is a significant opportunity to expand our footprint through both new, greenfield installations and displacement of competitive legacy solutions. We plan to expand our customer base in these countries by continuing to grow our sales organization, expand and leverage our channel partnerships and enhance our marketing efforts.
- ***Further penetrating our existing customer base.*** Our customer base of 1,469, as of December 31, 2019, provides a significant opportunity to drive incremental sales. Our customers have the flexibility to start with a single use case or project and expand over time. As they realize the value of their investment, new use cases and deployments are identified, allowing us to sell more products to existing customers and to expand the number and types of identities, including non-human and machine identities, and governed systems we cover within their organizations. This is especially true when it comes to our new and expanded SaaS offerings, including artificial intelligence (“AI”) and cloud governance. We believe strong customer satisfaction is fundamental to our ability to expand our customer relationships.
- ***Continuing to invest in our platform.*** Innovation is a core part of our culture. We believe we have established a reputation as a technology leader and innovator in identity governance. Over the past year, we launched new solutions and acquired Orkus and Overwatch.ID to further our SailPoint Predictive Identity vision. We plan to launch three new SaaS offerings in the first half of 2020. The first offering will help customers simplify and accelerate how they model access using our AI and machine learning (“ML”) platform. The next two offerings are focused on helping customers govern access to cloud platforms and workload and are built on technology acquired as part of the Orkus and Overwatch.ID acquisitions. We intend to continue investing, particularly in our SaaS offerings, to extend our position as the leader in identity governance by developing or acquiring new products and technologies.
- ***Leveraging and expanding our network of partners.*** Our partnerships with global system integrators, such as Accenture, Deloitte, EY, KPMG and PwC, and resellers, such as Optiv, have helped us extend our reach and serve our customers more effectively. We see a significant opportunity to offer comprehensive solutions to customers by collaborating with adjacent technology vendors. We intend to continue to invest in our partnership network as their influence on our sales is vital to the success of our business.
- ***Expanding market and product investment across existing vertical markets.*** We believe there is significant opportunity to further penetrate our target vertical markets by continuing to provide vertical-specific identity solutions and focusing our marketing efforts to address the use cases of those customers. With this approach, we believe we will be better able to address opportunities in key industries, such as financial services, healthcare, and federal, state and local government.
- ***Continuing to expand our global presence.*** We believe there is significant opportunity to grow our business internationally. Enterprises around the world are facing similar operational, security and compliance challenges, driving the need for identity governance. We have personnel in 18 countries and customers based in 54 countries as of December 31, 2019 and we generated 29% of our revenue outside of the United States in 2019. We plan to leverage our existing strong relationships with global system integrators and channel partners to grow our presence in Europe, Asia Pacific and other international markets.

## Product, Subscription, and Support Offerings

We deliver an integrated set of solutions to address identity governance challenges for medium and large enterprises. This set of solutions supports all aspects of identity governance, including provisioning, access request, compliance controls, password management and identity analytics for data stored in applications and files.

Our solutions deliver governance across the hybrid enterprise, extending from the mainframe to the cloud. We provide over 100 out-of-the-box connectors to enterprise applications such as SAP and Workday, which automate the collection, analysis and provisioning of identity data. We also provide governance over infrastructure components such as operating systems, directories, and databases and over vertical solutions, such as Epic, in the healthcare provider market. SailPoint Predictive Identity embeds AI and ML into our open identity platform to deliver actionable insights and recommendations to reduce risk, accelerate deployment and simplify administration.

Our solutions are built on our open identity platform, which enables connectivity to a variety of security and operational IT applications such as IT service management solutions (e.g., BMC Remedy and ServiceNow), privileged access management (“PAM”) (e.g., CyberArk and BeyondTrust), enterprise mobility management (“EMM”) and security information and event management (“SIEM”). Our open identity platform extends the reach of our identity governance processes and enables effective identity governance controls across customer environments.

### *IdentityIQ*

IdentityIQ is our on-premises identity governance solution, which can be deployed in customer’s data center or hosted in the public cloud. It provides large, complex enterprise customers a unified and highly configurable identity governance solution that consistently applies business and security policies as well as role and risk models across applications and data on-premises or hosted in the cloud. IdentityIQ enables organizations to:

- Empower users to request and gain access to enterprise applications and data;
- Automate provisioning across the user lifecycle, from on-boarding, to transfers and promotions to off-boarding by simplifying processes for creating, modifying and revoking access;
- Enable business users to reset their passwords via self-service tools without the need for IT involvement;
- Provide on-demand visibility to IT, business and risk managers into “who has access to what resources” to help make business decisions, improve security and meet audit requirements;
- Improve security and eliminate common weak points associated with data breaches, including weak passwords, orphaned accounts, entitlement creep and separation-of-duties policy violations; and
- Manage compliance using automated access certifications and policy management.

We package and price IdentityIQ into Core Modules and Advanced Integration Modules. All customers leverage the IdentityIQ Governance Platform, which provides the base features of the solution, including the identity warehouse, workflow engine and governance models. The four Core Modules include:

- **Lifecycle Manager:** This module provides a business-oriented solution that delivers access securely and cost effectively. The self-service access request capabilities feature an intuitive user interface that empowers business users to take an active role in managing changes to their access while greatly reducing the burden on IT organizations. Automated provisioning manages the business processes of granting, modifying and revoking access throughout a user’s lifecycle with an organization, whether that user is an employee, contractor or business partner. Changes to user access can be automatically provisioned via a large library of direct connectors for applications such as Workday and SAP or synchronized with IT service management solutions such as ServiceNow.
- **Compliance Manager:** This module enables the business to improve compliance and audit performance while lowering costs. It provides business user friendly access certifications and automated policy management controls (e.g., separation-of-duty violation reporting) that are designed to simplify and streamline audit processes across all applications and data. Built-in audit reporting and analytics give IT, business and audit teams visibility into, and management over, all compliance activities in the organization.
- **File Access Manager:** This module, a rebranded and repackaged version of the SecurityIQ product line, secures access to the growing amount of data stored in file servers, collaboration portals, mailboxes and cloud storage systems. The change was made to align the positioning and packaging of solutions with how our customers are purchasing and deploying a comprehensive identity governance strategy. It helps organizations identify where sensitive data resides, who has access to it, and how they are using it and then puts effective controls in place to secure it. File Access Manager is designed to interoperate with the Compliance Manager and Lifecycle Manager modules to provide comprehensive visibility and governance over user access to all data. By augmenting identity data from structured systems with data from unstructured data targets, organizations can more quickly identify and mitigate risks, spot compliance issues and make the right decisions when granting or revoking access to sensitive data.
- **Password Manager:** This module delivers a simple-to-use solution for managing user passwords to reduce operational costs and boost productivity. End users are empowered with a self-service interface for updating or resetting their password without having to contact the help desk. Configurable strong password policies enforce consistent security controls across on-premises and cloud applications. Password Manager has the capability to synchronize password changes across multiple applications, so they always remain consistent.

The Advanced Integration Modules provide connectivity to target application platforms such as SAP, mainframes, Amazon Web Services (“AWS”) and file storage systems.



## *IdentityNow*

IdentityNow is our cloud-based, multi-tenant identity governance platform, which is delivered as a SaaS subscription offering. IdentityNow provides customers with a set of fully integrated services for compliance, provisioning and password management for applications and data hosted on-premises or in the cloud. IdentityNow meets the most stringent identity governance requirements and provides enterprise-grade services that meet scalability, performance, availability and security demands. IdentityNow covers the same breadth of functionality as IdentityIQ, but additionally enables organizations to:

- Automate identity governance processes in one unified solution delivered from the cloud;
- Accelerate deployment with built-in best practice policies, options and default settings; and
- Eliminate the need to buy, deploy and maintain hardware and software to run an identity governance solution.

We package and price IdentityNow into a Cloud Platform and Governance Services with unique functionality as outlined below:

- **Cloud Platform:** IdentityNow provides foundational components for identity governance in the cloud, including production and sandbox instances and the IdentityNow Cloud Gateway virtual appliance, which leverages our patented method for integrating with on-premises applications and data. IdentityNow also includes a large catalog of pre-built connectors and application profiles to on-premises and cloud applications, leveraging the intellectual property developed for IdentityIQ.
- **User Provisioning:** This module enables business users to be productive from day one. With IdentityNow user provisioning, organizations can streamline the on-boarding and off-boarding process with best practice configurations and workflows, enabling IT to immediately grant employees access to the applications and data they need to do their jobs.
- **Access Request:** This module empowers the entire enterprise with a robust self-service solution for requesting and approving access to applications and data. Automating the access request process quickly delivers business users the access they need to do their jobs.
- **Access Certifications:** This module automates the process of reviewing user access privileges across the organization. Using IdentityNow, organizations can quickly plan, schedule and execute certification campaigns to ensure the right users have the appropriate access to corporate resources.
- **Separation-of-Duties:** This module simplifies and speeds the process of investigating access, quickly uncovering any access-related conflicts of interest for review and mitigation. It also automates the creation of policies that ensure continuous compliance with internal and external audit requirements.
- **Password Management:** This module offers business users an intuitive, self-service experience for managing and resetting passwords from any device and from anywhere. This service enforces consistent and secure password policies for all users across all systems from the cloud to the data center.

## *IdentityAI*

IdentityAI, our multi-tenant advanced AI and ML SaaS subscription offering, delivers on part of the SailPoint Predictive Identity vision by infusing intelligent insights and recommendations into our IdentityNow and IdentityIQ solutions to help organizations detect areas of high risk, including potential threats, before they turn into security breaches. IdentityAI consolidates identity data from IdentityNow and IdentityIQ, including account and entitlement assignments, with real-time activity in its big data platform. It then applies ML technologies to identify suspicious or anomalous behaviors. As a result, we believe customers will gain a much deeper understanding of the risk associated with user access, allowing them to focus their governance controls to reduce that risk. We are continuing development of IdentityAI to enable organizations to:

- Scan massive amounts of identity data to identify risks without having to rely on a team of security experts;
- Detect and alert on anomalous behaviors and potential threats using artificial intelligence technology;
- Classify behavioral threats and focus controls on high-risk scenarios and conditions; and
- Improve operational efficiency of the IT organization and business productivity by automating identity governance activities for routine and low-risk access.

We are continuing to develop IdentityAI to provide the following core capabilities:

- **Audit:** IdentityAI tracks user access over time to determine historical patterns for individual digital identities. This allows for the system to quickly identify abnormal user access or activity patterns.
- **Peer Group Analysis:** IdentityAI dynamically builds peer groups based on user attributes and access patterns. Peer group analysis is then used to identify outliers which may pose additional risk due to out-of-band or exceptional access privileges.

- **Behavioral Analysis:** IdentityAI monitors user behaviors, including access requests and approvals and application access events, at individual and peer group levels to baseline normal patterns and alert when anomalies are detected.
- **Risk Assessment:** IdentityAI leverages ML algorithms to create a dynamic risk model that automatically evolves as data changes. Real-time risk analysis is used to identify potential threats and tune identity controls to focus on high-risk users and events while deprioritizing low-risk activities.

## Technology

Our comprehensive, enterprise-grade identity governance platform is the result of both years of investment and the expertise of the Company's management and technical teams. Taking the lessons learned from our experiences with prior generation identity solutions, our engineers and architects designed a modern identity platform with internet scale, comprehensive hybrid environment coverage, and openness to optimize customers' existing technology investments.

### *Identity Cube Technology*

Our Identity Cube technology establishes the 360-degree control essential to govern and secure digital identities in today's complex IT environments. Our extensive data modeling capabilities allow us to understand how each identity relates to the full IT environment, whether on-premises or in the cloud. SailPoint's account correlation and orphan account management capabilities allow IT security professionals and business managers to track and monitor the accounts that are most frequently under attack.

Identity Cubes track all relevant information about an identity and its relationships to applications and data. They create the "identity context" which is key to an identity-aware infrastructure in which identity information is shared across the extended enterprise. With identity context, operational and security systems can make informed decisions about access and perform key remediation and change requests on our open identity platform via our standardized application program interfaces ("APIs") and software development kits ("SDKs").

### *Model-Based Governance*

Our model-based governance engine sits at the center of our platform and provides a comprehensive understanding of both the current state of who currently has access to what as well as the desired state of who should have access to what. The governance engine is responsible for managing the ongoing process of aligning these two states.

Governance and control models are used to drive our policy-based reconciliation service and to define how reconciliation and provisioning fulfillment actions are executed. These models are designed with graphical tools, enabling IT and business users to own and define the reconciliation and fine-grained access provisioning fulfillment processes for applications and data.

### *Dynamic Discovery Engine*

The Dynamic Discovery Engine provides instant visibility to all applications and users across an organization and its IT systems. It works by enabling users to use natural language search to quickly find access-related information or identify potential risks in their environments. Searches can be saved for future use or quickly turned into automated governance policies for use in provisioning, access request, certification, and password management processes. In addition, an API framework is provided to enable machine queries of filtered identity data from external systems.

### *Provisioning Broker*

Our provisioning broker provides separation between identity processes at the business level (e.g., requesting access to an application) and the actual fulfillment of that request on the target system. The provisioning broker is a specialized business process workflow execution engine that manages long-running provisioning tasks and provides tracking, monitoring and statistics for the end-to-end fulfillment process.

The decoupling capability of the provisioning broker maximizes our customers' flexibility and allows for the reuse of their existing IT investments. For example, if access to an application can only be provided manually through the opening of a help desk ticket, the provisioning broker will send that request to the help desk and report back on the status of that request. Likewise, if a customer utilizes a legacy provisioning system, the provisioning broker can pass off a request to that legacy system for fulfillment. In addition, the provisioning broker provides us with a unique migration strategy for customers moving from a legacy system to our identity governance solutions.

### ***Enterprise-Grade Cloud Gateway***

To manage on-premises infrastructure, applications and data from the cloud, we employ a Cloud Gateway Server ("CGS"), delivered as a virtual machine behind the customer's firewall, which ensures that all SailPoint communications are highly secure. Our CGS technology is a high availability, secure, self-managed container that allows for controlled and automated updates of our connector infrastructure while ensuring the integrity of individual on-premises and cloud connections.

Our CGS also provides an innovative and patented approach to protecting our customer's credentials. Our "zero-knowledge encryption" technology allows us to store all of a customer's passwords and security credentials inside the CGS behind their firewall. As a result, we protect the confidentiality of our customers' system and end-user credentials, even if our cloud service provider were to be breached.

### ***Data Ownership Assessment and Election***

Verifying the business end-user who is the logical owner of information is a key challenge in managing growing volumes of unstructured data in the enterprise. Our novel approach, supported by a recently granted patent, determines the rightful owner of files, so they can be integrated into governance control processes, such as access certifications and access approvals. Our solution leverages profile data to determine logical owners of information based on identity attributes and usage data. Once a set of logical owners is identified, we use a crowd-sourcing approach to allow other users familiar with the data to vote on the rightful owner of the file or file storage location. This enables organizations to efficiently identify and designate specific owners for sensitive information stored in files and incorporate them into identity governance processes.

### ***Connectivity for the Hybrid IT Environment***

Our extensive library of over 100 proprietary connectors provides interfaces to on-premises and cloud applications. These connectors are the means by which we provide governance over target systems. We support granular management of a wide range of systems, from mainframe security managers, including CA ACF2 and Top Secret, IBM and RACF, to traditional enterprise applications, including Oracle E-Business Suite and SAP, and pure SaaS business applications, such as Microsoft Office365, Salesforce and ServiceNow. Generally, the same connectors are used for both our on-premises and cloud-based products. This allows both solutions to leverage fully the over 400-man years we have invested in developing these connectors.

### ***Open and Extensible Identity Platform***

Our open identity platform is the result of over a decade of investment. Recognizing identity governance is at the center of critical enterprise business and IT processes, we developed a comprehensive set of services that go beyond simple APIs. In addition to our comprehensive API strategy, we deliver SDKs and plug-in frameworks which allow our partners and customers to create their own integrations and extensions to our core product capabilities. For example, we leverage our open identity platform to integrate with third-party user provisioning solutions, such as IBM Security Identity Manager and Oracle Identity Manager, and service desk solutions, such as BMC Remedy and ServiceNow, to implement account change requests. This enables SailPoint to govern access and provide identity context to downstream processes managed by these solutions. Another important open identity platform integration model is with PAM solutions. SailPoint provides a framework that enables organizations to use the same governance controls to oversee both privileged and standard account access. We also collect activity and other information from third-party solutions to improve risk analytics and identity governance processes in our products, specifically in IdentityAI.

Our APIs and SDKs are compliant with System for Cross-domain Identity Management ("SCIM") and both provide standards-based bi-directional runtime access to our identity context model. Many such integrations and extensions have already been built by partners and certified for commercialization on our open identity platform.

## **Seasonality**

We generally experience seasonal fluctuations in demand for our products and services. Our quarterly sales are impacted by industry buying patterns. As a result, our sales have generally been highest in the fourth quarter of a calendar year and lowest in the first quarter.

## **Customers**

As of December 31, 2019, we have 1,469 customers based in 54 countries. In the year ended December 31, 2019, we generated 29% of our revenue outside of the United States. No single customer represented more than 10% of our revenue for the year ended December 31, 2019.

## **Sales and Marketing**

### ***Sales***

We sell our platform through our direct sales organization, which is comprised of field and inside sales personnel, as well as through channel partners. Our sales strategy often reflects a “land-and-expand” business model, in which our initial deployment with a new customer typically addresses a limited number of use cases within a single business unit. Such initial deployments frequently expand across departments, divisions and geographies through a need for additional users, increased usage or extended functionality. As we expand our portfolio of offerings within our platform, we execute a growing number of “solution” deals that include two to three of our products in the initial transaction.

Our sales force is structured by geography, customer size, status (customer or prospect) and industry. Our global sales organization is comprised of quota-carrying sales representatives supported by sales development representatives, sales engineers, partner managers, product and technical specialists and solution architects.

Partners constitute an essential part of our selling model. We have established a model designed to create zero conflict, and typically include our partners in all of our training and enablement efforts. As a result, our indirect sales model, executed through our global and regional system integrators, technology partners and value-added resellers, is a key factor in our overall success.

### ***Marketing***

Our marketing strategy is focused on building a strong brand through differentiated messaging and thought leadership, educating the market on the importance of identity, communicating our product advantages and generating pipeline for our sales force. Our data-driven approach to marketing is tightly aligned to our sales and channel strategy and provides agility to leverage market opportunities in a targeted and timely fashion. Our awareness efforts focus on branding, digital and content marketing, public and analyst relations and social media, including blogs and bylines. Educational and pipeline maturation programs include global email campaigns and webinars, security events and customers round tables. Pipeline generation and maturation efforts focus on local events in our three major geographies: (i) Americas, (ii) Europe, the Middle East and Africa (“EMEA”) and (iii) Asia-Pacific (“APAC”). Audiences for such events are typically IT and security professionals, including Chief Information Officers (“CIOs”) and Chief Information Security Officers (“CISOs”). We host geographic annual user conferences that bring together customers, prospects and our partners to learn about our platform as well as network and share best practices with each other. Our user conferences demonstrate our strong commitment to enabling our customers to succeed, while also serving as an opportunity to create pipeline for new sales to prospective customers and additional sales to existing customers.

## **Professional Services and Maintenance and Customer Support**

### ***Professional Services***

We are primarily focused on ensuring that our professional services partners, who perform a majority of the implementations for our customers, are able to implement our solutions successfully. We provide “expert services” to partners and customers, including deployment best practices, architecture and code reviews, real time technical training, and complex implementation assistance. We also lead direct implementations when requested by a customer. We believe our investment in professional services, as well as the investment our partners are making to grow their SailPoint professional services practices, will drive increased adoption of our platform.

### ***Maintenance and Customer Support***

Our customers receive one year of software maintenance as part of their initial purchase of our on-premises offerings and may renew their maintenance agreement following the initial period. Our cloud-based offerings include customer support. For our on-premises offerings, our maintenance provides customers with the right to receive major releases of their purchased solutions, maintenance releases and patches and access to our technical support services during the term of the agreement. We provide customers of our cloud-based offerings with technical support services and all aspects of infrastructure support. We maintain a customer support organization, which includes experienced, trained engineers, that offers multiple service levels for our customers based on their needs. These customers receive contractual response times, telephonic support and access to online support portals. Our highest levels of support provide 24x7x365 support for critical issues. Our customer support organization has global capabilities, a deep expertise in our solutions and, through select support partners, is able to deliver support in multiple languages.

### ***Customer Success Management***

Our customer success strategy centers around our investment in, and ownership of, the post-sale experience for our customers. Every customer has an assigned dedicated Customer Success Manager (“CSM”), who is responsible for ensuring that return on investment and business results, committed during the sales cycle, are achieved. Through proactive and regular engagements, the CSM makes sure every customer is satisfied and is using their SailPoint products or services optimally. When necessary, the CSM coordinates cross-departmental resources to remove any barrier to success. In addition, our customer success team utilizes customer data to identify and present any cross-sell or upsell solutions aligned to a customer’s business objectives, thereby contributing to revenue expansion and increased product penetration. By proactively managing customer relationships, our CSM team nurtures client advocates, who become a powerful asset in closing new business.

### **Partnerships and Strategic Relationships**

As a core part of our strategy, we have cultivated strong relationships with partners to help us increase our reach and influence, while providing a broader distribution of our software platform. We have developed a large partner network consisting of technology partners, system integrators, a growing network of value-added resellers and our alliance partners (Accenture, Deloitte, EY, KPMG and PwC). In 2019, approximately 90% of our new customer transactions involved our partners. We believe that our extensive partnership network enables us to provide the most complete identity governance solution to our customers.

### ***Technology Partners***

We have partnered with industry leaders across a spectrum of technologies that enable organizations to integrate their entire security, mobility, cloud, and applications infrastructure into our platform so that breaches can be better identified, mitigated and contained, and operations can be streamlined. We believe that solutions from companies such as AWS, CyberArk, Microsoft, SAP, ServiceNow and Workday that are plugged into our open identity platform through APIs provide our customers value-added capabilities to build an identity-aware enterprise.

The SailPoint Identity+ Alliance is a technology partnering network that leverages familiar standards and methods—like SQL, SCIM and Representational State Transfer (“REST”)—that make it easy to share identity context and configure identity-specific policies across disparate systems. For example, when PAM systems are integrated with our solutions, enterprises can conduct regular audits of privileged users and automatically remediate any policy violations. Program offerings include access to SailPoint SDKs and APIs, developer support, and cloud-based certification services. The Identity+ Alliance comprises over 60 technology and implementation partners and has produced over 40 certified integrations.

### ***Value-Added Resellers***

Value-added resellers bring product expertise and implementation best practices to our customers globally. They provide vertical expertise and technical advice in addition to reselling or bundling our software. Many of our reseller partners have been trained to demonstrate and promote our identity platform. Our reseller channel ranges from large companies, like Optiv, to regional resellers in our markets and territories. Our reseller program is designed to scale growth, help generate new opportunities, optimize customer experience and increase profitability as well as sales efficiency.



### ***System Integrators***

We partner with many large and global system integrators. We have partnerships with global advisory firms such as Deloitte, EY, KPMG, and PwC, with global system integrators such as Accenture and DXC Technologies, and with many regional system integrators in all three of our geographies. The focus of our system integrators program is to deliver pipeline growth and bookings, to help partners drive self-sufficiency and to foster transparency and collaboration through shared assets and resources. We have implemented joint business controls and metrics that provide a platform for discussion and partnership development and help us optimize our program and unified value proposition.

### **Research and Development**

Innovation is one of our core values, and it is at the heart of how we think and do business. We believe ongoing and timely development of new products and features is imperative to maintaining our competitive position. We continue to invest in both our cloud and on-premises solutions. Additionally, we will be opportunistic in leveraging technology acquisitions similar to our acquisition of Orkus and Overwatch.ID to accelerate research and development activities. As of December 31, 2019, our research and development team had 326 employees.

As part of our relentless drive toward innovation and technical market leadership, we created SailPoint Labs in 2011. SailPoint Labs is a dedicated, stand-alone technology investigation and engineering group that focuses on finding and evaluating new technologies and approaches that will accelerate SailPoint's vision in the market.

### **Competition**

We operate in a highly competitive market characterized by constant change and innovation. Our competitors include large enterprise software vendors that offer identity solutions within their product portfolios, pure play identity vendors (including new market entrants) and vendors with whom we have not traditionally competed but may either introduce new products or incorporated features into existing products that compete with our solutions.

We believe the principal competitive factors in our market include:

- Reliability and effectiveness in implementing identity governance policies;
- Comprehensiveness of visibility provided by implemented identity governance policies;
- Flexibility to deploy identity governance and administration as a software-based solution on-premises or in the cloud or as a SaaS solution;
- Adherence to government and industry regulations and standards;
- Comprehensiveness and interoperability of the solution with other IT and security applications;
- Security, scalability and performance;
- Ability to innovate and respond to customer needs rapidly;
- Quality and responsiveness of support organizations;
- Total cost of ownership;
- Ease of use; and
- Customer experience.

Some of our competitors have significantly greater financial, technical, and sales and marketing resources, as well as greater name recognition, in some cases within particular geographic regions, and more extensive geographic presence than we do. However, we believe we compete favorably with our competitors on the basis of all the factors above.

### **Intellectual Property**

Our success depends in part on our ability to protect our intellectual property. We rely on copyrights and trade secret laws, confidentiality procedures, employment proprietary information and inventions assignment agreements, trademarks and patents to protect our intellectual property rights. We also license software from third parties for integration into our product solutions, including open source software and other software available on commercially reasonable terms.

We control access to and use of our product solutions and other confidential information through the use of internal and external controls, including contractual protections with employees, contractors, customers and partners, and our software is protected by U.S. and international copyright and trade secret laws. Despite our efforts to protect our trade secrets and proprietary rights through intellectual property rights, licenses and confidentiality agreements, unauthorized parties may still copy or otherwise obtain and use our software and technology.

We have 29 issued patents and 16 patent applications pending in the United States relating to certain aspects of our technology. Additionally, we have three issued patents and two patent applications pending internationally. The expiration dates of our issued patents range from 2024 to 2039. We cannot assure you whether any of our patent applications will result in the issuance of a patent or whether the examination process will require us to narrow our claims. Any of our existing patents and any that may issue may be contested, circumvented, found unenforceable or invalidated, and we may not be able to prevent third parties from infringing them. In addition, we have international operations and intend to continue to expand these operations, and effective patent, copyright, trademark and trade secret protection may not be available or may be limited in foreign countries.

## **Employees**

As of December 31, 2019, we had a total of 1,168 employees, including 326 involved in research and development activities, 420 in our sales and marketing organization, and 275 in professional services and customer support. As of December 31, 2019, approximately 33% of our employees were located outside of the United States. We consider our employee relations to be good.

## **Corporate Information**

SailPoint Technologies Holdings, Inc. was incorporated in the state of Delaware on August 8, 2014, in preparation for the purchase of SailPoint Technologies, Inc. The purchase occurred on September 8, 2014 and our certificate of incorporation was amended and restated as of such date. SailPoint Technologies, Inc. was formed July 14, 2004 as a Delaware corporation.

Our principal executive offices are located at 11120 Four Points Drive, Suite 100, Austin, Texas 78726, and our telephone number at that address is (512) 346-2000. Our website address is [www.sailpoint.com](http://www.sailpoint.com). Information contained on, or that can be accessed through, our website does not constitute part of this Annual Report on Form 10-K, and inclusions of our website address in this Annual Report on Form 10-K are inactive textual references only.

The SailPoint design logo and our other registered or common law trademarks, service marks or trade names appearing in this Annual Report on Form 10-K are the property of SailPoint Technologies, Inc., our wholly-owned subsidiary. Other trademarks and trade names referred to in this Annual Report on Form 10-K are the property of their respective owners.

## **Available Information**

Our website is located at <https://www.sailpoint.com>, and our investor relations website is located at <https://investors.sailpoint.com>. The information posted on our website is not incorporated into this Annual Report on Form 10-K. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934 (the “Exchange Act”) are available free of charge on our investor relations website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (“SEC”). You may also access all of our public filings through the SEC’s website at <https://www.sec.gov>.

Investors and other interested parties should note that we use our media and investor relations website and our social media channels to publish important information about us, including information that may be deemed material to investors. We encourage investors and other interested parties to review the information we may publish through our media and investor relations website and the social media channels listed on our media and investor relations website, in addition to our SEC filings, press releases, conference calls and webcasts.



## ITEM 1A. RISK FACTORS

The nature of the business activities conducted by the Company subjects it to certain hazards and risks. The following is a summary of some of the material risks relating to the Company's business activities. Other risks are described in Part I, Item 1. "Business—Competition" and Part II, Item 7A. "Quantitative and Qualitative Disclosures About Market Risk." These risks are not the only risks facing the Company. The Company's business could also be affected by additional risks and uncertainties not currently known to the Company or that it currently deems to be immaterial. If any of these risks actually occurs, it could materially harm the Company's business, financial condition or results of operations and impair the Company's ability to implement business plans. In that case, the market price of the Company's common stock could decline.

### Risks Related to Our Business and Industry

***Since our inception, except for the year ended December 31, 2018, we have incurred net losses and we may not be able to generate sufficient revenue to achieve and sustain profitability.***

Since our inception, except for the year ended December 31, 2018, we have incurred net losses, including net loss of \$8.5 million for the year ended December 31, 2019. We cannot assure you that we will achieve profitability in the future or that we will be able to sustain profitability. We expect our operating expenses to increase significantly as we continue to expand our sales and marketing efforts, continue to invest in research and development, particularly for our cloud-based solutions, and expand our operations in existing and new geographies and vertical markets. While our revenue has grown in recent years, if our revenue declines or fails to grow at a rate faster than increases in our operating expenses, we will not be able to maintain profitability in future years. In particular, as discussed in the risk factor above, our revenues may be materially and adversely affected during any period of significant shifts to subscription-based arrangements, and as a result, we may again generate losses.

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

We have experienced rapid growth in recent years. Our revenue grew from \$186.1 million to \$288.5 million from the year ended December 31, 2017 to the year ended December 31, 2019. In future periods, we may not be able to sustain revenue growth consistent with recent history, or at all. We believe our revenue growth depends on a number of factors, including, but not limited to:

- our ability to attract new customers and retain and increase sales to existing customers;
- our ability to, and the ability of our channel partners to, successfully deploy and implement our solutions, increase our existing customers' use of our solutions and provide our customers with excellent customer support;
- our ability to develop our existing solutions and introduce new solutions;
- our ability to hire substantial numbers of new sales and marketing, research and development and general and administrative personnel, and expand our global operations; and
- our ability to increase the number of our technology partners.

If we are unable to achieve any of these requirements, our revenue growth will be adversely affected. In addition, as discussed above, our revenue growth may be materially and adversely affected during any period of significant shifts to subscription-based arrangements.

***Our future revenues and operating results will be harmed if we are unable to acquire new customers, if our customers do not renew their arrangements with us, or if we are unable to expand sales to our existing customers or develop new solutions that achieve market acceptance.***

To continue to grow our business, it is important that we continue to acquire new customers to purchase and use our solutions. Our success in adding new customers depends on numerous factors, including our ability to (i) offer a compelling identity governance platform and solutions, (ii) execute an effective sales and marketing strategy, (iii) attract, effectively train and retain new sales, marketing, professional services and support personnel in the markets we pursue, (iv) develop or expand relationships with channel partners, including systems integrators, resellers and technology partners, (v) expand into new geographies and vertical markets, (vi) deploy our platform and solutions for new customers and (vii) provide quality customer support once deployed. Further, our marketing efforts depend, in part, on attendance by our prospective customers at in-person meetings and events, which attendance could be adversely affected by public health issues, including outbreaks of contagious diseases or illnesses, such as the coronavirus.

It is important to our continued growth that our customers renew their arrangements when existing contract terms expire. Our customers have no obligation to renew their maintenance, SaaS and/or term-license agreements, and our customers may decide not to renew these agreements with a similar contract period, at the same prices and terms or with the same or a greater number of identities. Although our customer retention rate has historically been strong, some of our customers have elected not to renew their agreements with us, and it is difficult to accurately predict long-term customer retention and expansion rates. Our customer retention and expansion may decline or fluctuate as a result of a number of factors, including our customers' satisfaction with our solutions, our customer support and professional services, our prices and pricing plans, the competitiveness of other software products and services, reductions in our customers' spending levels, user adoption of our solutions, deployment success, utilization rates by our customers, new product releases and changes to our product offerings. If our customers do not renew their maintenance, SaaS and/or term-license agreements, or renew on less favorable terms, our business, financial condition and operating results may be adversely affected.

Our ability to increase revenue also depends in part on our ability to increase the number of identities governed with our solutions and sell more modules and solutions to our existing and new customers. Our ability to increase sales to existing customers depends on several factors, including their experience with implementing and using our platform and the existing solutions they have implemented, their ability to integrate our solutions with existing technologies, and our pricing model.

If our new solutions do not achieve adequate acceptance in the market, our competitive position could be impaired, and our potential to generate new revenue or to retain existing revenue could be diminished. The adverse effect on our financial results may be particularly acute because of the significant research, development, marketing, sales and other expenses we will have incurred in connection with the new solutions, and our ability to introduce compelling new solutions that address the requirements of our customers in light of the dynamic identity governance market in which we operate.

If we are unable to successfully acquire new customers, retain our existing customers, expand sales to existing customers or introduce new solutions, our business, financial condition and operating results could be adversely affected.

***A shift in our business from selling licenses to selling subscriptions could materially and adversely affect our financial condition, operating results and liquidity, and our business, financial condition, operating results and prospects could be materially and adversely affected if we fail to successfully manage this shift.***

We believe enterprises are increasingly embracing the cloud to house their critical security infrastructure. As a result, a growing number of enterprises are changing their approach to identity governance and now prefer SaaS in place of purchasing software via a license and independently operating their identity infrastructure. Our current product strategy reflects our belief in this industry shift. As we make this transition and sell subscription-based arrangements, our license revenue will be negatively impacted and to a lesser extent our subscription revenue could be positively impacted.

We believe that continued growth of subscription revenue as a percentage of total revenue will lead to a more predictable revenue model and increase our visibility to future period total revenues. However, in a subscription-based arrangement with a customer, we typically:

- recognize revenue (i) ratably over the term of the applicable agreement if the software is delivered as a service, whereas we typically recognize revenue from perpetual licenses upfront upon delivering the applicable license, or (ii) upfront if the software is purchased on a subscription-based license (for example, a term license) and deployed on the customer's premises, but for an amount less than we would charge for a perpetual license; meaning in each case that for a given customer, we will initially recognize less revenue if our software is delivered via a subscription-based arrangement rather than as a perpetual license; and
- invoice the customer for subscription fees annually, and at an amount less than we would charge initially for a perpetual license, meaning that for a given customer, initially our billings and our cash flows will decrease.

As a result, during any period of significant shifts to subscription-based arrangements, our revenue and cash flows, financial condition, operating results and liquidity may be materially and adversely affected in such period. Additionally, if a greater percentage of our customers purchase our solutions through subscription-based arrangements than we expect in any period, our revenue and earnings will likely fall below expectations for that period and our cash flows may be lower than expected. Furthermore, our business, financial condition, operating results and prospects could be materially and adversely affected if we fail to successfully manage this industry shift, which depends upon our ability to, among other things, properly price our subscription-based arrangements, deliver software as a service, retain our customers, and further develop or acquire related technologies and infrastructure. If

the industry shift occurs differently than we anticipate, our business, financial condition, operating results and prospects could be materially and adversely affected.

***Breaches in our security, cyber-attacks or other cyber-risks could expose us to significant liabilities and cause our business and reputation to suffer.***

Our operations involve transmission and processing of our customers' and their employees' confidential, proprietary and sensitive information including, in some cases, personally identifiable information. We have legal and contractual obligations to protect the confidentiality and appropriate use of customer data. Despite our security measures, our information technology and infrastructure may be vulnerable to security risks, including but not limited to, unauthorized access to use or disclosure of customer data, theft of proprietary information, employee error or misconduct, denial of service attacks, loss or corruption of customer data, and computer hacking attacks or other cyber-attacks subsequently originated from our infrastructure. Such events could expose us to substantial litigation expenses and damages, indemnity and other contractual obligations, government fines and penalties, mitigation expenses and other liabilities. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until successfully launched against a target, we may be unable to anticipate these techniques or to reasonably implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed, our brand and reputation could be impacted, we could lose potential sales and existing customers, our ability to operate our business could be impaired, and we may incur significant liabilities. Moreover, failure to maintain effective internal accounting controls related to data security breaches and cybersecurity in general could impact our ability to produce timely and accurate financial statements and could subject us to regulatory scrutiny.

***Interruptions with the delivery of our SaaS solutions, or third-party cloud-based systems that we use in our operations, may adversely affect our business, operating results and financial condition.***

Our continued growth depends in part on the ability of our existing customers and new customers to access our platform and solutions, particularly our cloud-based deployments, at any time and within an acceptable amount of time. In addition, our ability to access certain third-party SaaS solutions is important to our operations and the delivery of our customer support and professional services, including our online training for customers, professional services partners and channel partners. We have experienced, and may in the future experience, service disruptions, outages and other performance problems both in the delivery of our SaaS solutions and in third-party SaaS solutions we use due to a variety of factors, including infrastructure changes, malicious actors, human or software errors or capacity constraints. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time. It may become increasingly difficult to maintain and improve the performance of our SaaS solutions as they become more complex. If our SaaS solutions are unavailable or if our customers are unable to access features of our SaaS solutions within a reasonable amount of time or at all, our business would be negatively affected. In addition, if any of the third-party SaaS solutions that we use were to experience a significant or prolonged outage or security breach, our business could be adversely affected.

We host our SaaS solutions using AWS data centers, a provider of cloud infrastructure services. All of our SaaS solutions reside on hardware owned or leased and operated by us in these locations. Our SaaS operations depend on protecting the virtual cloud infrastructure hosted in AWS by maintaining its configuration, architecture, features and interconnection specifications, as well as the information stored in these virtual data centers and which third-party internet service providers transmit. Although we have disaster recovery plans that utilize multiple AWS locations, any incident affecting their infrastructure that may be caused by fire, flood, severe storm, earthquake or other natural disasters, cyber-attacks, terrorist or other attacks, public health issues or other similar events beyond our control could negatively affect our SaaS platform. A prolonged AWS service disruption affecting our SaaS platform 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 AWS services we use. In addition, AWS may terminate the agreement by providing 30 days' prior written notice and may, in some cases, terminate the agreement immediately for cause upon notice. In the event that our AWS service agreements are terminated, or there is a lapse of service, elimination of AWS 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 SaaS solutions for deployment on a different cloud infrastructure service provider, which may adversely affect our business, operating results and financial condition.

***We face intense competition in our market, both from larger, well established companies and from emerging companies, and we may lack sufficient financial and other resources to maintain and improve our competitive position.***

The market for identity and data governance solutions is intensely competitive and is characterized by constant change and innovation. We face competition from large enterprise software vendors that offer identity solutions within their product portfolios, pure play identity vendors (including new market entrants) and vendor with whom we have not traditionally competed but may either introduce new products or incorporate features into existing products that compete with our solutions. Many of our existing competitors have, and some of our potential competitors could have, substantial competitive advantages such as:

- greater name recognition and longer operating histories;
- more comprehensive and varied products and services;
- broader product offerings and market focus;
- greater resources to develop technologies or make acquisitions;
- more expansive intellectual property portfolios;
- broader distribution and established relationships with distribution partners and customers;
- greater customer support resources; and
- substantially greater financial, technical and other resources.

Given their larger size, greater resources and existing customer relationships, our competitors may be able to compete and respond more effectively than we can to new or changing opportunities, technologies, standards or customer requirements. Our competitors may also seek to extend or supplement their existing offerings to provide identity and data governance solutions that more closely compete with our offerings. Potential customers may also prefer to purchase, or incrementally add solutions, from their existing suppliers rather than a new or additional supplier regardless of product performance or features.

In addition, with the recent increase in large merger and acquisition transactions in the technology industry, particularly transactions involving cloud-based technologies, there is a greater likelihood that we will compete with other large technology companies in the future. Some of our competitors have made acquisitions or entered into strategic relationships to offer a more comprehensive product than they individually had offered. Companies and alliances resulting from these possible consolidations and partnerships may create more compelling product offerings and be able to offer more attractive pricing, making it more difficult for us to compete effectively. In addition, continued industry consolidation may adversely impact customers' perceptions of the viability of small and medium-sized technology companies and consequently their willingness to purchase from those companies.

New start-up companies that innovate and competitors that are making significant investments in research and development may invent similar or superior products and technologies that compete with our products, and our business could be materially and adversely affected if such technologies or products are widely adopted. Conditions in our market could change rapidly and significantly as a result of technological advancements, partnering by our competitors or continuing market consolidation. These competitive pressures in our market or our failure to compete effectively may result in price reductions, fewer orders, reduced revenue and gross margins, increased net losses, and loss of market share. Any failure to meet and address these factors could adversely affect our business, financial condition and operating results.

***Our sales cycle is long and unpredictable, and our sales efforts require considerable time and expense.***

The timing of our sales and related revenue recognition is difficult to predict because of the length and unpredictability of the sales cycle for our platform before a sale. We and our channel partners are often required to spend significant time and resources to better educate and familiarize potential customers with the value proposition of our platform and solutions. Customers often view the purchase of our solutions as a strategic decision and significant investment and, as a result, frequently require considerable time to evaluate, test and qualify our platform and solutions prior to purchasing our solutions. During the sales cycle, we expend significant time and money on sales and marketing and contract negotiation activities, which may not result in a sale. Additional factors that may influence the length and variability of our sales cycle include:

- the discretionary nature of purchasing and budget cycles and decisions;
- lengthy purchasing approval processes;
- the evaluation of competing products during the purchasing process;

- time, complexity and expense involved in replacing existing solutions;
- announcements or planned introductions of new products features or functionality by our competitors or of new solutions or modules by us;
- the practice of large enterprises often driving their purchasing cycles based on internal factors rather than marketing cycles; and
- evolving functionality demands.

If our efforts in pursuing sales and customers are unsuccessful, or if our sales cycles lengthen, our revenue could be lower than expected, which would have an adverse effect on our business, operating results and financial condition.

***We recognize some of our revenue ratably over the term of our agreements with customers and, as a result, downturns or upturns in sales may not be immediately reflected in our operating results.***

We recognize revenue from our subscription offerings, including IdentityNow, ratably over the terms of our agreements with customers, which generally occurs over a three-year period. As a result, a portion of the revenue that we report in each period will be derived from the recognition of deferred revenue relating to agreements entered into during previous periods. Consequently, a decline in new sales or renewals in any one period may not be immediately reflected in our revenue results for that period. This decline, however, will negatively affect our revenue in future periods. Accordingly, the effect of significant downturns in sales and market acceptance of our products and potential changes in our rate of renewals may not be fully reflected in our operating results until future periods. Our model also makes it difficult for us to rapidly increase our subscription revenue through additional sales in any period, as revenue from new customers generally will be recognized over the term of the applicable agreement.

We expect to continue to invest in research and development, sales and marketing, and general and administrative functions and other areas to grow our subscription-related business. These subscription-related costs are generally expensed as incurred (with the exception of sales commissions), as compared to the corresponding revenue, substantially all of which is recognized ratably in future periods. We are likely to recognize the costs associated with these investments earlier than some of the anticipated benefits and the return on these investments may develop more slowly, or may be lower, than we expect, which could adversely affect our operating results.

***Our quarterly results fluctuate significantly and may not fully reflect the underlying performance of our business.***

We believe our quarterly revenue and operating results may vary significantly in the future. As a result, you should not rely on the results of any one quarter as an indication of future performance and period-to-period comparisons of our revenue and operating results may not be meaningful and, as a result, may not fully reflect the underlying performance of our business.

Our quarterly operating results may fluctuate as a result of a variety of factors, including, but not limited to, those listed below, many of which are outside of our control:

- the loss or deterioration of our channel partner and other relationships influencing our sales execution;
- the mix of revenue and associated costs attributable to licenses, subscription and professional services, which may impact our gross margins and operating income;
- the mix of revenue attributable to larger transactions as opposed to smaller transactions and the associated volatility and timing of our transactions;
- the growth in the market for our products;
- our ability to attract new customers and retain and increase sales to existing customers;
- changes in customers' budgets and in the timing of their purchasing decisions, including seasonal buying patterns for IT spending;
- the timing and success of new product introductions by our competitors and by us;
- changes in our pricing policies or those of our competitors;
- significant security breaches of, technical difficulties with, or interruptions to, the delivery and use of our platform;
- changes in the legislative or regulatory environment;
- foreign exchange gains and losses related to expenses and sales denominated in currencies other than the U.S. dollar or the functional currencies of our subsidiaries;
- increases in and timing of sales and marketing and other operating expenses that we may incur to grow and expand our operations and to remain competitive;
- costs related to the acquisition of businesses, talent, technologies or intellectual property, including potentially significant amortization costs and possible write-downs;
- our ability to control costs, including our operating expenses;



- the collectability of receivables from customers and channel partners, which may be hindered or delayed if these customers or channel partners experience financial distress;
- economic conditions specifically affecting industries in which our customers participate;
- natural disasters, public health issues or other catastrophic events; and
- litigation-related costs, settlements or adverse litigation judgments.

***If we are unable to maintain successful relationships with our channel partners, our ability to market, sell and distribute our solutions will be limited and our business, financial condition and operating results could be adversely affected.***

We derive a significant portion of our revenue from sales influenced or made through our channel partner network and expect these sales to continue to grow for the foreseeable future. Our channel partners provide implementation and other services to our customers in exchange for fees paid by those customers. We may not achieve anticipated revenue growth from our channel partners if we are unable to retain our existing channel partners and expand their sales or add additional motivated channel partners.

Our arrangements with our channel partners are generally non-exclusive, meaning they may offer customers the products of several different companies, including products that compete with our platform and solutions. If our channel partners do not effectively market and sell our solutions, choose to use greater efforts to market and sell our competitors' products or services, or fail to meet the needs of our customers, our ability to grow our business and sell our solutions may be adversely affected. Our channel partners may cease marketing our products with limited or no notice and with little or no penalty. In addition, certain of our channel partners are subject to independence requirements that may prevent them from providing services to us or cooperating with us in our go-to-market efforts if they also provide services for entities where members of our board of directors or executive officers serve on such entities' board of directors or similar governing body. If one or more of our channel partners determines that it is unable to both provide services to us or cooperate with us in our go-to-market efforts and also provide services to another entity, those channel partners may cease marketing our products or otherwise cease providing services to us or cooperating with us in our go-to-market efforts.

We also collaborate with adjacent technology vendors to offer comprehensive solutions to our customers. If we do not effectively collaborate with them, or if they elect to terminate their relationship with us or develop and market solutions that compete with our solutions, our growth may be adversely affected.

Our ability to generate revenue in the future will depend in part on our success in maintaining effective working relationships with our channel partners, in expanding our indirect sales channel, in training our channel partners to independently sell and/or deploy our solutions and in continuing to integrate our solutions with the products and services offered by our technology partners. If we are unable to maintain our relationships with these channel partners, our business, financial condition and operating results could be adversely affected.

***We anticipate that our operations will continue to increase in complexity as we grow, which will add additional challenges to the management of our business in the future.***

Our business has experienced significant growth and is becoming increasingly complex. We increased the number of our employees from 806 at December 31, 2017 to 1,168 at December 31, 2019. We have also experienced growth in the number of customers of our solutions from 933 at December 31, 2017 to 1,469 at December 31, 2019. At December 31, 2019, we had personnel in 18 countries, and we expect to expand into additional countries in the future. We expect this growth to continue and for our operations to become increasingly complex. To effectively manage this growth, we have made and plan to continue to make substantial investments to improve our operational, financial and management controls as well as our reporting systems and procedures. Our success will depend in part on our ability to manage this complexity effectively without undermining our corporate culture, which we believe has been central to our success. If we are unable to manage this complexity, our business, operations, operating results and financial condition may suffer.

As our customer base continues to grow, we likely will need to expand our professional services and other personnel, and maintain and enhance our existing partner network, to provide a high level of customer service. We also will need to effectively manage our direct and indirect sales processes as the number and type of our sales personnel and partner network continues to grow and become more complex and as we continue to expand into new geographies and vertical markets. This complexity is further driven by the various ways in which we sell our solutions, including on a per identity and per module basis through perpetual licenses and SaaS. If we do not effectively manage the increasing complexity of our business and operations, the quality of our solutions and customer service could suffer, and we may not be able to adequately address competitive challenges. These factors could impair our ability, and our channel partners' ability, to attract new customers, retain existing customers, expand our customers' use of existing solutions and adoption of more of our solutions and continue to provide high levels of customer service, all of which would adversely affect our reputation, overall business, operations, operating results and financial condition.

***Real or perceived errors, failures, or disruptions, including those caused by cyber-attacks, in our platform and solutions could adversely affect our customers' satisfaction with our solutions and/or our industry reputation and business could be harmed.***

Our platform and solutions are very complex and have contained and may contain undetected defects, vulnerabilities or errors, especially when solutions are first introduced or enhanced. Our platform and solutions are often used in connection with large-scale computing environments with different operating systems, system management software, equipment and networking configurations, which may cause errors or failures of products, or other aspects of the computing environment into which our products are deployed. If our platform and solutions are not implemented or used correctly or as intended, inadequate performance and disruption in service may result. In addition, deployment of our platform and solutions into complicated, large-scale computing environments may expose errors, failures or vulnerabilities in our products. Any such errors, failures, or vulnerabilities may not be found until after they are deployed to our customers. We have experienced from time to time errors, failures and bugs in our platform that have resulted in customer downtime. While we were able to remediate these situations, we cannot assure you that we will be able to mitigate future errors, failures, vulnerabilities or bugs in a quick or cost-effective manner.

We have in the past experienced, and may in the future experience, performance issues due to a variety of factors, including infrastructure changes, human or software errors, website or third-party hosting disruptions or capacity constraints due to a number of potential causes including technical failures, cyber-attacks, security incidents, natural disasters or fraud. If our products or solutions or corporate security is compromised, our website, professional services, customer support or SaaS solutions are unavailable, our business could be negatively affected. Moreover, if our security measures, products or services are subject to cyber-attacks that degrade or deny the ability of users to access our website or other products or services, our products or services may be perceived as insecure, and we may incur significant legal and financial exposure. In particular, our cloud-based products may be especially vulnerable to interruptions, performance problems or cyber-attacks. We continue to invest in the personnel, infrastructure and third-party best practice software solutions and services necessary to mitigate these risks. However, if we are unable to attract and retain personnel with the necessary cybersecurity expertise, or fail to implement sufficient safeguarding measures, we may not be able to prevent, detect, and mitigate potentially disruptive events which could occur in the future. In some instances, we may not be able to identify the cause or causes of these events within an acceptable period of time. Our cloud-based products are hosted at third-party data centers that are not under our direct control. If these data centers were to be damaged or suffer disruption, our ability to provide products and services to our customers could be impaired and our reputation could be harmed and we may face legal action over the disruption or exposure and/or loss of data, as well as incur additional compliance and information security costs in order to mitigate future disruptions.

If we or our partners or one or more customers were to suffer a highly publicized breach, even if our platform and solutions perform effectively, such a breach could cause our customers or potential customers to lose trust in our identity governance platform in general, which could cause us to suffer reputational harm, lose existing commercial relationships and customers or deter them from purchasing additional solutions and prevent new customers from purchasing our solutions.



Since our customers use our platform and solutions for important aspects of their security environment and operational business, any real or perceived errors, failures or vulnerabilities in our products, or disruptions in service or other performance problems, could hurt our reputation and may damage our customers' businesses. Furthermore, defects, errors, vulnerabilities or failures in our platform or solutions may require us to implement design changes or software updates. Any defects, vulnerabilities or errors in our platform or solutions, or the perception of such defects, vulnerabilities or errors, could result in:

- expenditure of significant financial and product development resources in efforts to analyze, correct, eliminate or work around errors or defects;
- loss of existing or potential customers or channel partners;
- delayed or lost revenue;
- delay or failure to attain market acceptance;
- delay in the development or release of new solutions or services;
- negative publicity, which will harm our reputation;
- an increase in collection cycles for accounts receivable or the expense and risk of litigation; and
- harm to our operating results.

Although we have contractual protections, such as warranty disclaimers and limitation of liability provisions, in our standard terms and conditions of sale, they may not fully or effectively protect us from claims by customers, commercial relationships or other third parties. Any insurance coverage we may have may not adequately cover all claims asserted against us or cover only a portion of such claims. In addition, even claims that ultimately are unsuccessful could result in our expenditure of funds in litigation and the diverting of management's time and other resources.

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

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. In addition, as our customers' technologies and business plans grow more complex, we expect them to face new and increasing challenges. Our customers require that our solution effectively identifies and responds to these challenges without disrupting the performance of our customers' IT systems. As a result, we must continually modify and improve our products in response to changes in our customers' IT infrastructures.

We may be unable to anticipate future market needs and opportunities or be unable to develop enhancements to our platform or existing solutions or new solutions to meet such needs or opportunities in a timely manner, if at all. Even if we are able to anticipate, develop and commercially introduce enhancements to our platform and existing solutions and new solutions, those enhancements and new solutions may not achieve widespread market acceptance. Our enhancements or new solutions could fail to attain sufficient market acceptance for many reasons, including:

- delays in releasing platform or solutions enhancements or new solutions;
- inability to interoperate effectively with existing or newly introduced technologies, systems or applications of our existing and prospective customers;
- defects, errors or failures in our platform or solutions;
- negative publicity about the performance or effectiveness of our platform or solutions;
- introduction or anticipated introduction of competing products by our competitors;
- installation, configuration or usage errors by our customers or partners; and
- changing of regulatory requirements related to security.

If we were unable to enhance our platform or existing solutions or develop new solutions that keep pace with rapid technological and industry change, our business, operating results and financial condition could be adversely affected. If new technologies emerge that are able to deliver competitive products and services at lower prices, more efficiently, more conveniently or more securely, such technologies could adversely impact our ability to compete effectively.

***Our failure to achieve and maintain an effective system of disclosure controls and internal control over financial reporting could adversely affect our financial position and lower our stock price.***

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), and the rules and regulations of the applicable listing standards of the New York Stock Exchange (the “NYSE”). The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have expended, and anticipate that we will continue to expend, significant resources, including accounting-related costs and significant management oversight.

Our internal resources and personnel may be insufficient to avoid accounting errors and there can be no assurance that we will not have material weaknesses in our internal control over financial reporting. For example, we reported material weaknesses as of December 31, 2018 in our Annual Report on Form 10-K. We have since fully remediated the reported material weaknesses, but we cannot assure you that our efforts to identify and prevent additional material weaknesses in the future will be successful. Any failure to maintain effective controls or any difficulties encountered implementing required new or improved controls could harm our operating results or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements. Any failure to implement and maintain effective internal control over financial reporting also could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we are required to include in our periodic reports that are filed with the SEC. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the NYSE.

***Any actual or perceived failure by us to comply with our privacy policy or legal or regulatory requirements in one or multiple jurisdictions could result in proceedings, actions or penalties against us.***

Our customers’ storage and use of data concerning, among others, their employees, contractors, customers and partners is essential to their use of our platform and solutions. We have implemented various features intended to enable our customers to better comply with applicable privacy and security requirements in their collection and use of data, but these features do not ensure their compliance and may not be effective against all potential privacy and data security concerns.

A wide variety of domestic and foreign laws and regulations apply to the collection, use, retention, protection, disclosure, transfer, disposal and other processing of personal data. These data protection and privacy-related laws and regulations are evolving and may result in regulatory and public scrutiny and escalating levels of enforcement and sanctions. Our failure to comply with applicable laws and regulations, or to protect any personal data, could result in enforcement action against us, including fines, claims for damages by customers and other affected individuals, damage to our reputation and loss of goodwill (both in relation to existing customers and prospective customers), any of which could adversely affect our business, operating results, financial performance and prospects.

Domestically, California enacted the California Consumer Privacy Act (the “CCPA”) which took effect on January 1, 2020, imposing an additional regulatory burden on our company and providing for both civil penalties as well as a private right of action for data breaches.

In jurisdictions outside of the United States, we may face heightened data protection and privacy requirements. In the EU, for example, the European General Data Protection Regulation (“GDPR”) regulates the collection, use and disclosure of personal data that is subject to GDPR (“Personal Data”), including the transfer of such Personal Data to third countries, such as the United States. Due to ongoing legal challenges regarding the methods for transferring Personal Data to third countries, we face uncertainty as to whether our efforts to comply with such transfer restrictions are adequate and, as a result, we and our customers may be at risk of enforcement actions taken by EU data protection authorities until such point in time that we may be able to ensure that all transfers of Personal Data to us in the United States from the EU are conducted in compliance with all applicable regulatory obligations, the guidance of data protection authorities and evolving best practices. The GDPR also imposes significant penalties for non-compliance and may continue to cause our company to incur increased compliance costs. The CCPA and the GDPR are subject to differing interpretations and may cause us to incur substantial compliance costs and/or to make significant changes in our business operations, all of which may adversely affect our revenues and our business overall.

In addition, we are subject to certain contractual obligations and privacy policies and practices regarding the collection, use, storage, transfer, disclosure, disposal or processing of personal data. Even the perception of a failure by us to comply with such contractual obligations and/or privacy policies and practices or other privacy concerns, whether or not valid, may harm our reputation, inhibit adoption of our solutions by current and future customers or adversely impact our ability to attract and retain workforce talent.

Loss, retention or misuse of certain information and alleged violations of laws and regulations relating to privacy and data security, and any relevant claims, may expose us to potential liability and may require us to expend significant resources on data security and in responding to and defending such allegations and claims. In addition, future laws, regulations, standards and other obligations, and changes in the interpretation of existing laws, regulations, standards and other obligations could impair our customers' ability to collect, use or disclose data relating to individuals, which could decrease demand for our platform and solutions, increase our costs and impair our ability to maintain and grow our customer base and increase our revenue.

Around the world, there are numerous lawsuits in process against various technology companies that process personal data. If those lawsuits are successful, it could increase the likelihood that our company may be exposed to liability for our own policies and practices concerning the processing of personal data and could hurt our business. Furthermore, the costs of compliance with, and other burdens imposed by laws, regulations and policies concerning privacy and data security that are applicable to the businesses of our customers may limit the use and adoption of our platform or solutions and reduce overall demand for them. Privacy concerns, whether or not valid, may inhibit market adoption of our platform. Additionally, concerns about security or privacy may result in the adoption of new legislation that restricts the implementation of technologies like ours or requires us to make modifications to our platform, which could significantly limit the adoption and deployment of our technologies or result in significant expense to modify our platform.

We publicly post our privacy policies and practices concerning our processing, use and disclosure of the personally identifiable information provided to us by our website visitors. Our publication of our privacy policies and other statements we publish that provide promises and assurances about privacy and security can subject us to potential state and federal action if they are found to be deceptive or misrepresentative of our actual policies and practices or if our practices are found to be unfair.

Evolving and changing definitions of what constitutes "Personal Information" and "Personal Data" within the EU, the United States and elsewhere, especially relating to classification of IP addresses, machine or device identification numbers, location data and other information, may limit or inhibit our ability to operate or expand our business, including limiting technology alliance relationships that may involve the sharing of data.

***Forecasting our estimated annual effective tax rate for financial accounting purposes is complex and subject to uncertainty, and there may be material differences between our forecasted and actual tax rates.***

Forecasts of our income tax position and effective tax rate for financial accounting purposes are complex and subject to uncertainty because our income tax position for each year combines the effects of a mix of profits earned and losses incurred by us in various tax jurisdictions with a broad range of income tax rates, as well as changes in the valuation of deferred tax assets and liabilities, the impact of various accounting rules and changes to these rules and tax laws, the results of examinations by various tax authorities, and the impact of any acquisition, business combination or other reorganization or financing transaction. To forecast our tax rate, we estimate our pre-tax profits and losses by jurisdiction and forecast our tax expense by jurisdiction. If the mix of profits and losses, our ability to use tax credits, or effective tax rates by jurisdiction is different than those estimated, our actual tax rate could be materially different than forecasted, which could have a material impact on our results of business, financial condition and results of operations.

***Comprehensive U.S. federal tax reform legislation could adversely affect our business and financial condition.***

On December 22, 2017, U.S. Federal tax reform was enacted with the signing of the *Tax Cuts and Jobs Act*, (the "TCJA"). Notable provisions of the TCJA include significant changes to corporate taxation, including reduction of the corporate tax rate from a top marginal rate of 35% to a flat rate of 21%, limitation of the tax deduction for interest expense to 30% of adjusted earnings (except for certain small businesses), limitation of the deduction for net operating losses to 80% of current year taxable income and elimination of net operating loss carrybacks, one time taxation of offshore earnings at reduced rates regardless of whether they are repatriated, elimination of U.S. tax on foreign earnings (subject to certain important exceptions), immediate deductions for certain new investments instead of deductions for depreciation expense over time, and modification or repeal many business deductions and credits.

The U.S. Department of Treasury has broad authority to issue regulations and interpretative guidance that may significantly impact how we will apply the law and impact our results of operations in the period issued. As additional regulatory guidance is issued by the applicable taxing authorities, as accounting treatment is clarified, as we perform additional analysis on the application of the law, and as we refine estimates in calculating the effect, our final analysis, which will be recorded in the period completed, may be different from our current provisional amounts, which could materially affect our tax obligations and effective tax rate.

***We may acquire or invest in companies, which may divert our management's attention and result in additional dilution to our stockholders. We may be unable to integrate acquired businesses and technologies successfully or achieve the expected benefits of such acquisitions, and acquisitions, particularly of development stage companies, may adversely affect our operating results and liquidity as well as our ability to meet expectations.***

Our success will depend, in part, on our ability to expand our solutions and services and grow our business in response to changing technologies, customer demands and competitive pressures. In some circumstances, we may choose to do so through the acquisition of, or investment in, new or complementary businesses and technologies rather than through internal development. As a function of the industry in which we operate, we may acquire development stage companies that are not yet profitable, and that require continued investment, which could adversely affect our results of operations and liquidity as well as our ability to meet expectations, particularly if they were formulated prior to such acquisitions. Development stage companies generally involve a higher degree of risk and have not been proven, require additional capital to develop, and typically do not generate enough revenue to offset increased expenses associated therewith.

The identification of suitable acquisition or investment candidates can be difficult, time-consuming and costly, and we may not be able to successfully complete identified acquisitions or investments. The risks we face in connection with acquisitions and/or investments include:

- an acquisition may negatively affect our operating results because it may require us to incur charges or assume substantial debt or other liabilities, may cause adverse tax consequences or unfavorable accounting treatment, may expose us to claims and disputes by stockholders and third parties, including intellectual property claims and disputes, or may not generate sufficient financial return to offset additional costs and expenses related to the acquisition;
- we may encounter difficulties or unforeseen expenditures in integrating the business, technologies, products, personnel or operations of any company that we acquire;
- an acquisition or investment may disrupt our ongoing business, divert resources, increase our expenses and distract our management;
- an acquisition may result in a delay or reduction of customer purchases for both us and the company acquired due to customer uncertainty about continuity and effectiveness of service from either company;
- we may encounter difficulties in, or may be unable to, successfully sell any acquired products or effectively integrate them into or with our existing solutions;
- our use of cash to pay for acquisitions or investments would limit other potential uses for our cash;
- if we incur debt to fund any acquisitions or investments, such debt may subject us to material restrictions on our ability to conduct our business; and
- if we issue a significant amount of equity securities in connection with future acquisitions, existing stockholders may be diluted and earnings per share may decrease.

The occurrence of any of these risks could prevent us from realizing the anticipated benefits of an acquisition and could adversely affect our business, operating results and financial condition.

***Any failure to maintain high-quality customer satisfaction may adversely affect our relationships with our customers, including customer renewals, which could adversely affect our business.***

We typically bundle customer support with arrangements for our solutions. In deploying and using our platform and solutions, our customers typically require the assistance of our support teams to resolve complex technical and operational issues. We may be unable to modify the nature, scope and delivery of our customer support to compete with changes in product support services provided by our competitors. Increased customer demand for support, without corresponding revenue, could increase costs and adversely affect our operating results. We may also be unable to respond quickly enough to accommodate short-term increases in customer demand for support. Our sales are highly dependent on our reputation and on positive recommendations from our existing customers. Customer satisfaction will become even more important as our customers increasingly shift to subscription-based arrangements. Any failure to maintain high-quality customer support, or a market perception that we do not maintain high-quality product support, could adversely affect our reputation and our ability to sell our solutions to existing and new customers.



***If we are not able to maintain and enhance our brand or reputation as an industry leader and innovator, our business and operating results may be adversely affected.***

We believe that maintaining and enhancing our reputation as a leader and innovator in the market for identity and data governance solutions is critical to our relationship with our existing customers and commercial relationships and our ability to attract new customers and commercial relationships. The successful promotion of our brand attributes will depend on a number of factors, including our marketing efforts, our ability to continue to develop high-quality features and solutions for our platform and our ability to successfully differentiate our platform and solutions from competitive products and services. Our brand promotion activities may not be successful or yield increased revenue. In addition, independent industry analysts often provide reports of our platform and solutions, as well as products and services of our competitors, and perception of our platform and solutions in the marketplace may be significantly influenced by these reports. If these reports are negative, or less positive as compared to those of our competitors' products and services, our reputation may be adversely affected. Additionally, the performance of our channel partners may affect our brand and reputation if customers do not have a positive experience with our solutions as implemented by our channel partners or with the implementation generally. The promotion of our brand requires us to make substantial expenditures, and we anticipate that the expenditures will increase as our market becomes more competitive, as we expand into new geographies and vertical markets, and as more sales are generated through our channel partners. To the extent that these activities yield increased revenue, this revenue may not offset the increased expenses we incur. If we do not successfully maintain and enhance our brand and reputation, our business and operating results may be adversely affected.

***If our platform and solutions do not effectively interoperate with our customers' existing or future IT infrastructures, installations could be delayed or cancelled, which would harm our business.***

Our success depends on the interoperability of our platform and solutions with third-party operating systems, applications, data and devices that we have not developed and do not control. Any changes in such operating systems, applications, data or devices that degrade the functionality of our platform or solutions or give preferential treatment to competitive software could adversely affect the adoption and usage of our platform. We may not be successful in adapting our platform or solutions to operate effectively with these applications, data or devices. If it is difficult for our customers to access and use our platform or solutions, or if our platform or solutions cannot connect a broadening range of applications, data and devices, then our customer growth and retention may be harmed, and our business and operating results could be adversely affected.

***Our success depends on the experience and expertise of our senior management team and key employees. If we are unable to hire, retain, train and motivate our personnel, our business, operating results and prospects may be harmed.***

Our success has depended, and continues to depend, on the efforts and talents of our senior management team and key employees, including our engineers, product managers, sales and marketing personnel and professional services personnel. Our future success will also depend upon our continued ability to identify, hire and retain additional skilled and highly qualified personnel, which will require significant time, expense and attention.

Our officers and key employees are employed on an at-will basis, which means that they could terminate their employment with us at any time. The loss of one or more members of our senior management team, particularly if closely grouped, could adversely affect our ability to execute our business plan and thus, our business, operating results and prospects. We do not maintain key man insurance on any of our officers or key employees, and we may not be able to find adequate replacements. If we fail to identify, recruit and integrate strategic hires, our business, operating results and financial condition could be adversely affected.

We have from time to time experienced, and we expect to continue to experience, difficulty in hiring, and may in the future have difficulty retaining, employees with appropriate qualifications and many of the companies with which we compete for experienced personnel have greater resources than we have. In addition to hiring new employees, we must continue to focus on training, motivating and retaining our best employees, but they may terminate their employment relationship with us at any time. Competition for highly skilled personnel is intense, and we may need to invest significant amounts of cash and equity to attract and retain new employees, and we may never realize returns on these investments.

Competition for well-qualified employees in all aspects of our business, including sales personnel, professional services personnel and software engineers, is intense. Our primary recruiting competition are well-known, high-paying firms. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate existing employees. If we do not succeed in attracting well-qualified employees or retaining and motivating existing employees, our business would be adversely affected.

***Our corporate culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the innovation, creativity and teamwork fostered by our culture, which could adversely affect our business.***

We believe that our culture has been and will continue to be a key contributor to our success. From January 1, 2017 to December 31, 2019, we have increased the size of our workforce by 346 employees domestically and 165 employees internationally, and we expect to continue to hire aggressively as we expand. In addition, we plan to continue to expand our international operations, which may affect our culture as we seek to find, hire and integrate additional international employees while maintaining our corporate culture. If we do not continue to maintain our corporate culture as we grow, we may be unable to continue to foster the innovation, integrity, and collaboration we believe we need to support our growth. Our substantial anticipated headcount growth, and international expansion may result in a change to our corporate culture, which could adversely affect our business.

***Because our long-term success depends, in part, on our ability to expand the sales and marketing of our platform and solutions to customers located outside of the United States, and we perform a significant portion of our development outside of the United States, our business will be susceptible to risks associated with international operations.***

At December 31, 2019, we had sales and marketing and product development personnel outside the United States in Australia, Belgium, Canada, France, Germany, Hong Kong, India, Israel, Italy, Japan, the Netherlands, Norway, Singapore, Sweden, Switzerland, Taiwan, and the United Kingdom, and we intend to expand our international sales and marketing operations.

Conducting international operations subjects us to risks that we do not generally face in the United States. These risks include:

- encountering existing and new competitors with stronger brand recognition in the new markets;
- challenges developing, marketing, selling and implementing our platform and solutions caused by language, cultural and ethical differences and the competitive environment;
- heightened risks of unethical, unfair or corrupt business practices, actual or claimed, in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, and irregularities in, financial statements;
- political instability, war, armed conflict or terrorist activities;
- public health issues, including outbreaks of contagious diseases or illnesses;
- currency fluctuations;
- the risks of currency hedging activities to limit the impact of exchange rate fluctuations, should we engage in such activities in the future;
- difficulties in managing systems integrators and technology providers;
- laws imposing heightened restrictions on data usage and increased penalties for failure to comply with applicable laws, particularly in the European Union (“EU”);
- risks associated with trade restrictions and foreign import requirements, including the importation, certification and localization of our solutions required in foreign countries, as well as changes in trade, tariffs, restrictions or requirements;
- potentially different pricing environments, longer sales cycles and longer accounts receivable payment cycles and collections issues;
- management communication and integration problems resulting from cultural differences and geographic dispersion;
- increased turnover of international personnel as compared to our domestic operations;
- potentially adverse tax consequences, including multiple and possibly overlapping tax structures, the complexities of foreign value added tax systems, restrictions on the repatriation of earnings and changes in tax rates;
- greater difficulty in enforcing contracts, accounts receivable collection and longer collection periods;
- the uncertainty and limitation of protection for intellectual property rights in some countries;
- increased financial accounting and reporting burdens and complexities; and
- lack of familiarity with local laws, customs and practices, and laws and business practices favoring local competitors or commercial parties.

The occurrence of any one of these risks could harm our international business and, consequently, our operating results. Additionally, operating in international markets requires significant management attention and financial resources. We cannot be certain that the investment and additional resources required to operate in other countries will produce desired levels of revenue or net income.

In addition, general worldwide economic conditions could experience significant downturns and instability, including as a result of changes in global trade policies, such as how the United Kingdom's vote to exit the EU, commonly referred to as "Brexit," develops in the United Kingdom, trade disputes and increased tariffs between the United States and China, or other political or economic developments. For example, Brexit has created substantial economic and political uncertainty, the impact of which depends on the terms of the United Kingdom's withdrawal from the EU. This uncertainty may cause some of our customers or potential customers to curtail spending and may ultimately result in new regulatory and cost challenges to our United Kingdom and global operations. These conditions make it extremely difficult for our customers and us to forecast and plan future business activities accurately, and they could cause our customers to reevaluate their decisions to purchase our products, which could delay and lengthen our sales cycles or result in cancellations of planned purchases. Furthermore, during challenging economic times and/or during times of rising interest rates, our customers may tighten their budgets and face issues in gaining timely access to sufficient and/or affordable credit, which could result in an impairment of their ability to make timely payments to us. In turn, we may be required to increase our allowance for doubtful accounts, which would adversely affect our financial results.

***Adverse economic conditions may negatively impact our business.***

Our business depends on the overall demand for information technology and on the economic health of our current and prospective customers. Any significant weakening of the economy in the United States or of the global economy, more limited availability of credit, a reduction in business confidence and activity, decreased government spending, economic uncertainty and other difficulties may affect one or more of the sectors or countries in which we sell our solutions. Global economic and political uncertainty may cause some of our customers or potential customers to curtail spending generally or IT and identity and data governance spending specifically and may ultimately result in new regulatory and cost challenges to our international operations. In addition, a strong dollar could reduce demand for our products in countries with relatively weaker currencies. These adverse conditions could result in reductions in sales of our solutions, longer sales cycles, slower adoption of new technologies and increased price competition. Any of these events could have an adverse effect on our business, operating results and financial position.

***Forecasts of our market and market growth may prove to be inaccurate, and even if the markets in which we compete achieve the forecasted growth, there can be no assurance that our business will grow at similar rates, or at all.***

Growth forecasts relating to our market opportunity and the expected growth in that market are subject to significant uncertainty and are based on assumptions and estimates which may prove to be inaccurate. Even if this market meets our size estimate and experiences the forecasted growth, we may not grow our business at a similar rate, or at all. Our growth is subject to many factors, including our success in implementing our business strategy, which is subject to many risks and uncertainties. Accordingly, our forecasts of market growth should not be taken as indicative of our future growth.

***If we fail to meet contractual commitments related to response time, service level commitments or quality of professional services, we could be obligated to provide credits for future service, or face contract termination, which could adversely affect our business, operating results and financial condition.***

Depending on the products purchased, our customer agreements contain service level agreements, under which we guarantee specified availability of our platform and solutions. If we are unable to meet the stated service level commitments to our customers or suffer extended periods of unavailability of our SaaS platform or solutions, we may be contractually obligated to provide affected customers with service credits or customers could elect to terminate and receive refunds for prepaid amounts. In addition, if the quality of our professional services does not meet contractual requirements, we may be required to re-perform the services at our expense or refund amounts paid for the services. Any failure to meet these contractual commitments could adversely affect our revenue, operating results and financial condition and any failure to meet service level commitments or extended service outages of our SaaS solutions could adversely affect our business and reputation as customers may elect not to renew and we could lose future sales.



***Our business depends, in part, on sales to the public sector, and significant changes in the contracting or fiscal policies of the public sector could have an adverse effect on our business.***

We derive a portion of our revenue from sales of our solutions to federal, state, local and foreign governments, and we believe that the success and growth of our business will continue to depend in part on our successful procurement of government contracts. Factors that could impede our ability to maintain or increase the amount of revenue derived from government contracts include:

- changes in fiscal or contracting policies;
- decreases in available government funding;
- changes in government programs or applicable requirements;
- the adoption of new laws or regulations or changes to existing laws or regulations; and
- potential delays or changes in the government appropriations or other funding authorization processes.

The occurrence of any of the foregoing could cause governments and governmental agencies to delay or refrain from purchasing our solutions or otherwise have an adverse effect on our business, operating results and financial condition.

***We use third-party licensed software in or with our solutions, and the inability to maintain these licenses or issues with the software we license could result in increased costs or reduced service levels, which would adversely affect our business.***

Our solutions include software or other intellectual property licensed from third parties, and we otherwise use software and other intellectual property licensed from third parties in our business. We anticipate that we will continue to rely on such third-party software and intellectual property in the future. This exposes us to risks over which we may have little or no control. The third-party software we currently license may not always be available, and we may not have access to alternative third-party software on commercially reasonable terms. In addition, a third party may assert that we or our customers are in breach of the terms of a license, which could, among other things, give such third party the right to terminate a license or seek damages from us, or both. Our inability to obtain or maintain certain licenses or other rights or to obtain or maintain such licenses or rights on favorable terms, or the need to engage in litigation regarding these matters, could result in delays in releases of new solutions, and could otherwise disrupt our business, until equivalent technology can be identified, licensed or developed, if at all. Also, to the extent that our platform and solutions depend upon the successful operation of third-party software in conjunction with our software, any undetected errors or defects in such third-party software could prevent the deployment or impair the functionality of our platform, delay new feature introductions, result in a failure of our platform and injure our reputation.

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

We may need to raise additional funds, and we may not be able to obtain additional debt or equity financing on favorable terms, if at all. If we raise additional equity financing, our security holders may experience significant dilution of their ownership interests. If we engage in debt financing, we may be required to accept terms that restrict our ability to incur additional indebtedness, force us to maintain specified liquidity or other ratios or restrict our ability to pay dividends or make acquisitions. If we need additional capital and cannot raise it on acceptable terms, or at all, we may not be able to, among other things:

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

***Our credit agreement contains restrictions that impact our business and could expose us to risks that could adversely affect our liquidity and financial condition.***

Our credit agreement contains various covenants that, among other things, limit our and certain of our subsidiaries' abilities to:

- incur additional indebtedness or guarantee indebtedness of others;
- create additional liens on our assets;
- merge, consolidate or dissolve;
- make loans or investments, including acquisitions;

- sell assets;
- engage in sale and leaseback transactions;
- pay dividends and make other distributions on our capital stock, and redeem and repurchase our capital stock; or
- enter into transactions with affiliates.

Our credit agreement also contains numerous affirmative covenants and a financial covenant. Any additional debt that we incur in the future could subject us to similar or additional covenants.

We have historically relied on the availability of some amount of debt financing. If we experience a decline in cash flow due to any of the factors described in this “Risk Factors” section or otherwise, we could have difficulty paying interest and principal amounts due on our indebtedness and meeting the financial covenant set forth in our credit agreement. If we are unable to generate sufficient cash flow or otherwise to obtain the funds necessary to make required payments under our credit agreement, or if we fail to comply with the various requirements of our indebtedness, we could default under our credit agreement. Any such default that is not cured or waived could result in an acceleration of indebtedness then outstanding under our credit agreement, an increase in the applicable interest rates under our credit agreement, and require our subsidiaries that have guaranteed our borrowings under our credit agreement to pay the obligations in full, and would permit the lenders to exercise remedies with respect to all of the collateral that is securing our borrowings under the credit agreement, including substantially all of our and our subsidiary guarantors’ assets. Thus, any such default could have a material adverse effect on our liquidity and financial condition.

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

We rely on copyrights, trade secret laws, confidentiality procedures, employment proprietary information and inventions assignment agreements, trademarks and patents to protect our intellectual property rights. However, the steps we take to protect our intellectual property may not be adequate. To protect our trade secrets and proprietary information, we rely in significant part on confidentiality arrangements with our employees, licensees, independent contractors, advisers, channel partners, resellers and customers. These arrangements may not be effective to prevent disclosure of confidential information, including trade secrets, and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, if others independently discover trade secrets and proprietary information, we would not be able to assert trade secret rights against such parties. To protect our intellectual property, we may be required to spend significant resources to obtain, monitor and enforce such rights. Litigation brought to enforce our intellectual property could be costly, time-consuming and distracting to management and could be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property, which may result in the impairment or loss of portions of our intellectual property. The laws of some foreign countries do not protect our intellectual property to the same extent as the laws of the United States, and effective intellectual property protection and mechanisms may not be available in those jurisdictions. We may need to expend additional resources to defend our intellectual property in these countries, and our inability to do so could impair our business or adversely affect our international expansion. Even if we are able to secure intellectual property, there can be no assurances that such rights will provide us with competitive advantages or distinguish our platform or solutions and services from those of our competitors or that our competitors will not independently develop similar technology.

***We may be subject to intellectual property rights claims by third parties, which may be costly to defend, could require us to pay significant damages and could limit our ability to use certain technologies.***

Companies in the software and technology industries, including some of our current and potential competitors, own large numbers of patents, copyrights, trademarks and trade secrets and frequently enter into litigation based on allegations of infringement, misappropriation or other violations of intellectual property rights. We have in the past and may in the future be subject to notices that claim we have infringed, misappropriated or misused the intellectual property of our competitors or other third parties, including patent holding companies whose sole business is to assert such claims. To the extent we increase our visibility in the market, we face a higher risk of being the subject of intellectual property claims. Additionally, we do not have a significant patent portfolio, which could prevent us from deterring patent infringement claims through our own patent portfolio, and our competitors and others may now or in the future have significantly larger and more mature patent portfolios than we do.

Any intellectual property claims, with or without merit, could be time-consuming and expensive and could divert our management's attention and other resources. These claims could also subject us to significant liability for damages, potentially including treble damages if we are found to have willfully infringed patents or copyrights. These claims could also result in our having to stop using technology found to be in violation of a third party's rights. We might be required to seek a license for the intellectual property, which may not be available on reasonable terms or at all. Even if a license is available, we could be required to pay significant royalties, which would increase our operating expenses. As a result, we may be required to develop alternative non-infringing technology, which could require significant effort and expense. If we cannot license or develop technology for any aspect of our business that may ultimately be determined to infringe on or misappropriate the intellectual property rights of another party, we could be forced to limit or stop sales of licenses to our platform and solutions and may be unable to compete effectively. Furthermore, we may be subject to indemnification obligations with respect to third-party intellectual property pursuant to our agreements with our channel partners or customers. Any of these results would adversely affect our business, operating results and financial condition.

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

Our agreements with customers and other third parties may include indemnification provisions under which we agree to indemnify them or otherwise be liable for losses suffered or incurred as a result of claims of intellectual property infringement or misappropriation, damages caused by us to property or persons, or other liabilities relating to or arising from our platform, solutions, services or other contractual obligations. Some of these indemnity agreements provide for uncapped liability for which we would be responsible, and some indemnity provisions survive termination or expiration of the applicable agreement.

From time to time, customers also require us to indemnify or otherwise be liable to them for breach of confidentiality, violation of applicable law or failure to implement adequate security measures with respect to their data stored, transmitted or accessed using our platform. Although we normally seek contractual limitations to our liability with respect to the foregoing obligations, the existence of such a dispute may have adverse effects on our customer relationship and reputation and even if we contractually limit our liability with respect to such obligations, we may still incur substantial liability related to them. Any assertions by a third party, whether or not successful, with respect to any of these indemnification obligations could subject us to costly and time-consuming litigation, expensive remediation and licenses, divert management attention and financial resources, harm our relationship with that customer and other current and prospective customers, reduce demand for our platform and solutions, and harm our brand, business, operating results and financial condition. Any dispute with a customer with respect to such obligations could have adverse effects on our relationship with that customer and other existing customers and new customers and adversely affect our business and operating results.

***We may be subject to damages resulting from claims that our employees or contractors have wrongfully used or disclosed alleged trade secrets of their former employers or other parties.***

We could in the future be subject to claims that we, our employees or our contractors have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of our competitors or other parties. Litigation may be necessary to defend against these claims. If we fail in defending against such claims, a court could order us to pay substantial damages and prohibit us from using technologies or features that are essential to our solutions, if such technologies or features are found to incorporate or be derived from the trade secrets or other proprietary information of these parties. In addition, we may lose valuable intellectual property rights or personnel. A loss of key personnel or their work product could hamper or prevent our ability to develop, market and support potential solutions or enhancements, which could severely harm our business. Even if we are successful in defending against these claims, such litigation could result in substantial costs and be a distraction to management.

***Our use of "open source" software could negatively affect our ability to sell our solutions and subject us to possible litigation.***

Some aspects of our platform and solutions are built using open source software, and we intend to continue to use open source software in the future. From time to time, we contribute software source code to open source projects under open source licenses or release internal software projects under open source software licenses and anticipate doing so in the future. The terms of certain open source licenses to which we are subject have not been interpreted by U.S. or foreign courts, and there is a risk that open source software licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to monetize our products. Additionally, we may from time to time face claims from third parties claiming ownership of, or demanding release of, the open source software or derivative works that we developed using such software, which could include our proprietary source code, or otherwise seeking to enforce the terms of the applicable open source software license. These claims could result in litigation and could require us to make our software source code freely available, purchase a costly license or cease

offering the implicated services unless and until we can re-engineer them to avoid infringement or violation. This re-engineering process could require significant additional research and development resources, and we may not be able to complete it successfully. In addition to risks related to license requirements, use of certain open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of software and, thus, may contain security vulnerabilities or broken code. Additionally, because any software source code we contribute to open source projects is publicly available, our ability to protect our intellectual property rights with respect to such software source code may be limited or lost entirely, and we may be unable to prevent our competitors or others from using such contributed software source code. Any of these risks could be difficult to eliminate or manage, and if not addressed, could have a negative effect on our business, operating results and financial condition.

***We may be required to defer or adjust recognition of some of our license revenue, which may harm our operating results in any given period.***

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

- the transaction involves products or features that are under development;
- the transaction involves extended payment terms; or
- the transaction involves acceptance criteria.

Although we strive to enter into agreements that meet the criteria under accounting principles generally accepted in the United States of America (“GAAP”) for current revenue recognition on delivered performance obligations, our agreements are often subject to negotiation and revision based on the demands of our customers. The final terms of our agreements sometimes result in deferred revenue recognition well after the time of delivery, which may adversely affect our financial results in any given period.

Furthermore, the presentation of our financial results requires us to make estimates and assumptions that may affect revenue recognition, including determination of stand-alone selling price. In some instances, we could reasonably use different estimates and assumptions, and changes in estimates are likely to occur from period to period. Accordingly, actual results could differ significantly from our estimates.

***If our estimates or judgments relating to our critical accounting policies prove to be incorrect, our operating results 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 provided in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, capitalized internal-use software costs, income taxes, other non-income taxes, business combinations and valuation of goodwill and purchased intangible assets and stock-based compensation. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in the trading price of our common stock.

***Changes in existing financial accounting standards or practices, or taxation rules or practices, may harm our operating results.***

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

GAAP is subject to interpretation by the Financial Accounting Standards Board (“FASB”), the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results and could affect the reporting of transactions completed before the announcement of a change.



***Our business may be subject to additional obligations to collect and remit sales tax, value-added and other taxes, and we may be subject to tax liability for past sales. Any successful action by state, foreign or other authorities to collect additional or past sales tax could adversely affect our business.***

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

We file sales tax returns in certain states within the United States as required by law and certain customer contracts for a portion of the products that we provide. We do not collect sales or other similar taxes in other states and many of such states do not apply sales or similar taxes to the vast majority of the products that we provide. However, one or more states or foreign authorities could seek to impose additional sales, use or other tax collection and record-keeping obligations on us or may determine that such taxes should have, but have not been, paid by us. Liability for past taxes may also include substantial interest and penalty charges. Any successful action by state, foreign or other authorities to compel us to collect and remit sales tax, use tax or other taxes, either retroactively, prospectively or both, could adversely affect our business, operating results and financial condition.

***If our products fail to help our customers achieve and maintain compliance with certain government regulations and industry standards, our business and operating results could be materially and adversely affected.***

We believe we generate a portion of our revenues from our products and services because our customers use our products and services as part of their efforts to achieve and maintain compliance with certain government regulations and industry standards, and we expect that will continue for the foreseeable future. Examples of industry standards and government regulations include the Payment Card Industry Data Security Standard (“PCI-DSS”); the Federal Information Security Management Act (“FISMA”) and associated National Institute for Standards and Testing (“NIST”) Network Security Standards; the Sarbanes-Oxley Act; Title 21 of the U.S. Code of Federal Regulations, which governs food and drugs industries; the North American Electric Reliability Corporation Critical Infrastructure Protection Plan (“NERC-CIP”); the GDPR; the German Federal Financial Supervisory Authority (“BaFin”) Minimum Requirements for Risk Management; and the Monetary Authority of Singapore’s Technology Risk Management Notices. These industry standards may change with little or no notice, including changes that could make them more or less onerous for businesses. In addition, governments may also adopt new laws or regulations, or make changes to existing laws or regulations, that could affect whether our customers believe our solution assists them in maintaining compliance with such laws or regulations. If our solutions fail to expedite our customers’ compliance initiatives, our customers may lose confidence in our products and could switch to products offered by our competitors. In addition, if government regulations and industry standards related to IT security are changed in a manner that makes them less onerous, our customers may view compliance as less critical to their businesses, and our customers may be less willing to purchase our products and services. In either case, our sales and financial results would suffer.

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

Our business activities are subject to various restrictions under U.S. export controls and trade and economic sanctions laws, including the U.S. Commerce Department’s Export Administration Regulations and economic and trade sanctions regulations maintained by the U.S. Treasury Department’s Office of Foreign Assets Control. The U.S. export control laws and U.S. economic sanctions laws include prohibitions on the sale or supply of certain products and services to U.S. embargoed or sanctioned countries, governments, persons and entities and also require authorization for the export of encryption items. We are also subject to Israeli export controls on encryption technology for SecurityIQ (now IdentityIQ File Access Manager). If the applicable U.S. or Israeli requirements regarding export of encryption technology were to change or if we change the encryption means in our products, we may need to satisfy additional requirements in the United States or Israel. There can be no assurance that we will be able to satisfy any additional requirements under these circumstances in either the United States or Israel.

In addition, various countries regulate the import of certain encryption technology, including through import permitting and licensing requirements, and have enacted laws that could limit our ability to distribute our services or could limit our customers' ability to implement our services in those countries. Although we take precautions to prevent our products from being provided in violation of such laws, our products may have been in the past, and could in the future be, provided inadvertently in violation of such laws, despite the precautions we take. If we fail to comply with these laws and regulations, we and certain of our employees could be subject to civil or criminal penalties, including the possible loss of export privileges and monetary penalties. Obtaining the necessary authorizations, including any required license, for a particular transaction may be time-consuming, is not guaranteed, and may result in the delay or loss of sales opportunities. Although we take precautions to prevent transactions with U.S. sanction targets, we could inadvertently provide our products to persons prohibited by U.S. sanctions. This could result in negative consequences to us, including government investigations, penalties and harm to our reputation.

***Our corporate structure and intercompany arrangements are subject to the tax laws of various jurisdictions, and we could be obligated to pay additional taxes, which would harm our operating results.***

Based on our current corporate structure, we may be subject to taxation in several jurisdictions around the world with increasingly complex tax laws, the application of which can be uncertain. The amount of taxes we pay in these jurisdictions could increase substantially as a result of changes in the applicable tax principles, including increased tax rates, new tax laws or revised interpretations of existing tax laws and precedents. In addition, the authorities in these jurisdictions could challenge our methodologies for valuing developed technology or intercompany arrangements, including our transfer pricing. The relevant taxing authorities may determine that the manner in which we operate our business does not achieve the intended tax consequences. If such a disagreement were to occur, and our position were not sustained, we could be required to pay additional taxes, interest and penalties. Such authorities could claim that various withholding requirements apply to us or our subsidiaries or assert that benefits of tax treaties are not available to us or our subsidiaries. Any increase in the amount of taxes we pay or that are imposed on us could increase our worldwide effective tax rate and adversely affect our business and operating results.

***Our ability to use net operating losses and other tax attributes to offset future taxable income may be subject to certain limitations.***

In general, under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), a corporation that undergoes an "ownership change" is subject to an annual limitation on its ability to utilize its pre-change net operating losses ("NOLs"), tax credits or other tax attributes, to offset future taxable income or taxes. For these purposes, an ownership change generally occurs where the aggregate stock ownership of one or more stockholders or groups of stockholders who own at least 5% of a corporation's stock increases its ownership by more than 50 percentage points over its lowest ownership percentage within a specified testing period. Based on the results of the Company's Section 382 studies, we believe the annual limitation will not result in the expiration of any NOLs, tax credits or other tax attributes prior to utilization. However, future changes in our stock ownership, many of which are outside of our control, could result in another "ownership change" and subsequently could substantially impair our ability to utilize any NOLs, tax credits or other tax attributes.

***We function as a HIPAA "business associate" for certain of our customers and, as such, are subject to strict privacy and data security requirements. If we fail to comply with any of these requirements, we could be subject to significant liability, all of which can adversely affect our business as well as our ability to attract and retain new customers.***

The Health Insurance Portability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act ("HITECH"), and their respective implementing regulations ("HIPAA"), imposes specified requirements relating to the privacy, security and transmission of individually identifiable health information. Among other things, HITECH makes HIPAA's security standards directly applicable to "business associates." We function as a business associate for certain of our customers that are HIPAA covered entities and service providers and, in that context, we are regulated as a business associate for the purposes of HIPAA. If we are unable to comply with our obligations as a HIPAA business associate, we could face substantial civil and even criminal liability. Modifying the already stringent penalty structure that was present under HIPAA prior to HITECH, HITECH created four new tiers of civil monetary penalties and gave state attorneys general new authority to file civil actions for damages or injunctions in federal courts to enforce the federal HIPAA laws and seek attorneys' fees and costs associated with pursuing federal civil actions. In addition, many state laws govern the privacy and security of health information in certain circumstances, many of which differ from HIPAA and each other in significant ways and may not have the same effect.

The HIPAA covered entities and service providers to which we provide services require us to enter into HIPAA-compliant business associate agreements with them. These agreements impose stringent data security obligations on us. If we are unable to meet the requirements of any of these business associate agreements, we could face contractual liability under the applicable business associate agreement as well as possible civil and criminal liability under HIPAA, all of which can have an adverse impact on our business and generate negative publicity, which, in turn, can have an adverse impact on our ability to attract and retain new customers.

***Failure to comply with anti-bribery, anti-corruption, and anti-money laundering laws could subject us to penalties and other adverse consequences.***

We are subject to the Foreign Corrupt Practices Act (“FCPA”), the U.K. Bribery Act and other anti-corruption, anti-bribery and anti-money laundering laws in various jurisdictions both domestic and abroad. The FCPA prohibits any U.S. individual or business from paying, offering, authorizing payment or offering of anything of value, directly or indirectly, to any foreign official, political party or candidate for the purpose of influencing any act or decision of the foreign entity in order to assist the individual or business in obtaining or retaining business. The U.K. Bribery Act is similar but even broader in scope in that it prohibits bribery of private (non-government) persons as well. The FCPA also obligates companies whose securities are listed in the United States to comply with certain accounting provisions requiring the company to maintain books and records that accurately and fairly reflect all transactions of the corporation, including international subsidiaries, and to devise and maintain an adequate system of internal accounting controls for international operations. Our sales model presents some risk under these laws. We leverage third parties, including channel partners, to sell our solutions and conduct our business abroad. We and our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies, state-owned or affiliated entities and non-governmental commercial entities, and may be held liable for the corrupt or other illegal activities of these third-party intermediaries, our employees, representatives, contractors, channel partners and agents, even if we do not explicitly authorize such activities. While we have policies and procedure to address compliance with these 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. Noncompliance with these laws could subject us to investigations, sanctions, settlements, prosecution, other enforcement actions, disgorgement of profits, significant fines, damages, other civil and criminal penalties or injunctions, adverse media coverage and other consequences. Any investigations, actions or sanctions could adversely affect our business, operating results and financial condition.

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

***The requirements of being a public company, including compliance with the reporting requirements of the Exchange Act, and the requirements of the Sarbanes-Oxley Act and the NYSE, may strain our resources, increase our costs and distract management, and we may be unable to comply with these requirements in a timely or cost-effective manner.***

We are subject to certain laws, regulations and requirements, including compliance with reporting requirements of the Exchange Act and the requirements of the Sarbanes-Oxley Act and the NYSE. For example, we have a comprehensive compliance function, internal governance policies, such as those relating to insider trading, and frequently involve and retain outside counsel and accountants to enhance our compliance efforts. Additionally, we must comply with Section 404 of the Sarbanes-Oxley Act, including having our independent registered public accounting firm attest to the effectiveness of our internal controls. Our independent registered public accounting firm may issue a report attesting to the effectiveness of our internal controls that is adverse in the event it is not satisfied with the level at which our controls are documented, designed, operated or reviewed. Compliance with these requirements may strain our resources, increase our costs and distract management, and we may be unable to comply with these requirements in a timely or cost-effective manner.

Furthermore, being subject to these rules and regulations makes it more expensive for us to obtain director and officer liability insurance as compared to when we were a private company, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us, as a public company, to attract and retain qualified individuals to serve on our board of directors or as executive officers.



***The trading price of our common stock could be volatile, which could cause the value of your investment to decline.***

Our initial public offering occurred in November 2017. Therefore, there has only been a public market for our common stock for a short period of time. Although our common stock is listed on the NYSE, an active trading market for our common stock may not develop or, if developed, be sustained. Technology stocks have historically experienced high levels of volatility. Since shares of our common stock were sold in our initial public offering in November 2017 at a price of \$12.00 per share, our stock price has fluctuated significantly. The trading price of our common stock may fluctuate substantially in response to numerous factors, many of which are beyond our control, including the factors listed below and other factors described in this “Risk Factors” section:

- announcements of new products or technologies, commercial relationships, acquisitions or other events by us or our competitors;
- changes in how customers perceive the benefits of our platform;
- shifts in the mix of revenue attributable to perpetual licenses and to SaaS subscriptions from quarter to quarter;
- departures of key personnel;
- price and volume fluctuations in the overall stock market from time to time;
- fluctuations in the trading volume of our shares or the size of our public float;
- sales of large blocks of our common stock;
- actual or anticipated changes or fluctuations in our operating results;
- whether our operating results meet the expectations of securities analysts or investors;
- changes in actual or future expectations of investors or securities analysts;
- litigation involving us, our industry or both;
- regulatory developments in the United States, foreign countries or both;
- general economic conditions and trends;
- major catastrophic events in our domestic and foreign markets;
- cyber-attacks or incidents; and
- “flash crashes,” “freeze flashes” or other glitches that disrupt trading on the securities exchange on which we are listed.

In addition, if the market for technology stocks or the stock market in general experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, operating results or financial condition. The trading price of our common stock might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us.

In the past, following periods of volatility in the trading price of a company’s securities, securities class action litigation has often been brought against that company. If our stock price is volatile, we may become the target of securities litigation. Securities litigation could result in substantial costs and divert our management’s attention and resources from our business. This could have an adverse effect on our business, operating results and financial condition.

***If securities analysts or industry analysts were to downgrade our stock, publish negative research or reports or fail to publish reports about our business, our competitive position could suffer, and our stock price and trading volume could decline.***

The trading market for our common stock, to some extent, depends on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us should downgrade our stock or publish negative research or reports, cease coverage of our company or fail to regularly publish reports about our business, our competitive position could suffer, and our stock price and trading volume could decline.

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

We may issue additional capital stock in the future that will result in dilution to all other stockholders. We may also raise capital through equity financings in the future. As part of our business strategy, we may acquire or make investments in complementary 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 common stock to decline.

***Our charter and bylaws contain anti-takeover provisions that could delay or discourage takeover attempts that stockholders may consider favorable.***

Our charter and bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it difficult for stockholders to elect directors who are not nominated by the current members of our board of directors or take other corporate actions, including effecting changes in our management. These provisions include:

- a classified board of directors with three-year staggered terms, which could delay the ability of stockholders to change the membership of a majority of our board of directors;
- removal of directors only for cause;
- the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval, which could be used to significantly dilute the ownership of a hostile acquirer;
- allowing only our directors to fill vacancies on our board of directors;
- a prohibition on stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- the requirement that a special meeting of stockholders may be called only by or at the direction of our board of directors, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors;
- the requirement for the affirmative vote of holders of at least 66 2/3% of the voting power of all of the then outstanding shares of the voting stock, voting together as a single class, to amend the provisions of our charter relating to the management of our business (including our classified board structure) or certain provisions of our bylaws, which may inhibit the ability of an acquirer to effect such amendments to facilitate an unsolicited takeover attempt;
- the ability of our board of directors to amend the bylaws, which may allow our board of directors to take additional actions to prevent an unsolicited takeover and inhibit the ability of an acquirer to amend the bylaws to facilitate an unsolicited takeover attempt;
- advance notice procedures with which stockholders must comply to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders' meeting, which may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of us; and
- a prohibition of cumulative voting in the election of our board of directors, which would otherwise allow less than a majority of stockholders to elect director candidates.

Our charter also contains a provision that provides us with protections similar to Section 203 of the Delaware General Corporation Law ("DGCL"), and prevents us from engaging in a business combination, such as a merger, with an interested stockholder (i.e., a person or group who acquires at least 15% of our voting stock) for a period of three years from the date such person became an interested stockholder, unless (with certain exceptions) the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner.

***We may issue preferred stock whose terms could adversely affect the voting power or value of our common stock.***

Our charter authorizes us to issue, without the approval of our stockholders, one or more classes or series of preferred stock having such designations, preferences, limitations and relative rights, including preferences over our common stock respecting dividends and distributions, as our board of directors may determine. The terms of one or more classes or series of preferred stock could adversely impact the voting power or value of our common stock. For example, we might grant holders of preferred stock the right to elect some number of our directors in all events or on the happening of specified events or the right to veto specified transactions. Similarly, the repurchase or redemption rights or liquidation preferences we might assign to holders of preferred stock could affect the residual value of our common stock.

***Our charter designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, employees or agents.***

Our charter provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will, to the fullest extent permitted by applicable law, be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, employees or agents to us or our stockholders, (iii) any action asserting a claim arising pursuant to any provision of the DGCL, our charter or bylaws, or (iv) any action asserting a claim against us that is governed by the internal affairs doctrine, in each such case subject to such Court of Chancery of the State of Delaware having personal jurisdiction over the indispensable parties named as defendants therein. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock will be deemed to have notice of, and consented to, the provisions of our charter described in the preceding sentence. This choice of forum provision 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, employees or agents, which may discourage such lawsuits against us and such persons. Alternatively, if a court were to find these provisions of our charter inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition or operating results.

The enforceability of similar exclusive forum provisions in other companies' charters has been challenged in legal proceedings, and it is possible that, in connection with one or more actions or proceedings described above, a court could rule that this provision in our charter is inapplicable or unenforceable. For example, the choice of forum provisions summarized above are not intended to, and would not, apply to suits brought to enforce any liability or duty created by the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or other claim for which the federal courts have exclusive jurisdiction. Additionally, there is uncertainty as to whether our choice of forum provisions would be enforceable with respect to suits brought to enforce any liability or duty created by the Securities Act of 1933, as amended (the "Securities Act"), or other claims for which the federal courts have concurrent jurisdiction, and in any event stockholders will not be deemed to have waived the Company's compliance with federal securities laws and rules and regulations thereunder.

## **Risks Related to the Notes**

***Servicing our future debt may require a significant amount of cash, and we may not have sufficient cash flow from our business to do so.***

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including our \$400.0 million aggregate principal amount of 0.125% convertible senior notes due 2024 (the "Notes") and any future borrowings under the Credit Agreement, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not continue to generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms. In addition, our credit facility and any of our future debt agreements may contain restrictive covenants that prohibit us from adopting any of these alternatives. Our failure to comply with these covenants could result in an event of default, which, if not cured or waived, could result in the acceleration of our debt.

In addition, holders of the Notes have the right to require us to repurchase their Notes upon the occurrence of a fundamental change (as defined in the indenture governing the Notes) at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any. In such event, we may not have enough available cash or be able to obtain financing at the time to make repurchases of the Notes surrendered therefor. In addition, our ability to repurchase the Notes may be limited by our existing Credit Agreement or agreements governing our future indebtedness. Our failure to repurchase the Notes at a time when the repurchase is required by the indenture governing the Notes would constitute a default under such indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our existing credit facility or future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes.

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

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

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

***The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results.***

In the event the conditional conversion feature of the Notes is triggered, holders of the Notes will be entitled to convert the Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

***The Capped Call Transactions relating to the Notes may affect the value of our common stock.***

Our Notes may become in the future convertible at the option of their holders under certain circumstances. The conversion of some or all of the Notes would dilute the ownership interests of existing stockholders to the extent we satisfy our conversion obligation by delivering shares of our common stock upon any conversion of such Notes. If holders of the Notes elect to convert their Notes, we may settle our conversion obligation by delivering to them a significant number of shares of our common stock, which would cause dilution to our existing stockholders.

In connection with the pricing of the Notes, we entered into privately negotiated capped call transactions (“Capped Call Transactions”) with the option counterparties. The Capped Call Transactions will generally reduce the potential dilution to our common stock upon any conversion of the Notes and/or offset any potential cash payments we are required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset subject to a cap.

In connection with establishing their initial hedges of the Capped Call Transactions, the option counterparties or their respective affiliates have purchased shares of our common stock and/or enter into various derivative transactions with respect to our common stock, including with certain investors in the Notes. Such activity could increase (or reduce the size of any decrease in) the market price of our common stock. In addition, we expect that the option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our common stock and/or purchasing or selling our common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes (and are likely to do so during any observation period related to a conversion of the Notes). This activity could also cause or avoid an increase or a decrease in the market price of our common stock. Also, if any such Capped Call Transactions fail to become effective, whether or not the offering of the Notes is completed, the option counterparties or their respective affiliates may unwind their hedge positions with respect to our common stock, which could adversely affect the value of our common stock.

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

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

In May 2008, the FASB issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement), which has subsequently been codified as Accounting Standards Codification 470-20, Debt with Conversion and Other Options (“ASC 470-20”). Under ASC 470-20, an entity must separately account for the liability and equity components of the convertible debt instruments (such as the Notes) that may be settled entirely or partially in cash upon conversion in a manner that reflects the issuer’s economic interest cost. The effect of ASC 470-20 on the accounting for the Notes is that the equity component is required to be included in the additional paid in capital section of stockholders’ equity on our consolidated balance sheet at issuance, and the value of the equity component would be treated as original issue discount for purposes of accounting for the debt component of the Notes. As a result, we will be required to record a greater amount of non-cash interest expense in current periods presented as a result of the amortization of the discounted carrying value of the Notes to their face amount over the term of the Notes. We will report larger net losses or lower net income in our financial results because ASC 470-20 will require interest to include both the current period’s amortization of the debt discount and the instrument’s non-convertible coupon interest rate, which could adversely affect our reported or future financial results, the trading price of our common stock and the trading price of the Notes.

In addition, under certain circumstances, convertible debt instruments (such as the Notes) that may be settled entirely or partly in cash are currently accounted for utilizing the treasury stock method, the effect of which is that the shares issuable upon conversion of such Notes are not included in the calculation of diluted earnings per share except to the extent that the conversion value of such Notes exceeds their principal amount. Under the treasury stock method, for diluted earnings per share purposes, the transaction is accounted for as if the number of shares of common stock that would be necessary to settle such excess, if we elected to settle such excess in shares, are issued. We cannot be sure that the accounting standards in the future will continue to permit the use of the treasury stock method. For example, the Financial Accounting Standards Board recently published an exposure draft proposing to amend these accounting standards to eliminate the treasury stock method for convertible instruments and instead require application of the “if-converted” method. Under that method, if it is adopted, diluted earnings per share would generally be calculated assuming that all the Notes were converted solely into shares of our common stock at the beginning of the reporting period, unless the result would be anti-dilutive. If we are unable or otherwise elect not to use the treasury stock method in accounting for the shares issuable upon conversion of the Notes, then our diluted earnings per share would be adversely affected.

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

None.

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

Our corporate headquarters in Austin, Texas consists of 164,818 square feet of space under a lease that expires in April 2029. Our prior corporate headquarters occupied 44,633 square feet in Austin, Texas under a lease that expired in the first quarter of 2019, which coincided with the commencement of the lease for our current corporate headquarters. In addition to our headquarters, we have additional office space in Pune, India, Tel Aviv, Israel, London, United Kingdom, Denver, Colorado and San Jose, California.

We lease all of our facilities. We believe that our facilities are adequate for our current needs and anticipate that suitable additional space will be readily available to accommodate any foreseeable expansion of our operations.

For more information about our lease commitments, see also Note 7 “Commitments and Contingencies” of the notes to our consolidated financial statements, included elsewhere in this Annual Report on Form 10-K.

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

We are not currently a party to, nor is our property currently subject to, any material legal proceedings other than ordinary routine litigation incidental to the business. We are not aware of any inquiries or investigations into our business.

#### **Item 4. Mine Safety Disclosures.**

None.

## **PART II**

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

#### **Market Information**

Our common stock is listed and traded on the NYSE under the symbol “SAIL.”

#### **Holders of Record**

As of February 17, 2020, there were 28 holders of record of our common stock including the Cede & Co, a nominee for The Depository Trust Company, or DTC, which holds shares of our common stock on behalf of an indeterminate number of beneficial owners. All of the shares of common stock held by brokerage firms, banks and other financial institutions as nominees for beneficial owners are deposited into participant accounts at DTC and are considered to be held of record by Cede & Co. as one stockholder. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of beneficial stockholders represented by these record holders.

#### **Dividend Policy**

We have never declared or paid any cash dividends on our common stock. We currently intend to retain all of our earnings to finance the growth and development of our business. Any further determination to pay dividends on our common stock will be at the discretion of our board of directors, subject to applicable laws, and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors considers relevant. In addition, our credit agreement places restrictions on our ability to pay cash dividends.

#### **Stock Performance Graph**

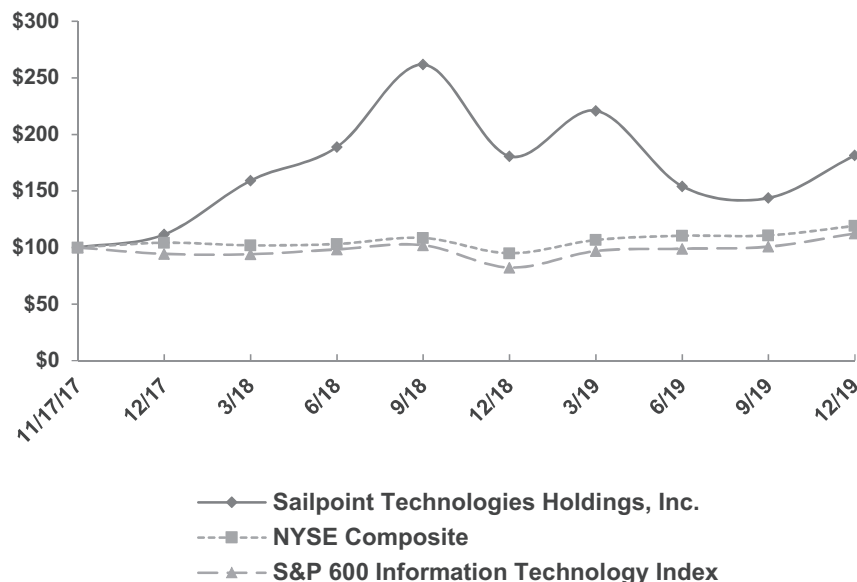
The following is not “soliciting material,” shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or incorporated by reference into any of our other filings under the Exchange Act or the Securities Act of 1933, as amended (the “Securities Act”), except to the extent we specifically incorporate it by reference into such filing.



The graph assumes that \$100 was invested (i) in the Company's common stock on November 17, 2017 (the date on which initial trading in the Company's common stock commenced), and (ii) on October 31, 2017, in the NYSE Composite Index and the S&P 600 Information Technology Index, and in each case, that all dividends were reinvested. The stock price performance on the following graph is required by the SEC and is not necessarily intended to forecast or be indicative of future stock price performance.

### COMPARISON OF 26 MONTH CUMULATIVE TOTAL RETURN\*

Among Sailpoint Technologies Holdings, Inc., the NYSE Composite Index, and S&P 600 Information Technology Index



\*\$100 invested on 11/17/17 in stock or 10/31/17 in index, including reinvestment of dividends.

Fiscal year ending December 31.

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Company/Index	11/17/2017	12/31/2017	3/31/2018	6/30/2018	9/30/2018	12/31/2018	3/31/2019	6/30/2019	9/30/2019	12/31/2019
SAIL	\$ 100.00	\$ 111.54	\$ 159.15	\$ 188.77	\$ 261.69	\$ 180.69	\$ 220.92	\$ 154.15	\$ 143.77	\$ 181.54
NYSE Composite	\$ 100.00	\$ 104.23	\$ 101.92	\$ 103.08	\$ 108.50	\$ 94.91	\$ 106.64	\$ 110.37	\$ 110.69	\$ 119.11
S&P 600 IT Index	\$ 100.00	\$ 94.34	\$ 94.08	\$ 98.33	\$ 102.06	\$ 82.25	\$ 96.88	\$ 98.94	\$ 100.71	\$ 112.39

### Recent Sales of Unregistered Securities

None.

### Purchase of Equity Securities by the Issuer and Affiliated Purchasers

None.



## Use of Proceeds from Initial Public Offering of Common Stock

On November 16, 2017, the Registration Statement on Form S-1 (File No. 333-221036) relating to our initial public offering was declared effective by the SEC and we priced our initial public offering. Pursuant to the Registration Statement, we registered an aggregate of 23,000,000 shares of our common stock, of which 15,800,000 shares were sold by us and 7,200,000 shares were sold by certain selling stockholders named therein at a price to the public of \$12.00 per share (for an aggregate offering price of \$276.0 million). We received net proceeds of approximately \$172.0 million, after deducting underwriting discounts and commissions of approximately \$13.3 million and offering-related expenses of \$4.4 million. No payments were made to our directors or officers or their associates, holders of 10% or more of any class of our equity securities or any affiliates. Morgan Stanley & Co. LLC, Citigroup Global Markets Inc., Jefferies LLC and RBC Capital Markets, LLC acted as book-running managers and KeyBanc Capital Markets Inc., Canaccord Genuity Inc. and Oppenheimer & Co. Inc. acted as co-managers (collectively, the “Underwriters”) for our initial public offering.

Our initial public offering closed in November 2017. There has been no material change in the planned use of proceeds from our initial public offering as described in our final prospectus dated November 16, 2017 and filed with the SEC on November 17, 2017 pursuant to Rule 424(b) of the Securities Act. As of December 31, 2019, we have used \$160.0 million of the proceeds from our initial public offering to repay borrowings under our term loan facility and approximately \$1.8 million of such proceeds to pay a related prepayment premium. As of December 31, 2019, the remaining net proceeds are held in cash and have not been deployed.

## Item 6. Selected Financial Data

The following selected consolidated financial data as of December 31, 2019 and 2018 and for the years ended December 31, 2019, 2018 and 2017 has been derived from, and should be read in conjunction with, the audited consolidated financial statements and the notes to our consolidated financial statements and Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, which is included elsewhere in this Annual Report on Form 10-K. Historical financial information as of December 31, 2017, 2016 and 2015 and for the years ended December 31, 2016 and 2015 is derived from our audited consolidated financial statements not included in this Annual Report on Form 10-K. Our selected consolidated financial data may not be indicative of our future financial condition or results of operations.

### Consolidated Statements of Operations Data:

	Year Ended December 31,				
	2019	2018	2017 <sup>(1)</sup>	2016 <sup>(1)</sup>	2015 <sup>(1)</sup>
	(In thousands, except per share data)				
Total revenue	\$ 288,515	\$ 248,920	\$ 186,056	\$ 132,412	\$ 95,356
Gross profit	\$ 223,040	\$ 194,250	\$ 141,466	\$ 95,374	\$ 66,097
Income (loss) from operations	\$ (9,433)	\$ 10,913	\$ 9,943	\$ 2,729	\$ (8,173)
Net income (loss)	\$ (8,500)	\$ 3,670	\$ (7,592)	\$ (3,173)	\$ (10,807)
Net income (loss) per share					
Basic	\$ (0.10)	\$ 0.04	\$ (0.55)	\$ (0.58)	\$ (0.74)
Diluted	\$ (0.10)	\$ 0.04	\$ (0.55)	\$ (0.58)	\$ (0.74)
Weighted average shares outstanding					
Basic	88,907	86,495	52,340	45,933	43,929
Diluted	88,907	90,003	52,340	45,933	43,929

- (1) The comparative information for years prior to 2018 has not been adjusted to reflect the adoption of the revised revenue recognition standard and is reported in accordance with Accounting Standards Codification 605 (“ASC 605”). See Note 3 “Revenue Recognition” of our Annual Report on Form 10-K for the year ended December 31, 2018, which was filed with the SEC on March 18, 2019 (the “2018 Annual Report”) for additional information related to our adoption of the revised revenue recognition standard (ASC 606).

# Consolidated Balance Sheets Data:

	As of December 31,				
	2019	2018	2017 <sup>(1)</sup>	2016 <sup>(1)</sup>	2015 <sup>(1)</sup>
	(In thousands)				
Cash and cash equivalents	\$ 443,795	\$ 70,964	\$ 116,049	\$ 18,214	\$ 14,896
Working capital <sup>(2)</sup>	\$ 538,986	\$ 172,045	\$ 172,492	\$ 60,047	\$ 27,982
Total assets	\$ 990,078	\$ 534,434	\$ 506,433	\$ 387,410	\$ 371,504
Deferred revenue, current and non-current	\$ 152,033	\$ 114,301	\$ 83,125	\$ 55,104	\$ 34,888
Convertible senior notes, net	\$ 309,051	\$ —	\$ —	\$ —	\$ —
Long-term debt	\$ —	\$ —	\$ 68,329	\$ 107,344	\$ 99,770
Operating lease liabilities, current and non-current <sup>(3)</sup>	\$ 41,986	\$ —	\$ —	\$ —	\$ —
Total liabilities	\$ 555,951	\$ 156,741	\$ 178,036	\$ 177,307	\$ 160,465
Redeemable convertible preferred stock	\$ —	\$ —	\$ —	\$ 223,987	\$ 222,898
Total stockholders' equity (deficit)	\$ 434,127	\$ 377,693	\$ 328,397	\$ (13,884)	\$ (11,859)

- (1) The comparative information for years prior to 2018 has not been adjusted to reflect the adoption of the revised revenue recognition standard and is reported in accordance with ASC 605. See Note 3 “Revenue Recognition” of our 2018 Annual Report for additional information related to our adoption of the revised revenue recognition standard (ASC 606).
- (2) We define working capital as current assets less current liabilities, excluding deferred revenue.
- (3) The comparative information for years prior to 2019 has not been adjusted to reflect the adoption of ASC 842 as we adopted the standard using the modified retrospective transition method. For additional information see Note 7 “Commitments and Contingencies” of our accompanying notes to our consolidated financial statements included in Part II, Item 8. of this Annual Report on Form 10-K for further discussion.

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

*You should read the following discussion and analysis of our financial condition and results of operations together with the section titled "Selected Financial Data" and the consolidated financial statements and related notes that are included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including, but not limited to, those set forth in the section titled "Risk Factors" and in other parts of this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results that may be expected for any period in the future, and our interim results are not necessarily indicative of the results we expect for the full fiscal year or any other period.*

*The Company has elected to omit a discussion and analysis of the financial condition and results of operations of certain 2017 items and year-to-year comparisons between 2018 and 2017. Such discussion and analysis can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2018, which was filed with the SEC on March 18, 2019 and is incorporated by reference herein.*

### Overview

SailPoint is the leading provider of enterprise identity governance solutions. Our SailPoint Predictive Identity platform provides organizations with critical visibility into who *currently* has access to which resources, who *should* have access to those resources, and *how* that access is being used.

We offer both software and software as a service ("SaaS") solutions, which empower our customers to efficiently and securely govern the digital identities of employees, contractors, business partners, software bots and other human and non-human users, and manage their constantly changing access rights to enterprise applications and data across hybrid IT environments, spanning on-premises, cloud and mobile applications and file storage platforms. We help customers enable their businesses with more agile and innovative IT, streamline delivery of access to their businesses, enhance their security posture and better meet compliance and regulatory requirements. Our customers include many of the world's largest and most complex organizations, including commercial enterprises, financial institutions and governments.

We believe that our SailPoint Predictive Identity platform is a critical, foundational layer of a modern cyber security strategy. Its open architecture allows it to complement and build upon traditional perimeter- and endpoint-centric security solutions, which on their own are increasingly insufficient to secure organizations, and their applications and data.

We were founded by visionary industry veterans to develop a new category of identity management solutions and address emerging identity governance challenges. Since our inception, we have focused on driving innovation in the identity market, with our key milestones including:

- in 2007, we pioneered identity governance through our release of IdentityIQ, our on-premises identity governance solution;
- in 2010, we revolutionized provisioning by integrating it with IdentityIQ into a single solution;
- in 2013, we introduced our SaaS identity governance offering, IdentityNow;
- in 2015, we extended identity governance by adding our identity governance for data stored in files solution, SecurityIQ (now referred as the File Access Manager module within IdentityIQ), which manages user access to unstructured data, a rapidly growing area of risk; and
- in 2017, we further extended identity governance with the introduction of our advanced identity analytics offering, IdentityAI, which is designed to use machine learning technologies to enable rapid detection of security threats before they turn into security breaches.

Our solutions address the complex needs of global enterprises and mid-market organizations. As of December 31, 2019, 1,469 customers across a wide variety of industries were using our products to enable and secure digital identities across the globe. No single customer represented more than 10% of our revenue for the year ended December 31, 2019 or 2018.

For the years ended December 31, 2019 and 2018, our revenue was \$288.5 million and \$248.9 million, respectively. For the year ended December 31, 2019, we had a net loss of \$8.5 million compared to net income of \$3.7 million for the year ended December 31, 2018. For the years ended December 31, 2019 and 2018, our net cash provided by operations was \$50.1 million and \$37.5 million, respectively.

Our success is principally dependent on our ability to deliver compelling solutions to attract new customers and retain existing customers. Delivering these solutions is challenging because our customers have large, complex IT environments, often rely on both legacy and innovative technologies, and deploy different business models, including on-premises and cloud models. Rising security threats and evolving regulations and compliance standards for cyber security, data protection, privacy and internal IT controls create new opportunities for our industry and require us to adapt our solutions to be successful. Maintaining our historical growth rates is also challenging because our growth strategy depends in part on our ability to expand our global presence, increase the number of companies we can address with our current solutions, and invest in new vertical markets, while competing against much larger companies with more recognizable brands and financial resources. Although we seek to grow rapidly, we also focus on managing our net cash from operations while continuing to invest in our platform and to deliver innovative solutions to our customers.

We believe enterprises are increasingly embracing the cloud to house their critical security infrastructure. As a result, a growing number of enterprises are changing their approach to identity governance and now prefer SaaS in place of purchasing software via a license and independently operating their identity infrastructure. This industry shift aligns well with our current product strategy. Our product strategy is to (1) accelerate innovation within our core identity governance SaaS offerings, (2) deliver continued innovation as we execute against our vision for SailPoint Predictive Identity, and (3) ensure that as we deliver these new innovations, they work in concert with our on-premises offerings in addition to our SaaS offerings. We believe that continued growth of subscription revenue, which includes revenue from our SaaS offerings, as a percentage of total revenue will lead to a more predictable revenue model and increase our visibility to future period total revenues. Nevertheless, our gross margins vary depending on the type of solution we sell. As a result, a shift in the sales mix of our solutions could affect our performance relative to historical results.

### ***Our Business Model***

We deliver an integrated set of solutions that supports all aspects of identity governance, including provisioning, access request, compliance controls, password management and identity governance for data stored in files. Our most recent innovation, the SailPoint Predictive Identity platform, embeds advanced artificial intelligence (“AI”) and machine learning (“ML”) into our open identity platform to deliver actionable insights and recommendations to reduce risk, accelerate deployment and simplify administration. Our solutions are built on our open identity platform, which enables connectivity to a variety of security and operational IT applications. Our open identity platform extends the reach of our identity governance processes and enable effective identity governance controls across customer environments.

Our set of solutions currently consists of (i) IdentityIQ, our on-premises identity governance solution, which can be deployed in customer’s data center or hosted in the public cloud, (ii) IdentityNow, our cloud-based, multi-tenant identity governance platform, which is delivered as a SaaS subscription offering and (iii) IdentityAI, our multi-tenant advanced AI and ML SaaS offering that infuses intelligent insights and recommendations into our IdentityIQ and IdentityNow solutions to help organizations detect areas of high risk, including potential threats, before they turn into security breaches. See Part I, Item 1. “Business—Product, Subscription, and Support Offerings” for more information regarding our solutions.

For our IdentityIQ solutions, our customers typically purchase a perpetual software license, which includes one year of maintenance. Our maintenance provides software maintenance as well as access to our technical support services during the maintenance term. After the initial maintenance period, customers with perpetual licenses may renew their maintenance agreement for an additional fee. For our SaaS offerings, IdentityNow and IdentityAI, for a subscription fee, we offer customers access to these solutions and infrastructure support for the duration of their subscription agreement. Our standard subscription agreement for our SaaS offerings has a duration of three years.

Pricing for each of our solutions is dependent on the number of digital identities of employees, contractors, business partners, software bots and other human and non-human users that the customer is entitled to govern with the solution. We also package and price our IdentityIQ, IdentityNow and IdentityAI solutions into modules. Each module has unique functionalities, and our customers are able to purchase one or more modules, depending on their needs. We also offer advanced integration modules for key applications and systems which can be purchased in addition to our base solution modules. They are also priced based on the total number of identities. Thus, our revenue from any customer is generally determined by the number of identities that the customer is entitled to govern as well as the number of modules (for our IdentityIQ and IdentityNow solutions) purchased by the customer.

Our go-to-market strategy consists of both direct sales and indirect sales through our partner network consisting of technology partners, system integrators, a growing network of value-added resellers and our alliance partners. We work closely with systems integrators, many of whom have dedicated SailPoint practices (including Accenture, Deloitte, EY, KPMG, and PwC), with some dating back more than nine years, and resellers (including value-added resellers such as Optiv) to scale growth, help generate new opportunities, optimize customer experience and increase profitability as well as sales efficiency. We frequently cooperate with systems integrators to make joint sales proposals to address our mutual customers' requirements. We do not have any material payment obligations to systems integrators, resellers or our technology partners; nor do they have any material payment obligations to us, except that resellers typically purchase solutions directly from us and resell to customers. See Part I, Item 1. "Business—Partnerships and Strategic Relationships" for more information regarding our partnership network.

In addition to our solutions, we offer professional services to our customers and partners to configure and optimize the use of our solutions as well as training services related to the configuration and operation of our platform. Most of our professional services activity is in support of our partners, who perform a significant majority of all initial and follow-on implementation work for our customers. Most of our consulting services are priced on a time-and-materials basis; our training services are provided through multiple pricing models, including on a per-person basis (for courses provided at our headquarters and on-site at our customers' offices) and a flat-rate basis (for our e-learning course).

We devote significant resources to acquire new customers, in both existing and new markets, in order to grow our customer base. In addition, we focus on three distinct opportunities to increase sales to existing customers: (i) expand the number of digital identities; (ii) up-sell additional modules or target storage systems, as applicable, within a single solution; and (iii) cross-sell additional solutions.

As part of our product strategy for the SailPoint Predictive Identity platform, we acquired Orkus, Inc. ("Orkus") and Overwatch.ID, Inc. ("Overwatch.ID"). Orkus is engaged in the development and license of software products to assist customers in monitoring and controlling access and authorization across hybrid cloud assets. Overwatch.ID is engaged in the development and license of software products focused on access controls security for cloud applications, cloud computing, hybrid IT environments, and on-premises infrastructure. See Note 5 "Business Combinations" in our notes to our consolidated financial statements included in this Annual Report for more information.

### ***Key Factors Affecting Our Performance***

Our historical financial performance has been, and we expect our financial performance in the future to be, driven by our ability to:

- *Add New Customers Within Existing Markets.* Based on data from S&P Global Market Intelligence, we believe that we have penetrated approximately 2% of over 65,000 companies in the countries where we have customers today. As a result, there is significant opportunity to expand our footprint in our existing markets through new, greenfield installations and displacement of our competitors' legacy solutions. We plan to grow our sales organization, expand and leverage our channel partners and enhance our marketing efforts.
- *Generate Additional Sales to Existing Customers.* We believe that our existing customer base provides us with a significant opportunity to drive incremental sales. In most cases, our customers initially purchase a subset of the modules or offerings we provide based on their immediate need. We focus on generating more revenue from the modules that our customers have already purchased from us as our customers grow the number of identities our solutions manage and govern and as our customers deploy our solutions across other business units or geographies within their organizations. This is especially true when it comes to our new and expanded SaaS offerings, including AI and cloud governance. Over time, we also identify up-selling and cross-selling opportunities and seek to sell additional modules and offerings to our existing customers.



- *Retain Customers.* We believe that our ability to retain our customers is an important component of our growth strategy and reflects the long-term value of our customer relationships. For example, when we add a new customer, we generate new license revenue. If the customer renews, we generate incremental maintenance revenue. As we add new IdentityIQ customers, our high renewal rates result in maintenance revenue. Our key strategies to maintain our high renewal rates include focusing on the quality and reliability of our solutions, customer service and support to ensure our customers receive value from our solutions, providing consistent software upgrades and having dedicated customer success teams.
- *Expand into New Markets.* We expect to continue to invest significantly in sales, marketing and customer service, as well as our indirect channel partner network, to expand into new geographies and vertical markets. We believe that our market opportunity is large and growing and that the global cyber security market represents a significant growth opportunity for us. In 2019, we generated only 29% of our revenue outside of the United States. We plan to leverage our existing strong relationships with global system integrators and channel partners to grow our presence in Europe, Asia Pacific and other international markets.

### Key Business Metrics

In addition to our GAAP financial information such as revenue and net income discussed above, we monitor the following key metrics to help us measure and evaluate the effectiveness of our operations:

	Year Ended December 31,		
	2019	2018	2017 <sup>(1)</sup>
Number of customers	1,469	1,173	933
Subscription revenue as a percentage of total revenue	50%	42%	38%

(1) The comparative information for 2017 has not been adjusted to reflect the adoption of the revised revenue recognition standard and is reported in accordance with ASC 605. See Note 3 “Revenue Recognition” of our 2018 Annual Report for additional information related to our adoption of the revised revenue recognition standard (ASC 606).

- *Number of Customers.* We believe that the size of our customer base is an indicator of our market penetration and that our net customer additions are an indicator of the growth of our business and our future revenue opportunity. We define a customer as a distinct entity, division or business unit of an organization that receives support or has the right to use our cloud-based solutions as of the specified measurement date.
- *Subscription Revenue as a Percentage of Total Revenue.* Subscription revenue is a portion of our total revenue and is derived from (i) IdentityIQ, maintenance and support agreements, but not licenses, and (ii) IdentityNow and IdentityAI, our SaaS offerings where customers enter into subscription agreements with us. As we generally sell our solutions on a per-identity basis, our SaaS subscription revenue for any customer is primarily determined by the number of identities that the customer is entitled to govern, and the ongoing price paid per-identity under a maintenance and support agreement. Thus, we consider our subscription revenue to be the recurring portion of our revenue base and believe that its continued growth as a percentage of total revenue will lead to a more predictable revenue model and increase our visibility to future period total revenues. Because we recognize our subscription revenue ratably over the duration of those agreements, a portion of the revenue we recognize each period is derived from agreements we entered into in prior periods. In contrast, we typically recognize license revenue upon entering into the applicable license, the timing of which is less predictable and may cause significant fluctuations in our quarterly financial results.

## Components of Results of Operations

### Revenue

*License Revenue.* We generate license revenue through the sale of our on-premises software license agreements to new customers and sales of additional licenses to the existing customers who can purchase additional users for existing licenses or purchase new licenses. Customers may also purchase term license agreements, under which we recognize the license fee upfront. License transactions generally include an amount for first-year maintenance, which we recognize as subscription revenue. We typically recognize license revenue upon delivering the applicable license. See the section titled “Critical Accounting Policies and Estimates—Revenue Recognition” for more information. Over time, we will continue to expect license revenue to decrease as a percentage of our total revenue as we continue to focus on increasing our subscription revenue as a key growth initiative.

*Subscription Revenue.* Our subscription revenue consists of fees for (i) ongoing maintenance and support of our licensed offerings and (ii) subscription fees for access to, and related support for, our SaaS offerings. We typically



invoice subscription fees in advance, in annual installments, and recognize subscription revenue ratably over the term of the applicable agreement. See the section titled “Critical Accounting Policies and Estimates—Revenue Recognition” for more information. Over time, we expect subscription revenue will increase as a percentage of total revenue as we continue to focus on increasing subscription revenue as a key growth initiative.

*Services and Other Revenue.* Services and other revenue consists primarily of fees from professional services provided to our customers and partners to configure and optimize the use of our solutions as well as training services related to the configuration and operation of our platform. Most of our professional services are priced on a time-and-materials basis, and we generally invoice customers monthly as the work is performed. We generally have standalone value for our professional services and recognize revenue as services are performed based on an estimated fair value as a separate unit of accounting. See the section titled “Critical Accounting Policies and Estimates—Revenue Recognition” for more information. Most of our professional services activity is in support of our partners, who perform the significant majority of all initial and follow-on configuration and optimization work for our customers. Over time, we expect our professional services revenue as a percentage of total revenue to decline as we increasingly rely on partners to help our customers deploy our software.

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

*Cost of License Revenue.* Cost of license revenue consists of amortization expense for developed technology acquired and third-party royalties.

*Cost of Subscription Revenue.* Cost of subscription revenue consists primarily of employee compensation cost (which consists of salaries, benefits, bonuses and stock-based compensation), costs of our customer support organization, contractor costs to supplement our staff levels, allocated overhead, amortization expense for developed technology acquired and third-party cloud-based hosting costs.

*Cost of Services and Other Revenue.* Cost of services and other revenue consists primarily of employee compensation costs of our professional services and training organizations, travel-related costs, contractor costs to supplement our staff levels and allocated overhead.

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

Gross profit is revenue less cost of revenue, and gross margin is gross profit as a percentage of total revenue. Gross profit has been and will continue to be affected by various factors, including the mix of our license, subscription, and services and other revenue, the costs associated with third-party cloud-based hosting services for our SaaS offerings, and the extent to which we expand our customer support and services organizations. We expect that our overall gross margin will fluctuate from period to period depending on the interplay of these various factors. Also, we expect our investment in technology to expand the capability of our services, enabling us to improve our gross margin over time.

### ***Operating Expenses***

*Research and Development Expenses.* Research and development expenses consist primarily of employee compensation costs, allocated overhead and software and maintenance expenses, which includes cloud-based hosting costs related to the development of our cloud-based solution. We believe that continued investment in our offerings is vital to the growth of our business, and we intend to continue to invest in product development and in SailPoint Labs, our dedicated, stand-alone technology investigation and engineering group, to continue to innovate and offer our customers new solutions and to enhance our existing solutions as our business grows. See Part I, Item 1. “Business—Research and Development” for more information. We expect such investment to increase on a dollar basis as our business grows.

*General and Administrative Expenses.* General and administrative expenses consist primarily of employee compensation costs for corporate personnel, such as those in our executive, human resources, facilities, accounting and finance and IT departments. In addition, general and administrative expenses include third-party professional fees and sponsor-related costs, as well as all other supporting corporate expenses not allocated to other departments. Our general and administrative expenses increase on a dollar basis as our business grows. Also, we have incurred increased general and administrative expenses as a result of becoming a 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 pursuant to the rules and regulations of the SEC, and increased expenses for insurance, investor relations and professional services.

*Sales and Marketing Expenses.* Sales and marketing expenses consist primarily of employee compensation costs, sales commissions, costs of general marketing and promotional activities, travel-related expenses and allocated overhead. Under ASC 606, sales commissions earned by our sales force and the related payroll taxes, a primary component of “deferred contract acquisition costs”, which are considered incremental and recoverable costs of obtaining a contract with a customer are deferred and then amortized on a straight-line basis over a period of benefit that we have determined to be generally five years. Under ASC 605, the Company generally capitalized deferred contract costs associated with subscription revenues, which were subsequently amortized over the term of the subscription while deferred contract cost related to license revenues were previously recognized as incurred. We expect to continue to invest in our sales force for expansion to new geographic and vertical markets. We expect our sales and marketing expenses to increase on a dollar basis and continue to be our largest operating expense category for the foreseeable future.

*Allocated Overhead.* We allocate shared costs, such as facilities costs (including rent and utilities), information technology costs and recruiting costs, to all departments based on headcount. As such, allocated shared costs are reflected in each cost of revenue and operating expense category.

#### ***Other Expense, Net***

Other expense, net consists primarily of interest expense, net of interest income, and foreign currency transaction gains and losses related to the impact of transactions denominated in a foreign currency. As we have expanded our international operations, our exposure to fluctuations in foreign currencies has increased and we expect this to continue. Interest expense, net of interest income, consists primarily of interest, amortization of debt discount and issuance costs, loss on the modification and extinguishment of debt and prepayment penalties on our current and prior credit agreements and Notes.

#### ***Income Tax (Expense) Benefit***

Our provision for income taxes consists of U.S. and state income taxes and income taxes in certain foreign jurisdictions in which we conduct business. Our income tax rate varies from the federal statutory rate due to foreign withholding taxes; changing tax laws, regulations and interpretations in multiple jurisdictions in which we operate; changes to the financial accounting rules for income taxes; unanticipated changes in tax rates; differences in accounting and tax treatment of our stock-based compensation and R&D credits. We expect this fluctuation in income tax rates, as well as its potential impact on our results of operations, to continue.

## Results of Operations

The following table sets forth our results of operations for the periods indicated:

	Year Ended December 31,		
	2019	2018	2017 <sup>(1)</sup>
	(In thousands)		
<b>Revenue</b>			
Licenses	\$ 102,800	\$ 105,000	\$ 79,209
Subscription	143,390	104,033	71,007
Services and other	42,325	39,887	35,840
Total revenue	288,515	248,920	186,056
<b>Cost of revenue</b>			
Licenses	4,239	4,634	4,561
Subscription <sup>(2)</sup>	26,877	20,734	16,406
Services and other <sup>(2)</sup>	34,359	29,302	23,623
Total cost of revenue	65,475	54,670	44,590
Gross profit	223,040	194,250	141,466
<b>Operating expenses</b>			
Research and development <sup>(2)</sup>	56,120	43,154	33,331
General and administrative <sup>(2)</sup>	39,816	34,781	17,678
Sales and marketing <sup>(2)</sup>	136,537	105,402	80,514
Total operating expenses	232,473	183,337	131,523
Income (loss) from operations	(9,433)	10,913	9,943
Other expense, net:			
Interest expense, net	(2,573)	(4,707)	(14,783)
Other, net	(1,082)	(1,446)	(459)
Total other expense, net	(3,655)	(6,153)	(15,242)
Income (loss) before income taxes	(13,088)	4,760	(5,299)
Income tax (expense) benefit	4,588	(1,090)	(2,293)
<b>Net income (loss)</b>	<u>\$ (8,500)</u>	<u>\$ 3,670</u>	<u>\$ (7,592)</u>

(1) The comparative information for 2017 has not been adjusted to reflect the adoption of the revised revenue recognition standard and is reported in accordance with ASC 605. See Note 3 “Revenue Recognition” of our 2018 Annual Report for additional information related to our adoption of the revised revenue recognition standard (ASC 606).

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

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Cost of revenue - subscription	\$ 1,142	\$ 945	\$ 133
Cost of revenue - services and other	1,379	1,504	458
Research and development	3,517	3,026	658
General and administrative	5,990	7,798	2,062
Sales and marketing	6,686	5,702	1,203
Total stock-based compensation expense	<u>\$ 18,714</u>	<u>\$ 18,975</u>	<u>\$ 4,514</u>

The following table sets forth the consolidated statements of operations data for each of the periods presented as a percentage of total revenue:

	Year Ended December 31,		
	2019	2018	2017 <sup>(1)</sup>
<b>Revenue</b>			
Licenses	35%	42%	43%
Subscription	50	42	38
Services and other	15	16	19
Total revenue	100	100	100
<b>Cost of revenue</b>			
Licenses	2	2	2
Subscription	9	8	9
Services and other	12	12	13
Total cost of revenue	23	22	24
Gross profit	77	78	76
<b>Operating expenses</b>			
Research and development	20	17	18
General and administrative	14	14	10
Sales and marketing	47	42	43
Total operating expenses	81	73	71
Income (loss) from operations	(4)	5	5
Other expense, net:			
Interest expense, net	(1)	(2)	(8)
Other, net	—	(1)	—
Total other expense, net	(1)	(3)	(8)
Income (loss) before income taxes	(5)	2	(3)
Income tax (expense) benefit	2	—	(1)
<b>Net income (loss)</b>	<u>(3)%</u>	<u>2%</u>	<u>(4)%</u>

(1) The comparative information for 2017 has not been adjusted to reflect the adoption of the revised revenue recognition standard and is reported in accordance with ASC 605. See Note 3 “Revenue Recognition” of our 2018 Annual Report for additional information related to our adoption of the revised revenue recognition standard (ASC 606).

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

### Revenue

	Year Ended December 31,			
	2019	2018	variance \$	variance %
	(In thousands, except percentages)			
<b>Revenue</b>				
Licenses	\$ 102,800	\$ 105,000	\$ (2,200)	(2)%
Subscription	143,390	104,033	39,357	38%
Services and other	42,325	39,887	2,438	6%
Total revenue	<u>\$ 288,515</u>	<u>\$ 248,920</u>	<u>\$ 39,595</u>	<u>16%</u>

*License Revenue.* License revenue decreased by \$2.2 million, or 2%, for the year ended December 31, 2019 compared to the year ended December 31, 2018. While we increased revenue in follow-on license revenue from existing customers 4% year-over-year, the increase was offset by a 5% year-over-year decrease from new customers. During the year ended December 31, 2019, license revenue from new customers was \$63.6 million and license revenue from existing customers was \$39.2 million. Our customer base increased by 296, or 25%, from 1,173 customers at December 31, 2018 to 1,469 customers at December 31, 2019. Our revenue from any single customer is determined by the number of identities the customer is entitled to govern as well as the number of modules and solutions purchased.

**Subscription Revenue.** Subscription revenue increased by \$39.4 million, or 38%, for the year ended December 31, 2019 compared to the year ended December 31, 2018 primarily due to an increase in ongoing maintenance revenue from our increased installed base and new sales of our SaaS offerings. During the year ended December 31, 2019, subscription revenue from new customers was \$18.5 million and subscription revenue from existing customers was \$124.9 million.

**Services and Other Revenue.** Services and other revenue increased by \$2.4 million, or 6% for the year ended December 31, 2019 compared to the year ended December 31, 2018 primarily due to higher demand for services from an increased number of customers using our consulting and training services.

**Geographic Regions.** Our operations in the United States contributed the largest portion of our revenue in each year ended December 31, 2019 and 2018 because of our larger and more established sales force and partner network in the United States as compared to our other regions. Revenue from EMEA and the rest of the world also increased for year ended December 31, 2019, primarily due to our investment in increasing the size of our international sales force and strengthening partnerships with global system integrators and resellers worldwide.

The following table sets forth, for each of the periods presented, our consolidated total revenue by geography and the respective percentage of total revenue:

	Year Ended December 31,			
	2019		2018	
	\$	% of revenue	\$	% of revenue
(In thousands, except percentages)				
United States	\$ 204,500	71%	\$ 171,497	69%
EMEA <sup>(1)</sup>	54,315	19%	49,871	20%
Rest of the World <sup>(1)</sup>	29,700	10%	27,552	11%
Total revenue	<u>\$ 288,515</u>	<u>100%</u>	<u>\$ 248,920</u>	<u>100%</u>

(1) No single country represented more than 10% of our consolidated revenue.

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

	Year Ended December 31,			
	2019	2018	variance \$	variance %
(In thousands, except percentages)				
<b>Gross profit</b>				
Licenses	\$ 98,561	\$ 100,366	\$ (1,805)	(2)%
Subscription	116,513	83,299	33,214	40%
Services and other	7,966	10,585	(2,619)	(25)%
Total gross profit	<u>\$ 223,040</u>	<u>\$ 194,250</u>	<u>\$ 28,790</u>	<u>15%</u>
<b>Gross margin</b>				
Licenses	96%	96%		
Subscription	81%	80%		
Services and other	19%	27%		
Total gross margin	<u>77%</u>	<u>78%</u>		

**Licenses.** License gross profit decreased by \$1.8 million, or 2%, during the year ended December 31, 2019 compared to the year ended December 31, 2018. The decrease was primarily the result of decreased license revenues.

*Subscription.* Subscription gross profit increased by \$33.2 million, or 40%, during the year ended December 31, 2019 compared to the year ended December 31, 2018. The increase was primarily the result of \$39.4 million year-over-year growth in subscription revenue, coupled with an increase in corresponding costs of subscription revenue at a rate lower than our revenue growth as we continue to build economies of scale within our customer support organization and our utilization of cloud-based hosting services. Approximately \$3.9 million of the year-over-year increase in cost of subscription revenue was due to increases in headcount and related allocated overhead to support the growth of our SaaS offerings and ongoing maintenance for our expanding licensed customer base. Additionally, approximately \$2.5 million of the year-over-year increase in cost of subscription revenue was due to increased cloud-based hosting costs for our SaaS offerings.

*Services and Other.* Services and other gross profit decreased by \$2.6 million, or 25%, during the year ended December 31, 2019 compared to the year ended December 31, 2018. The decrease was primarily attributable to the higher costs associated with expanding our infrastructure for our professional services and training organization to support an increasing number of customers, partially offset by increased revenues due to customer growth.

### ***Operating Expenses***

	Year Ended December 31,			
	2019	2018	variance \$	variance %
	(In thousands, except percentages)			
<b>Operating expenses</b>				
Research and development	\$ 56,120	\$ 43,154	\$ 12,966	30%
General and administrative	39,816	34,781	5,035	14%
Sales and marketing	136,537	105,402	31,135	30%
Total operating expenses	<u>\$ 232,473</u>	<u>\$ 183,337</u>	<u>\$ 49,136</u>	<u>27%</u>

*Research and Development Expenses.* Research and development expenses increased by \$13.0 million, or 30%, for the year ended December 31, 2019 compared to the year ended December 31, 2018. Approximately 92% of the increase was the result of an increase in headcount and related allocated overhead to optimize and expand our product offerings as well as pursue innovation in identity governance. Substantially all of the remaining increase in research and development expenses was the result of an increase in amortization of intangibles, primarily from our acquired patents in the fourth quarter of 2018 which incurred a full year of amortization in 2019.

*General and Administrative Expenses.* General and administrative expenses increased by \$5.0 million, or 14%, for the year ended December 31, 2019 compared to the year ended December 31, 2018. This increase was primarily driven by approximately \$1.9 million, or 37%, in professional services expense comprised of legal fees, accounting and consulting fees associated with issuance and sale of the Notes and purchase of capped call transactions, and acquisition related costs, while approximately \$1.5 million, or 29%, of the increase was attributable to software maintenance and subscription expenses and approximately \$1.3 million, or 25%, of the increase was a result of severance expense related to the resignation of our former Chief Operating Officer.

*Sales and Marketing Expenses.* Sales and marketing expenses increased by \$31.1 million, or 30%, for the year ended December 31, 2019 compared to the year ended December 31, 2018. Approximately \$25.0 million, or 80%, of the increase was the result of our increased sales and marketing headcount and related allocated overhead to support increased penetration into our existing customer base as well as expansion into new industry verticals and geographic markets. We also experienced year-over-year increases in travel costs and advertising costs of \$1.7 million and \$4.0 million, respectively, for the year ended December 31, 2019. Additionally, approximately \$1.1 million, or 4%, of the increase was a result of severance expense related to the resignation of our former Chief Revenue Officer.

### ***Interest Expense, Net***

Interest expense, net, decreased by \$2.1 million, or 45%, for the year ended December 31, 2019 compared to the year ended December 31, 2018. For the year ended December 31, 2018, the Company incurred approximately \$1.8 million loss on the modification and extinguishment of debt and approximately \$0.4 million of prepayment penalties from the paydown of our term loan principal balance and related amortization of issuance costs under the previous credit facility. Additionally, for the year ended December 31, 2019, the Company earned \$2.5 million of interest income on money market funds utilized from the issuance of the Notes, which was offset by \$4.7 million of amortization of debt discount and issuance costs related to the Notes and amortization of issuance costs related to the our revolving credit agreement.



### ***Income Tax (Expense) Benefit***

The Company recorded an income tax benefit of \$4.6 million for the year ended December 31, 2019 compared to an income tax expense of \$1.1 million for the year ended December 31, 2018, leading to a net benefit of \$5.7 million year-over-year. This is primarily due to research and development credits and the tax impact of stock compensation. 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. While we are still in an overall deferred tax liability position for federal and state tax purposes, we still maintain a full valuation allowance for our Israel tax position due its lack of taxable earnings for the foreseeable future.

Our income tax rate varies from the federal statutory rate due to the valuation allowances on certain foreign deferred tax assets, regulations and interpretations in multiple jurisdictions in which we operate; unanticipated changes in tax rates; and differences in accounting and tax treatment of our stock-based compensation, foreign withholding taxes and R&D credits. We expect this fluctuation in income tax rates, as well as its potential impact on our results of operations, to continue.

We operate in several tax jurisdictions and are subject to taxes in each country or jurisdiction in which we conduct business. Earnings from our non-U.S. activities are subject to local country income tax and may be subject to U.S. income tax if such earnings are distributed to the U.S. With the exception of 2018, we have incurred net losses each year since our inception. We have since begun to utilize our net operating losses for federal income tax purposes. Thus, our tax expense to date relates primarily to state as well as foreign income taxes. The effective tax rate for years ended December 31, 2019, 2018 and 2017 are 35.1%, 22.9% and (43.3)%, respectively. The main drivers for the differences in the rates from the prior period to the current period are related to a decrease in pre-tax book income, the impact of stock compensation and increase in foreign tax liabilities.

We do not consider the earnings of our foreign subsidiaries, with the exception of India, to be permanently reinvested in foreign jurisdictions. Under the TCJA, global intangible low-taxed income (“GILTI”) provisions apply providing an incremental tax on low taxed foreign income. The GILTI provisions require the Company to include in its U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary’s tangible assets. The Company is currently in a tested loss and does not incur a GILTI tax. In India, we continue to invest and grow our research and development activities and have no plans to repatriate undistributed earning held in India back to the U.S. parent company, and therefore consider earnings in India to be permanently reinvested.

### **Selected Quarterly Financial Data (Unaudited)**

The following table sets forth selected summarized unaudited quarterly financial information for the years ended December 31, 2019 and 2018. The information for each quarter has been prepared on a basis consistent with our audited consolidated financial statements, and reflect, in the opinion of management, all adjustments of a normal, recurring nature that are necessary for a fair presentation of the financial information contained in those statements. The following quarterly financial data should be read in conjunction with our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

	Three Months Ended							
	12/31/2019	9/30/2019	6/30/2019	3/31/2019	12/31/2018	9/30/2018	6/30/2018	3/31/2018
	(In thousands, except per share data)							
Total revenue	\$ 88,999	\$ 75,879	\$ 63,054	\$ 60,583	\$ 80,588	\$ 65,735	\$ 53,656	\$ 48,941
Gross profit	\$ 71,032	\$ 58,949	\$ 47,345	\$ 45,714	\$ 66,078	\$ 51,721	\$ 40,280	\$ 36,171
Income (loss) from operations	\$ 5,994	\$ 1,335	\$ (10,079)	\$ (6,683)	\$ 11,189	\$ 4,783	\$ (1,352)	\$ (3,707)
Net income (loss)	\$ 5,419	\$ 3,668	\$ (9,197)	\$ (8,390)	\$ 5,143	\$ 1,808	\$ (979)	\$ (2,302)
Net income (loss) per share								
Basic:	\$ 0.06	\$ 0.04	\$ (0.10)	\$ (0.10)	\$ 0.06	\$ 0.02	\$ (0.01)	\$ (0.03)
Diluted:	\$ 0.06	\$ 0.04	\$ (0.10)	\$ (0.10)	\$ 0.06	\$ 0.02	\$ (0.01)	\$ (0.03)
Weighted average shares outstanding								
Basic:	89,403	89,143	88,767	88,295	87,171	86,825	86,246	85,719
Diluted:	91,022	90,808	88,767	88,295	90,235	90,355	86,246	85,719

### ***Seasonality and Quarterly Trends***

Our quarterly results reflect seasonality in the sale of our products and services. Although these seasonal factors are common in the technology industry, historical patterns should not be considered a reliable indicator of our future sales activity or performance. Our quarterly total revenue increased sequentially within each calendar year presented; however, we experienced a decline sequentially from the fourth quarter of each year to the first quarter of the subsequent year due to increased customer purchasing activity in each fourth quarter as a result of customer budget and purchasing trends. We continue to experience growth in revenue when comparing similar periods year over year as a result of our ability to attract new customers and expand our product offerings within our existing customer base.

Our operating expenses have generally increased sequentially as a result of our growth and are primarily related to increases in personnel-related costs to support our expanded operations and our continued investment in and marketing of our platform infrastructure and service capabilities. Also, general and administrative expenses have increased as a result of an increase in professional services expense comprised of legal fees, accounting and consulting fees associated with the implementation of ASC 606, compliance with the Sarbanes-Oxley Act, issuance and sale of the Notes and capped call transactions and acquisition related costs. In 2019, we issued the Notes, which incur a significant amount of amortization of debt discount and issuance costs and will continue to going forward.

### ***Quarterly Key Business Metrics***

	Three Months Ended							
	12/31/2019	9/30/2019	6/30/2019	3/31/2019	12/31/2018	9/30/2018	6/30/2018	3/31/2018
Number of customers	1,469	1,341	1,278	1,219	1,173	1,090	1,031	984
Subscription revenue as a percentage of total revenue	45%	49%	53%	53%	37%	42%	45%	46%

Our number of customers increased as of December 31, 2019 to 1,469 from 984 as of March 31, 2018. Our growth in customer count was driven by increased demand of our products and market acceptance of our subscription services as well as an increased presence of our product offerings across all of our geographies. The growth in our sales of product and services was consistent with our plans to continue expanding our global presence, through our channel partner network which allows us to target new customers while continuing to support our existing customers.

Our quarterly subscription revenue increased in each period presented primarily due to increases in maintenance renewals as a result of our expanding licensed customer base. Subscription revenue as a percentage of total revenue experienced a decline sequentially in fourth quarter of each year due to composition of revenue mix between license and subscription as well as timing of sales volume. For additional information, see “Seasonality and Quarterly Trend” discussion above. Sales of subscriptions to our platform also continue to grow as a result of the expanding breadth and functionality of our platform, increasing brand awareness, and the success of our sales efforts with new and existing customers. We recognize revenue from subscription fees ratably over the term of the contract period; therefore, changes in our sales activity in a period may not be as apparent as a change to our revenue until future periods.

### ***Liquidity and Capital Resources***

As of December 31, 2019, we had approximately \$443.8 million of cash and cash equivalents, \$75.0 million of availability under the Credit Agreement (as defined below) and \$6.0 million in our irrevocable, cash collateralized, unconditional standby letter of credit, issued primarily in connection with our corporate headquarters lease. See Item 2. “Properties” of this Annual Report for more information regarding our corporate headquarters lease. As of December 31, 2019, we had approximately \$3.7 million of cash and cash equivalents held in our foreign subsidiaries.

We believe that existing cash and cash equivalents, any positive cash flows from operations and available borrowings under our Credit Agreement 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 growth rate, the timing and extent of spending to support research and development efforts, the continued expansion of sales and marketing activities and the introduction of new solutions and product enhancements. To the extent existing cash and cash equivalents are not sufficient to fund future activities, we may borrow under our Credit Agreement or seek to raise additional funds through equity, equity-linked or debt financings. Any additional equity financing may be dilutive to our existing stockholders. We may enter into agreements or letters of intent with respect to potential investments in, or acquisitions of, complementary businesses, services or technologies, which could also require us to seek additional equity financing, incur indebtedness, or use cash resources. Also, as of December 31, 2019 and 2018, we had no material commitments for capital expenditures. The Company acquired two companies during the fourth quarter of 2019 resulting in total purchase consideration of \$37.4 million, including \$5.0 million in indemnification obligations. For more information, see Note 5 “Business Combinations” and Note 6 “Goodwill and Intangible Assets” in our notes to our consolidated financial statements included in this Annual Report.

Since inception, we have financed operations primarily through license fees, maintenance fees, SaaS subscription fees, consulting and training fees, borrowings under our prior credit agreement and, to a lesser degree, the sale of equity securities. Our principal uses of cash are funding operations and capital expenditures. Over the past several years, revenue has increased significantly from year to year and, as a result, cash flows from customer collections have increased. However, operating expenses have also increased as we have invested in growing our business. Our operating cash requirements may increase in the future as we continue to invest in key initiatives to drive company growth.

### ***Credit Agreement***

On March 11, 2019, SailPoint Technologies, Inc., as borrower, and certain of our other wholly owned subsidiaries entered into a credit agreement (as amended, the “Credit Agreement”). In September 2019, the Company amended the Credit Agreement in connection with the issuance and sale of the Notes. Such amendment included a decrease in the commitments for revolving credit loans from an initial \$150.0 million to \$75.0 million, with a \$15.0 million letter of credit sublimit, which amount can be increased or decreased under specified circumstances and is subject to certain financial covenants. Borrowings pursuant to the Credit Agreement may be used for working capital and other general corporate purposes, including for acquisitions permitted under the Credit Agreement.

The Credit Agreement is scheduled to mature in March 2024. We had no outstanding revolving credit loan balance as of December 31, 2019. We were in compliance with all applicable covenants as of December 31, 2019.

See Note 8 “Line of Credit and Long-Term Debt” in our notes to our consolidated financial statements included in this Annual Report for more information regarding terms and conditions of the Credit Agreement.

### ***Convertible Senior Notes***

In September 2019, we issued \$400.0 million aggregate principal amount of 0.125% convertible senior notes (the “Notes”) due 2024 in a private offering (the “Offering”) to qualified institutional buyers. The net proceeds from the Offering were approximately \$391.2 million, after deducting discounts and commissions and other fees and expenses payable by the Company in connection with the Offering. In connection with the issuance of the Notes and exercise in full of the initial purchasers’ option, the Company used approximately \$37.1 million of the net proceeds to pay the cost of the privately negotiated capped call transactions (the “Capped Call Transactions”).

See Note 9 “Convertible Senior Notes and Capped Call Transactions” in our notes to our consolidated financial statements included in this Annual Report for more information regarding terms and conditions of the Notes and Capped Call Transactions.

### *Summary of Cash Flows*

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

	Year Ended December 31,		
	2019	2018	2017 <sup>(1)</sup>
	(In thousands)		
Net cash provided by operating activities	\$ 50,091	\$ 37,540	\$ 21,856
Net cash used in investing activities	(38,906)	(10,856)	(2,521)
Net cash provided by (used in) financing activities	361,699	(65,575)	78,520
Net increase (decrease) in cash, cash equivalents and restricted cash	<u>\$ 372,884</u>	<u>\$ (38,891)</u>	<u>\$ 97,855</u>

- (1) The comparative information for 2017 has not been adjusted to reflect the adoption of the revised revenue recognition standard and is reported in accordance with ASC 605. See Note 3 “Revenue Recognition” of our 2018 Annual Report for additional information related to our adoption of the revised revenue recognition standard (ASC 606).

#### *Cash Flows from Operating Activities*

During 2019, cash provided by operating activities was \$50.1 million, which consisted of a net loss of \$8.5 million, adjusted by non-cash charges of \$41.9 million and a net increase of \$16.7 million in our net operating assets and liabilities. The non-cash charges are primarily comprised of depreciation and amortization expense of \$15.0 million, amortization of debt discount and issuance costs of \$4.7 million, amortization of contract acquisition costs of \$10.1 million, bad debt expense of \$0.2 million, stock-based compensation of \$18.7 million, and a net change in operating leases of \$0.5 million, partially offset by a reduction in deferred tax liabilities of \$7.3 million. The increase in our net operating assets and liabilities was primarily as a result of an increase in deferred revenue of \$37.3 million due to the timing of billings and cash received in advance of revenue recognition primarily for subscription and support services and an increase in accrued expenses of \$11.8 million due primarily to accrual of additional commissions and bonuses, partially offset by a decrease in accounts payable of \$1.6 million due to timing of cash disbursements, a decrease in income taxes payable of \$0.1 million, an increase in prepayments and other assets of \$25.5 million and an increase in accounts receivable of \$5.1 million due to the timing of receipts of payments from customers.

During 2018, cash provided by operating activities was \$37.5 million, which consisted of net income of \$3.7 million, adjusted by non-cash charges of \$40.5 million and a net decrease of \$6.7 million in our net operating assets and liabilities. The non-cash charges are primarily comprised of depreciation and amortization expense of \$10.7 million, amortization of debt issuance costs of \$0.2 million, amortization of contract acquisition costs of \$7.8 million, losses on modification and subsequent extinguishment of debt of \$1.8 million, bad debt expense of \$2.3 million, stock-based compensation of \$19.0 million and partially offset by a reduction in deferred tax liabilities of \$1.3 million. The decrease in our net operating assets and liabilities was primarily as a result of an increase in accounts receivable of \$31.3 million due to the timing of receipts of payments from customers, an increase in prepayments and other assets of \$17.4 million due to deferral of contract acquisition costs, and a decrease in accrued expenses and other liabilities of \$0.9 million, partially offset by an increase in deferred revenue of \$39.9 million due to the timing of billings and cash received in advance of revenue recognition primarily for subscription and support services, an increase in accounts payable of \$2.4 million due to timing of cash disbursements and an increase in income taxes payable of \$0.5 million.

#### *Cash Flows used in Investing Activities*

During 2019, cash used in investing activities was \$38.9 million, consisting of \$6.2 million in purchases of property and equipment, \$0.4 million in acquisitions of intangibles and \$32.4 million in cash paid for business acquisitions, net, partially offset by proceeds from sales of property and equipment.

During 2018, cash used in investing activities was \$10.9 million, consisting of \$8.4 million in purchases of property and equipment and \$2.5 million in acquisitions of intangibles, partially offset by proceeds from sales of property and equipment.

### *Cash Flows from Financing Activities*

During 2019, cash provided by financing activities was \$361.7 million, consisting of \$400.0 million of proceeds from issuance of the Notes, \$5.6 million of proceeds from issuance of equity, primarily related to shares issues pursuant to our Employee Stock Purchase Plan and \$3.1 million of the proceeds from exercise of stock options, partially offset by payments of debt issuance costs of \$9.6 million associated with the Credit Agreement and issuance of the Notes, \$37.1 million of purchases of capped calls associated with the issuance of the Notes and \$0.4 million in vesting of restricted stock units, primarily related to tax payments funded in the form of net issuances for certain executive officers.

During 2018, cash used in financing activities was \$65.6 million, consisting of \$70.0 million in repayments of debt, \$0.4 million in debt prepayment penalties, \$0.3 million in vesting of restricted stock units, primarily related to tax payments funded in the form of net issuances for certain executive officers, partially offset by \$3.3 million of proceeds from issuance of equity, primarily related to shares issues pursuant to our Employee Stock Purchase Plan, and \$1.8 million of the proceeds from exercise of stock options.

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

We have not entered into any off-balance sheet arrangements and do not have any holdings in variable interest entities, which includes special purposes entities and other structured finance entities.

### **Contractual Obligations**

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

	Payments Due by Period				
	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More than 5 Years
	(In thousands)				
Convertible Senior Notes <sup>(1)</sup>	\$ 400,000	\$ —	\$ —	\$ 400,000	\$ —
Interest obligations for Convertible Senior Notes <sup>(1)</sup>	2,354	500	1,000	854	—
Operating lease obligations <sup>(2)</sup>	49,442	5,324	11,544	10,291	22,283
Contractual commitments, including hosting service agreements <sup>(3)</sup>	10,389	8,550	1,839	—	—
Total	<u>\$ 462,185</u>	<u>\$ 14,374</u>	<u>\$ 14,383</u>	<u>\$ 411,145</u>	<u>\$ 22,283</u>

- (1) The principal balance of the Notes is reflected in the payment period in the table above based on the contractual maturity assuming no conversion. As of December 31, 2019, the Notes were not yet in the conversion period. For more information on the Notes, refer to Note 9 “Convertible Senior Notes and Capped Call Transactions” of our accompanying notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.
- (2) Consists of future non-cancelable minimum rental payments under operating leases for our offices, primarily our corporate headquarters in Austin, Texas. For more information on our operating leases, refer to Note 7 “Commitments and Contingencies” of our accompanying notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.
- (3) Our purchase orders represent authorizations to purchase rather than binding agreements and therefore not included in the table above. The contractual commitment amounts in the table above are associated with agreements that are enforceable and legally binding. Obligations under contracts that we can cancel without significant penalty are not included in the table above.

As of December 31, 2019, we had \$2.3 million of tax liabilities related to its uncertain tax positions. The timing of these uncertain tax liabilities has not included this amount in the table above as we cannot reasonably estimate the period which this obligation may be incurred, if at all.

As of December 31, 2019, we had an outstanding letter of credit in the amount of \$6.0 million, which is classified as restricted cash, primarily related to our corporate headquarters.



## **Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of these financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these judgments and estimates under different assumptions or conditions and any such differences may be material. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected.

We believe that the accounting policies associated with revenue recognition, the collectability of accounts receivable, stock-based compensation expense, fair value of the liability and equity components of the Notes, income taxes and valuation of long-lived assets and goodwill are the most significant areas involving management's judgments and estimates. Therefore, these are considered to be our critical accounting policies and estimates. For further information on all of our significant accounting policies, see Note 2 "Summary of Significant Accounting Policies" of our accompanying notes to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

### ***Revenue Recognition***

Revenue consists of fees for perpetual and term licenses for our software products, post-contract customer support (referred to as maintenance), SaaS, professional services which includes training and other revenue. We derive license revenue through the sale of our on-premises software license agreements. We typically recognize license revenue upon delivering the applicable license. We derive subscription revenue through the sale of our maintenance and SaaS subscription offerings. We typically recognize subscription revenue ratably over the contract term. We derive services and other revenue primarily through the sales of professional services. We typically recognize services and other revenue over time as the services are performed.

We apply judgment regarding contracts with multiple product and service obligations to determine whether each product or service is capable of being a distinct performance obligation in the contract. If products and services are not distinct, they are combined until a single distinct obligation is created. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. We have contracts with customers that may have multiple performance obligations, including some or all of the following, software licenses, maintenance, subscriptions, professional services.

Judgment is required to determine the standalone selling price ("SSP") for each distinct performance obligation. We use a single amount to estimate SSP for items that are not sold separately. We use a range to determine SSP based on the selling price of the products and services when sold separately. The SSP range is used to allocate each performance obligation in a contract to the transaction price and to apply a discount that will be allocated based on the relative SSP of the various products and services.

When we do not have a directly observable SSP for a particular good or service, we estimate SSP by our overall pricing objectives, taking into consideration market factors, pricing practices including historical discounting, historical standalone sales of similar products, customer demographics, geographic locations, and the number and types of users within our contracts. The determination of standalone selling price is made by the Company's management.

The Company generally has standalone value for our professional services and recognize revenue as services are performed based on an estimated fair value as a separate performance obligation.

We allocate the transaction price to each performance obligation identified in the contract on a relative SSP and recognizes revenue when or as it satisfies a performance obligation by transferring control of a product or service to a customer.

We do not incur shipping and handling for our products as they are generally delivered to a customer electronically. We do not believe that the customer currently has any rights to return that would result in a material impact to revenues.



The revised standard related to revenue recognition, Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Accounting Standards Codification or ASC 606), had a material impact on our consolidated financial statements. See Note 3 “Revenue Recognition” of our 2018 Annual Report for additional information related to our adoption of ASC 606.

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

We recognize stock-based compensation expense related to equity awards, including stock options, restricted stock units, employee stock purchase plans and incentive units, granted based on the estimated fair value of the awards on the date of grant, net of estimated forfeitures. We estimate the grant date fair value, and the resulting stock-based compensation expense, using the Black-Scholes option-pricing model. The grant date fair value of stock-based awards is expensed on a straight-line basis over the period during which the employee is required to provide service in exchange for the award (generally the vesting period).

The Black-Scholes option-pricing model requires the input of four key assumptions. Our assumptions are as follows:

- *Expected volatility.* As we have been a public company for a limited amount of time and have limited history for our common stock, the expected stock price volatility for our common stock is estimated by taking a blend comprised of the Company’s historical stock volatility and the average historical price volatility for industry peers over a period equivalent to the expected term of the stock option grants. We intend to continue to weigh the Company’s historical stock volatility more heavily as additional historical data becomes available and the weighting becomes 100% of our own common stock price volatility.
- *Risk-free interest rate.* The risk-free interest rate is based on the yields of U.S. Treasury securities with maturities similar to the expected term of the options for each option group.
- *Expected dividend yield.* We have never declared or paid any cash dividends to common stockholders and do not presently plan to pay cash dividends in the foreseeable future. Consequently, we use an expected dividend yield of zero.
- *Expected term.* The expected term represents the period that our stock-based awards are expected to be outstanding. As we do not have sufficient historical experience for determining the expected term of the stock option awards granted, we base our expected term for awards issued to employees or members of our board of directors on the simplified method, which represents the average period from vesting to the expiration of the stock option.

In addition to the assumptions used in the Black-Scholes option-pricing model, we also estimate a forfeiture rate to calculate the stock-based compensation for our equity awards. We will continue to refine our estimates in evaluating the expected volatility, expected terms and forfeiture rates used for our stock-based compensation calculations on a prospective basis, as additional historical data becomes available.

We analyze the facts and circumstances of each equity instrument to determine if modification accounting is required, for each period presented. This analysis includes a review of factors that influence the acceleration of vesting or stock price. If circumstances arise that have triggered a modification, the revised fair value is calculated, and additional stock-based compensation is recognized over the remaining service period of the modified option.

For stock awards, our board of directors determines the fair value of each share of underlying common stock based on the closing price of our common stock as reported on the date of grant.

The Company also offers an Employee Stock Purchase Plan (“ESPP”) that allows permitted employees to purchase shares by authorizing payroll deductions from 1% to 15% of employee’s eligible compensation during the semi-annual offering period, with an annual cap of \$25,000. Unless an employee has previously withdrawn from the offering, the payroll deductions will be used to purchase shares of common stock after the closing of the offering period at a price equal to 85% of the fair market value of the closing price of the shares at the opening or closing of the semi-annual offering period, whichever is lower.

ESPP purchase rights have an expected volatility that is consistent with our volatility estimates that are used to value our stock options. The expected term represents the period of time the ESPP purchase rights are expected to be outstanding and approximates the offering period.

### ***Convertible Senior Notes and Capped Call Transactions***

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

The Company may enter into additional capped call transactions, which are generally expected to reduce potential dilution to common stock upon any conversion of the Notes and/or offset any potential cash payments the Company is required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset subject to a cap. These capped call transactions are recorded as separate transactions and not part of the terms of the convertible senior notes. As the capped call transactions are considered indexed to our own stock and are considered equity classified, they are recorded in stockholders' equity and are not accounted for as derivatives and are recorded as a reduction to additional paid in capital.

### ***Income Taxes***

We are subject to federal, state and local taxes in the United States as well as in other tax jurisdictions or countries in which we conduct business. Earnings from our non-U.S. activities are subject to local country income tax and may be subject to current federal and state income tax in the United States.

We account for uncertain tax positions based on those positions taken or expected to be taken in a tax return. We determine if the amount of available support indicates that it is more likely than not that the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. We then measure the tax benefit as the largest amount that is more than 50% likely to be realized upon settlement. We adjust reserves for our uncertain tax positions due to changing facts and circumstances. To the extent that the final outcome of these matters is different than the amounts recorded, such differences will impact our tax provision in our consolidated statements of operations in the period in which such determination is made.

### ***Goodwill***

Goodwill represents the excess of acquisition cost over the fair value of net tangible and identified net assets acquired. Goodwill and intangible assets that have indefinite lives are not to be amortized, but rather tested for impairment annually, or more often if and when events or circumstances indicate that the carrying value may not be recoverable. For purposes of assessing potential impairment, we estimate the fair value of the reporting unit, based on our market capitalization, and compare this amount to the carrying value of the reporting unit. If we determine that the carrying value of the reporting unit exceeds its fair value, an impairment charge would be required. We have determined that we operate as one reporting unit and may first assess qualitative factors to determine whether the existence of events or circumstances indicate that an impairment test on goodwill is required.

Goodwill is tested on an annual basis as of October 31<sup>st</sup>, or sooner if an indicator of impairment occurs. The company internally monitors business and market conditions for evidence of triggering events. There were no triggering events for any of the asset types in 2019 or any material change in business trends indicating the need for impairment loss. As of October 31, 2019, the Company performed a qualitative analysis and concluded impairment for goodwill, including intangibles, was not required. There were no impairments of goodwill during the years ended December 31, 2019, 2018 and 2017.

### ***Business Combinations***

We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed, and intangible assets acquired based on their estimated 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 management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets may 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. Management'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, which is one year from the acquisition date, we 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 earnings.

### **Recent Accounting Pronouncements**

For a description of our recently adopted accounting pronouncements and recently issued accounting standards not yet adopted, see Note 2 "Summary of Significant Accounting Policies" of our accompanying notes to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

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

We are exposed to market risk in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign currency exchange rates and interest rates and inflation. We do not hold or issue financial instruments for trading purposes.

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

We had cash and cash equivalents of \$450.1 million and \$77.2 million as of December 31, 2019 and 2018, respectively. Included in our cash and cash equivalence balance is restricted cash of \$6.3 million as of December 31, 2019, consistent with restricted cash as of December 31, 2018. Our cash and cash equivalents are held in cash deposits and money market funds. Due to the short-term nature of these instruments, we believe that we do not have material risk of exposure to changes in the fair value of our cash and cash equivalents as a result of changes in interest rates. As of December 31, 2019, we do not believe a hypothetical 10% relative change in interest rates would have a material impact on the value of our cash equivalents.

We did not have any investments in marketable securities as of December 31, 2019 or 2018.

In September 2019, we issued and sold \$400.0 million aggregate principal amount of 0.125% convertible senior notes due 2024 in a private offering to qualified institutional buyers. The fair value of the Notes is subject to interest rate risk, market risk and other factors due to the conversion feature. The fair value of the Notes will generally increase as our common stock price increases and will generally decrease as our common stock price declines. The interest and market value changes affect the fair value of the Notes but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligation. Additionally, we carry the Notes at face value less unamortized discount and debt issuance costs on our balance sheet, and we present the fair value for required disclosure purposes only.

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

Our reporting currency is the U.S. dollar. Due to our international operations, we have foreign currency risk related to operating expenses denominated in currencies other than the U.S. dollar, primarily the Euro, British pound, Australian dollar, Singapore dollar, Israeli shekel and the Indian rupee. As of December 31, 2019 and 2018, our cash and cash equivalents included \$3.7 million and \$3.4 million, respectively, held in currencies other than the U.S. dollar. Decreases in the relative value of the U.S. dollar to other currencies may negatively affect our operating results as expressed in U.S. dollars. These amounts are included in other expense, net on our consolidated statements of operations.

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates because, although substantially all of our revenue is generated in U.S. dollars, our expenses are generally denominated in the currencies of the jurisdictions in which we conduct our operations, which are primarily in the United States, Europe and Asia. Our results of operations and cash flows could therefore be adversely affected in the future due to changes in foreign exchange rates. We do not believe that a hypothetical 10% change in the relative value of the U.S. dollar to other currencies would have a material effect on our results of operations or cash flows, and to date, we have not engaged in any hedging strategies with respect to foreign currency transactions. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in currency rates, and we may choose to engage in the hedging of foreign currency transactions in the future.

### ***Inflation Risk***

We do not believe that inflation has had a material effect on our business, financial condition or results of operations in 2019, 2018 or 2017 because substantially all of our sales are denominated in U.S. dollars, which have not been subject to material currency inflation, and our operating expenses that are denominated in currencies other than U.S. dollars have not been subject to material currency inflation.

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

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
SailPoint Technologies Holdings, Inc.

### Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of SailPoint Technologies Holdings, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of operations, redeemable 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated February 24, 2020 expressed an unqualified opinion.

### Change in accounting principles

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of ASC 842 “Leases” using the modified retrospective transition method.

### 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 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. 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 supporting 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.

### Critical audit matters

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

*Revenue Recognition – Identification of Performance Obligations and Allocation of the Transaction Price to Multiple Performance Obligations*



As described in Notes 2 and 3 to the consolidated financial statements, the Company's revenues consist of fees for perpetual and term licenses for software products, post-contract customer support (referred to as maintenance), software as a service ("SaaS") professional services which includes training, and other revenue. The company has contracts with customers that may have multiple performance obligations including some or all of the following: software licenses, maintenance, SaaS, and professional services. When multiple promised products and services are included within one contract, management applies judgment to determine whether promised products and services are capable of being distinct and distinct in the context of the contract. Additionally, the Company establishes the standalone selling price for each of its performance obligations to allocate transaction price in contracts including multiple performance obligations. If a standalone selling price is not directly observable, the Company estimates the standalone selling price, maximizing the use of observable inputs in making the estimate. Management applies judgment and considers many factors including past transactions, market conditions and internally approved pricing guidelines related to the performance obligations. We identified revenue recognition specifically related to management's identification of distinct performance obligations and its allocation of transaction price based on the established standalone selling price as a critical audit matter.

The principal considerations for our determination that these aspects of revenue recognition are a critical audit matter are that given the volume of the Company's contracts and that they may contain multiple products or services, together with the significant judgment involved in management identifying performance obligations and determining appropriate allocation of transaction price, auditing the related revenue required both extensive audit effort and a high degree of auditor judgment when performing audit procedures and evaluating the results of those procedures.

Our audit procedures to evaluate the Company's identification of performance obligations and allocation of total transaction price included the following, among others.

- We obtained an understanding and evaluated the appropriateness of management's process and methodology for identifying distinct performance obligations. This included evaluating management's determination of whether or not to combine multiple products or services into a single distinct performance obligation.
- We tested management's process and methodology to establish standalone selling price. For each distinct performance obligation, we obtained management's analysis to establish standalone selling price and performed the following procedures.
  - We evaluated the reasonableness of available data and factors used in management's determination, including considering other sources of information that would be relevant to the analysis
  - We tested the completeness and accuracy of the source data used in management's calculations.
- We selected a sample of contracts and performed the following procedures.
  - We reperformed and evaluated management's identification of the performance obligations within the contract with the customer, including whether management identified options to acquire additional goods or services that gave rise to a performance obligation.
  - We recalculated the appropriate allocation of transaction price based on the established standalone selling price for each distinct performance obligation.

#### *Accounting for the Company's Convertible Senior Notes and Capped Call Transactions*

As described further in Note 9 to the consolidated financial statements, the Company issued and sold \$400.0 million aggregate principal amount of 0.125% Convertible Senior Notes due 2024. The Company accounted for the \$400.0 million by separating such into liability and equity components whose carrying values were calculated using a fair value estimate of similar debt instruments without a conversion feature. We identified the accounting for the Company's Convertible Senior Notes and Capped Call Transactions as a critical audit matter.

The principle considerations for our determination that the Company's Convertible Senior Notes and Capped Call Transactions are a critical audit matter are the technical accounting applied and the valuation methods utilized by management required complex and subjective auditor judgment in evaluating the Company's accounting conclusions.

Our audit procedures related to the Convertible Senior Notes and Capped Call Transactions, included the following, among others.

- We obtained an understanding and evaluated the appropriateness of management's technical accounting conclusions of the Convertible Senior Notes and Capped Call Transactions in conformity with accounting principles generally accepted in the United States of America. Our evaluation included consultation with our national office.
- We utilized valuation specialists to evaluate management's estimate of the fair value of similar debt instruments that do not have an associated convertible feature and to perform an independent calculation for the amounts that were attributable to the carrying amount of the liability and equity components.
- We tested the tax impact related to these transactions, including evaluating whether the transactions are considered integrated for tax purposes. We consulted with our national office regarding the treatment of these transactions under the Internal Revenue Code, and therefore, for the Company's tax provision.

/s/ GRANT THORNTON LLP

We have served as the Company's auditor since 2010.

Denver, Colorado

February 24, 2020

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders  
SailPoint Technologies Holdings, Inc.

### Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of SailPoint Technologies Holdings, Inc. (a Delaware corporation) and subsidiaries (the “Company”) as of December 31, 2019, based on criteria established in the 2013 Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in the 2013 Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended December 31, 2019, and our report dated February 24, 2020 expressed an unqualified opinion on those financial statements.

### Basis for opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the 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 audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and limitations of internal control over financial reporting

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

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

/s/ GRANT THORNTON LLP

Denver, Colorado  
February 24, 2020

**SAILPOINT TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	<b>As of December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(In thousands, except per share data)</b>	
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 443,795	\$ 70,964
Restricted cash	6,325	6,272
Accounts receivable	106,428	101,469
Prepayments and other current assets	27,870	21,850
Total current assets	584,418	200,555
Property and equipment, net	21,300	19,268
Right-of-use assets, net	31,104	—
Other non-current assets	30,554	20,374
Goodwill	241,051	219,377
Intangible assets, net	81,651	74,860
<b>Total assets</b>	<b>\$ 990,078</b>	<b>\$ 534,434</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities		
Accounts payable	\$ 3,224	\$ 4,636
Accrued expenses and other liabilities	40,214	21,731
Income taxes payable	1,994	2,143
Deferred revenue	127,132	95,919
Total current liabilities	172,564	124,429
Deferred tax liability - non-current	8,900	4,142
Convertible senior notes, net	309,051	—
Long-term operating lease liabilities	38,035	9,788
Other long-term liabilities	2,500	—
Deferred revenue - non-current	24,901	18,382
Total liabilities	555,951	156,741
Commitments and contingencies (Note 7)		
<b>Stockholders' equity</b>		
Common stock, \$0.0001 par value, authorized 300,000 shares, issued and outstanding 89,676 shares at December 31, 2019 and 87,512 shares at December 31, 2018	9	9
Preferred stock, \$0.0001 par value, authorized 10,000 shares, no shares issued and outstanding at December 31, 2019 and 2018	—	—
Additional paid in capital	442,407	377,473
(Accumulated deficit) retained earnings	(8,289)	211
Total stockholders' equity	434,127	377,693
<b>Total liabilities and stockholders' equity</b>	<b>\$ 990,078</b>	<b>\$ 534,434</b>

*See accompanying notes to consolidated financial statements.*

**SAILPOINT TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended December 31,		
	2019	2018	2017 <sup>(1)</sup>
	(In thousands, except per share data)		
<b>Revenue</b>			
Licenses	\$ 102,800	\$ 105,000	\$ 79,209
Subscription	143,390	104,033	71,007
Services and other	42,325	39,887	35,840
Total revenue	288,515	248,920	186,056
<b>Cost of revenue</b>			
Licenses	4,239	4,634	4,561
Subscription	26,877	20,734	16,406
Services and other	34,359	29,302	23,623
Total cost of revenue	65,475	54,670	44,590
Gross profit	223,040	194,250	141,466
<b>Operating expenses</b>			
Research and development	56,120	43,154	33,331
General and administrative	39,816	34,781	17,678
Sales and marketing	136,537	105,402	80,514
Total operating expenses	232,473	183,337	131,523
Income (loss) from operations	(9,433)	10,913	9,943
Other expense, net:			
Interest expense, net	(2,573)	(4,707)	(14,783)
Other, net	(1,082)	(1,446)	(459)
Total other expense, net	(3,655)	(6,153)	(15,242)
Income (loss) before income taxes	(13,088)	4,760	(5,299)
Income tax (expense) benefit	4,588	(1,090)	(2,293)
<b>Net income (loss)</b>	<u>\$ (8,500)</u>	<u>\$ 3,670</u>	<u>\$ (7,592)</u>
Net income (loss) available to common stockholders	<u>\$ (8,500)</u>	<u>\$ 3,641</u>	<u>\$ (28,721)</u>
Net income (loss) per share			
Basic	<u>\$ (0.10)</u>	<u>\$ 0.04</u>	<u>\$ (0.55)</u>
Diluted	<u>\$ (0.10)</u>	<u>\$ 0.04</u>	<u>\$ (0.55)</u>
Weighted average shares outstanding			
Basic	<u>88,907</u>	<u>86,495</u>	<u>52,340</u>
Diluted	<u>88,907</u>	<u>90,003</u>	<u>52,340</u>

- (1) The comparative information for 2017 has not been adjusted to reflect the adoption of the revised revenue recognition standard and is reported in accordance with Account Standards Codification 605 (“ASC 605”). See Note 3 “Revenue Recognition” of our Annual Report on Form 10-K for the year ended December 31, 2018, which was filed with the SEC on March 18, 2019 (the “2018 Annual Report”) for additional information related to our adoption of the revised revenue recognition standard (ASC 606).

*See accompanying notes to consolidated financial statements.*

**SAILPOINT TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK AND**  
**STOCKHOLDERS' EQUITY (DEFICIT)**

	Redeemable Convertible Preferred Stock		Common Stock		Treasury Stock		Additional paid in capital	Retained earnings (accumulated deficit)	Stockholders' equity (deficit)
	Number of shares	Amount	Number of shares	Par value	Number of shares	Amount			
	(In thousands)		(In thousands)						
Balance at December 31, 2016	224	\$ 223,987	46,397	\$ 5	—	\$ —	\$ 3,739	\$ (17,628)	\$ (13,884)
Issuance of preferred and common stock, net	—	—	15,800	1	—	—	171,979	—	171,980
Conversion of preferred stock to common stock upon initial public offering	(224)	(173,429)	20,500	2	—	—	173,427	—	173,429
Repurchase of preferred and common stock	—	(171)	—	—	190	(487)	—	—	(487)
Exercise of stock options	—	—	161	—	—	—	359	—	359
Preferred dividend payment	—	(50,387)	—	—	—	—	—	—	—
Treasury stock activity	—	—	(113)	—	(190)	487	(487)	—	—
Stock-based compensation expense	—	—	—	—	—	—	4,514	—	4,514
Incentive units vested	—	—	2,203	—	—	—	78	—	78
Net loss	—	—	—	—	—	—	—	(7,592)	(7,592)
Balance at December 31, 2017	—	\$ —	84,948	\$ 8	—	\$ —	\$ 353,609	\$ (25,220)	\$ 328,397
Cumulative effect adjustment from the adoption of ASC 606	—	—	—	—	—	—	—	21,761	21,761
Exercise of stock options	—	—	637	—	—	—	1,809	—	1,809
Restricted stock units vested, net of tax settlement	—	—	256	—	—	—	(348)	—	(348)
Stock-based compensation expense	—	—	—	—	—	—	18,975	—	18,975
Incentive units vested	—	—	1,503	1	—	—	77	—	78
Common stock issued under employee stock plan	—	—	168	—	—	—	3,351	—	3,351
Net income	—	—	—	—	—	—	—	3,670	3,670
Balance at December 31, 2018	—	\$ —	87,512	\$ 9	—	\$ —	\$ 377,473	\$ 211	\$ 377,693
Exercise of stock options	—	—	730	—	—	—	3,053	—	3,053
Restricted stock units vested, net of tax settlement	—	—	322	—	—	—	(351)	—	(351)
Stock-based compensation expense	—	—	—	—	—	—	18,714	—	18,714
Incentive units vested	—	—	724	—	—	—	37	—	37
Common stock issued under employee stock plan	—	—	388	—	—	—	5,649	—	5,649
Equity component of convertible senior notes, net of issuance costs	—	—	—	—	—	—	86,764	—	86,764
Purchase of capped calls	—	—	—	—	—	—	(37,080)	—	(37,080)
Deferred tax liability related to issuance of convertible senior notes and capped calls	—	—	—	—	—	—	(11,852)	—	(11,852)
Net loss	—	—	—	—	—	—	—	(8,500)	(8,500)
Balance at December 31, 2019	—	\$ —	89,676	\$ 9	—	\$ —	\$ 442,407	\$ (8,289)	\$ 434,127

*See accompanying notes to consolidated financial statements.*



**SAILPOINT TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year Ended December 31,		
	2019	2018	2017 <sup>(1)</sup>
	(In thousands)		
<b>Operating activities</b>			
Net income (loss)	\$ (8,500)	\$ 3,670	\$ (7,592)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization expense	14,992	10,736	10,220
Amortization of debt discount and issuance costs	4,691	238	746
Amortization of contract acquisition costs	10,130	7,753	3,008
Loss on modification and extinguishment of debt	—	1,848	1,702
Gain on disposal of fixed assets	(4)	(20)	(20)
Bad debt expense	178	2,332	—
Stock-based compensation expense	18,714	18,975	4,514
Operating leases, net	477	—	—
Deferred taxes	(7,268)	(1,280)	69
Net changes in operating assets and liabilities, net of assets acquired and liabilities assumed in business acquisitions			
Accounts receivable	(5,072)	(31,249)	(24,116)
Prepayments and other current assets	(16,035)	(13,742)	(5,182)
Other non-current assets	(9,485)	(3,599)	(2,453)
Accounts payable	(1,630)	2,406	1,443
Accrued expenses and other liabilities	11,786	(882)	10,882
Income taxes	(149)	455	614
Deferred revenue	37,266	39,899	28,021
<b>Net cash provided by operating activities</b>	<b>50,091</b>	<b>37,540</b>	<b>21,856</b>
<b>Investing activities</b>			
Purchase of property and equipment	(6,173)	(8,389)	(2,711)
Proceeds from sale of property and equipment	39	33	190
Purchase of intangibles	(379)	(2,500)	—
Business acquisitions, net of cash acquired	(32,393)	—	—
<b>Net cash used in investing activities</b>	<b>(38,906)</b>	<b>(10,856)</b>	<b>(2,521)</b>
<b>Financing activities</b>			
Payment of debt issuance costs	(9,572)	—	(1,384)
Proceeds from issuance of convertible senior notes	400,000	—	—
Purchases of capped calls	(37,080)	—	—
Proceeds from term loan	—	—	50,000
Repayment of debt	—	(70,000)	(90,000)
Prepayment penalty and fees	—	(387)	(1,390)
Repurchase of equity shares	—	—	(658)
Dividend payments	—	—	(50,387)
Proceeds from issuance of equity	5,649	3,351	171,980
Taxes associated with net issuances of shares upon vesting of restricted stock units	(351)	(348)	—
Exercise of stock options	3,053	1,809	359
<b>Net cash provided by (used in) financing activities</b>	<b>361,699</b>	<b>(65,575)</b>	<b>78,520</b>
Net increase (decrease) in cash, cash equivalents and restricted cash	372,884	(38,891)	97,855
Cash, cash equivalents and restricted cash, beginning of period	77,236	116,127	18,272
<b>Cash, cash equivalents and restricted cash, end of period</b>	<b>\$ 450,120</b>	<b>\$ 77,236</b>	<b>\$ 116,127</b>
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid for interest	\$ 180	\$ 2,780	\$ 13,250
Cash paid for income taxes	\$ 2,658	\$ 1,631	\$ 1,612
Tenant improvement allowance	\$ —	\$ 9,787	\$ —
Conversion of redeemable convertible preferred stock to common stock	\$ —	\$ —	\$ 173,429
Conversion of prepaid incentive units to common stock	\$ 37	\$ 78	\$ 78

(1) The comparative information for 2017 has not been adjusted to reflect the adoption of the revised revenue recognition standard and is reported on an ASC 605 basis. See Note 3 “Revenue Recognition” of our 2018 Annual Report for additional information related to our adoption of the revised standard (ASC 606).

*See accompanying notes to consolidated financial statements.*

# SAILPOINT TECHNOLOGIES HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Organization and Description of Business

SailPoint Technologies Holdings, Inc., (“we”, “our” or “the Company”) was incorporated in the state of Delaware on August 8, 2014, in preparation for the purchase of SailPoint Technologies, Inc. The purchase occurred on September 8, 2014 and our certificate of incorporation was amended and restated as of such date. SailPoint Technologies, Inc. was formed July 14, 2004 as a Delaware corporation. The Company designs, develops, and markets identity governance software that helps organizations govern user access to critical systems and data. The Company currently markets its products and services worldwide.

### 2. Summary of Significant Accounting Policies

#### *Basis of Presentation*

The accompanying consolidated financial statements, which include the accounts of the Company and its wholly owned subsidiaries, have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The consolidated financial statements include the accounts of SailPoint Technologies Holdings, Inc. and its subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

The Company operates as one operating segment. The Company’s chief operating decision makers, who review financial information presented on a consolidated basis for purposes of making operating decisions, assess financial performance and allocate resources.

#### *Use of Estimates*

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management periodically evaluates such estimates and assumptions for continued reasonableness. In particular, we make estimates with respect to the fair value allocation of multiple performance obligation in revenue recognition, the collectability of accounts receivable, valuation and estimated useful lives of long-lived assets, fair value of the liability and equity components of the Notes (as defined below), stock-based compensation expense and income taxes. Appropriate adjustments, if any, to the estimates used are made prospectively based upon such periodic evaluation. Actual results could differ from those estimates.

#### *Cash, Cash Equivalents and Restricted Cash*

We consider all highly liquid investments with an original maturity of three months or less from date of purchase to be cash equivalents. The Company is required to maintain a small amount of restricted cash to guarantee rent payments in a foreign subsidiary as well as \$6.0 million of cash collateral for an unconditional standby letter of credit related to the Company’s corporate headquarters lease.

	As of December 31,	
	2019	2018
	(In thousands)	
Cash and cash equivalents per balance sheet	\$ 443,795	\$ 70,964
Restricted cash per balance sheet	6,325	6,272
Cash, cash equivalents and restricted cash per cash flow	<u>\$ 450,120</u>	<u>\$ 77,236</u>

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

Assets and liabilities recorded at fair value in the financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels which are directly related to the amount of subjectivity associated with the inputs to the valuation of these assets or liabilities are as follows:

- Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: Observable inputs, other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Unobservable inputs reflecting our own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

### ***Concentration of Credit and Other Risks***

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and cash equivalents and accounts receivable. The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. There was no concentration of credit risk for customers as of December 31, 2019 as no individual entity represented more than 10% of the balance in accounts receivable. As of December 31, 2018, approximately 11% of the Company's accounts receivable was from one customer. Management considers concentration of credit risk to be minimal with respect to accounts receivable due to the positive historical collection experience of the Company despite the geographic concentrations related to the Company's customers. No customer represented more than 10% of revenue in the years ended December 31, 2019, 2018 and 2017. The Company does not experience concentration of credit risk in foreign countries as no foreign country represents more than 10% of the Company's consolidated revenues or net assets.

The Company's revenue by geographic region based on the customer's location is presented in Note 16 "Geographic Information and Major Customers."

### ***Accounts Receivable and Allowance for Doubtful Accounts***

The Company continuously assesses the collectability of outstanding customer invoices and in doing so, the Company assesses the need to maintain an allowance for estimated losses resulting from the non-collection of customer receivables. In estimating this allowance, the Company considers factors such as: historical collection experience, a customer's current creditworthiness, customer concentrations, age of outstanding balances, both individually and in the aggregate, and existing economic conditions. Actual customer collections could differ from the Company's estimates. The Company determined that an allowance for doubtful accounts was not required for the periods presented. The bad debt expense recognized for the years ended December 31, 2019 and 2018 was \$0.2 million and \$2.3 million, respectively. The bad debt expense recognized for the year ended December 31, 2017 was not material.

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

Property and equipment, net, is stated at cost less accumulated depreciation. Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets, generally three to five years. Leasehold improvements are depreciated over the shorter of the estimated useful lives of the asset or the related lease term. Repairs and maintenance costs are expensed as incurred.

Property and equipment are reviewed for impairment whenever events or circumstances indicate their carrying value may not be recoverable. When such events or circumstances arise, an estimate of future undiscounted cash flows produced by the asset, or the appropriate grouping of assets, is compared to the asset's carrying value to determine if an impairment exists. If the asset is determined to be impaired, the impairment loss is measured based on the excess of the carrying value over the assets fair value. Assets to be disposed of are reported at the lower of carrying value or net realizable value. There were no impairments of property and equipment during the years ended December 31, 2019, 2018 and 2017.

### ***Goodwill***

Goodwill represents the excess of acquisition cost over the fair value of net tangible and identified net assets acquired. Goodwill and intangible assets that have indefinite lives are not amortized, but rather tested for impairment annually, or more often if and when events or circumstances indicate that the carrying value may not be recoverable. For purposes of assessing potential impairment, we estimate the fair value of the reporting unit, based on our market capitalization, and compare this amount to the carrying value of the reporting unit. If we determine that the carrying value of the reporting unit exceeds its fair value, an impairment charge would be required. We have determined that we operate as one reporting unit and may first assess qualitative factors to determine whether the existence of events or circumstances indicate impairment test on goodwill is required.

Goodwill is tested on an annual basis as of October 31<sup>st</sup>, or sooner if an indicator of impairment occurs. The company internally monitors business and market conditions for evidence of triggering events. There were no triggering events for any of the asset types in 2019. The Company performed qualitative analysis as of October 31, 2019 and concluded impairment for goodwill, including intangibles, was not required. There were no impairments of goodwill during the years ended December 31, 2019, 2018 and 2017.

### ***Intangible Assets***

Intangible assets are amortized on a straight-line basis over their estimated useful lives. The Company periodically reviews the estimated remaining useful life of our intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. Periodically, the Company evaluates the recoverability of its long-lived assets including intangible assets, for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is measured by comparison of the carrying amount of each asset, or related asset group, to the future undiscounted cash flows the asset is expected to generate. If the undiscounted cash flows used in the test for recoverability are less than the carrying amount of these assets, the carrying amount of such assets is reduced to fair value. There were no impairments of intangible assets for the years ended December 31, 2019, 2018 and 2017.

### ***Business Combinations***

We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed, and intangible assets acquired based on their estimated 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 management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets may 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. Management'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, which is one year from the acquisition date, we 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 earnings.

### ***Software Development Costs***

Software development costs for products intended to be sold, leased or otherwise marketed are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release to customers. Technological feasibility is established when a product design and working model have been completed and the completeness of the working model and its consistency with the product design have been confirmed by testing. To date, the establishment of technological feasibility of the Company's products and general release of such software have substantially coincided. As a result, we have not capitalized any software development costs through December 31, 2019 and all such costs have been recorded as research and development expenses as incurred in the consolidated statements of operations.

### ***Comprehensive Income (Loss)***

The Company has not entered into transactions that require presentation as other comprehensive income (loss). Total comprehensive income (loss) is equal to net income (loss) for all periods presented.

### ***Revenue Recognition ASC 606***

Revenue consists of fees for perpetual and term licenses for the Company's software products, post-contract customer support (referred to as maintenance), software as a service ("SaaS") and professional services including training and other revenue. The following describes the nature of the Company's primary types of revenues and the revenue recognition policies as they pertain to the types of transactions the Company enters into with its customers.

#### ***License Revenue***

License revenue includes perpetual license fees and term license fees which provide customers with the same functionality and differ mainly in the duration over which the customer benefits from the use of software. Both revenues from perpetual license and term license performance obligations are generally recognized upfront at the point in time when the software license has been delivered. All license transactions generally include an amount for first-year maintenance at no additional charge, which we recognize as subscription revenue over the term.

#### ***Subscription Revenue***

Our subscription revenue consists of (i) fees for ongoing maintenance and support of our licensed solutions and (ii) subscription fees for access to, and related support for, our SaaS offerings. We typically invoice subscription fees in advance in annual installments and recognize subscription revenue ratably over the term of the applicable agreement. Subscription revenue include arrangements for software maintenance and technical support for our products and subscription services. Maintenance contracts generally have a term of one year and SaaS contracts usually have a term of one to three years which is initially deferred and recognized ratably over the life of the contract. Maintenance services agreements consist of fees for providing software updates on a when and if available basis and for providing technical support for software products for a specified term. We believe that our when and if available software updates and technical support each have the same pattern of transfer to the customer and are substantially the same. Therefore, we consider these to be a single distinct performance obligation. Revenue allocated to maintenance services are recognized ratably over the contract term beginning on the delivery date of each offering. Expenses related to maintenance and subscription are recognized as incurred. Unearned maintenance and SaaS revenue are included in deferred revenue. The Company's subscription services arrangements are generally non-cancelable and do not contain refund-type provisions. In instances that subscription services arrangements are deemed cancellable, which is rare, the Company will adjust the transaction price and period for revenue recognition accordingly to be reflective of the contract term in accordance with Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers* ("ASC 606").

#### ***Services and Other Revenue***

Services and other revenue consist primarily of fees from professional services provided to our customers and partners to configure and optimize the use of our solutions as well as training services related to the configuration and operation of our platform. The Company's professional services contracts are either on a time-and-materials or consumption-based on a fixed fee or prepaid basis.

For services that are contracted for at a fixed price, progress is generally measured based on hours incurred as a percentage of the total estimated hours required for complete satisfaction of the related performance obligations. For services that are contracted on a time-and-materials or prepaid basis, progress is generally based on actual hours expended. These input methods (e.g. hours incurred or expended) are considered a faithful depiction of our efforts to satisfy services contracts as they represent the performance obligation consumed by the customer and performed by the entity and therefore reflect the transfer of services to a customer under such contracts.

Services revenues are generally recognized over time as the services are performed. Revenues for fixed price services and prepaids are generally recognized over time applying input methods to estimate progress to completion. Revenues for consumption-based services are generally recognized as the services are performed. Training revenues are recognized as the services are performed over time.

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

Under ASC 606, sales commissions paid to our sales force and the related employer payroll taxes, collectively “deferred contract acquisition costs”, are considered incremental and recoverable costs of obtaining a contract with a customer. The Company capitalizes and amortizes incremental costs of obtaining a contract, such as certain sales commission costs and related payroll taxes, over the remaining contractual term or over an expected period of benefit. The Company typically pays sales commissions for both initial and follow-on sales of perpetual licenses, inclusive of initial maintenance, term licenses and subscription offerings. Initial commissions are allocated to each performance obligation within the contract. The portion allocated to the perpetual license element is expensed at the time the license is delivered. Commissions allocated to the remaining elements are capitalized and amortized over an expected period of benefit. The Company has determined the expected period of benefit to be approximately five years. In addition, the Company pays sales commissions for renewals of term licenses and subscription offerings at a lower rate, which is therefore not commensurate with commissions paid on an initial sale. These renewal commissions are amortized over each renewal’s contractual term. The Company does not pay sales commissions on renewals of maintenance agreements related to perpetual licenses.

The current portion of these capitalized costs are recorded in prepayments and other current assets and non-current portion is included in other non-current assets, in our consolidated balance sheets. Previously under ASC 605, the Company generally capitalized deferred contract costs associated with subscription revenues, which were subsequently amortized over the term of the subscription while deferred contract cost related to license revenues were previously recognized as incurred. We determined the period of benefit by taking into consideration our customer contracts, customer turnover rates, the life of our technology and other factors. In the adoption of ASC 606, the Company applied the practical expedient to expense costs as incurred if the expected amortization period is one year or less. Amortization of deferred contract acquisition costs is included in sales and marketing expenses in the accompanying consolidated statements of operations. There were no material impairments to deferred contract acquisition costs for all periods presented.

### ***Contract Balances***

#### ***Deferred revenue***

We typically invoice our customers for subscription fees in advance on either an annual, two- or three-year basis, with payment due at the start of the subscription term. For subscription fees, which includes maintenance and SaaS, the timing of payments is typically upfront. Therefore, a contract liability or deferred revenue, is created because payment is made in advance of performance and these performance obligations are satisfied over time. Timing may differ between the satisfaction of performance obligations and the invoicing and collection of amounts related to our contracts with customers. Liabilities are recorded for amounts that are collected in advance of the satisfaction of performance obligations. Invoice amounts for non-cancelable services starting in future periods are included in contract assets and deferred revenue. The portion of deferred revenue that we anticipate will be recognized within twelve months is recorded as current deferred revenue and the remaining portion is recorded as non-current deferred revenue in the consolidated balance sheets.

#### ***Contract assets***

Contract assets relate to the Company’s rights to consideration for performance obligations satisfied but not billed at the reporting date on contracts. Contract assets are transferred to accounts receivable when the rights become unconditional. Contract assets are included in prepayments and other current assets and other non-current assets in the consolidated balance sheets.

### ***Revenue Recognition ASC 605***

Our revenue recognition accounting policy for ASC 605 is shown below as amounts for the 2017 reporting period were presented under ASC 605.

Revenue consists of fees for perpetual licenses for the Company’s software products, post-contract customer support (referred to as maintenance), professional services, SaaS and other revenue.

The Company recognizes revenue in accordance with the provisions of the Financial Accounting Standards Board (“FASB”) authoritative guidance on software revenue recognition and multiple element arrangements.



Revenue is recognized when:

- Persuasive evidence of an arrangement exists
- Delivery has occurred, or services have been rendered
- The Company's price to the buyer is fixed or determinable, and
- Collectability is probable

The Company frequently enters into sales arrangements that contain multiple elements or deliverables. For arrangements that include both software and non-software elements, the Company allocates revenue to the software deliverables as a group and separable non-software deliverables as a group based on their relative selling prices. In such circumstances, the accounting principles establish a hierarchy to determine the selling price used for allocating revenue to the deliverables as follows: (i) Vendor Specific Objective Evidence ("VSOE"), (ii) third-party evidence of selling price ("TPE") and (iii) the best estimate of the selling price ("ESP"). Cloud-based services, and professional services related to cloud-based services, are considered to be non-software elements in the Company's arrangements.

VSOE of fair value for each element is based on the Company's standard rates charged for the product or service when such product or service is sold separately or based upon the price established by the Company's pricing committee when that product or service is not yet being sold separately. The Company establishes VSOE for maintenance and professional services using a "bell-shaped curve" approach. When applying the "bell-shaped curve" approach the Company analyzes all maintenance renewal transactions over the past twelve months for that category of license and plots those data points on a bell-shaped curve to ensure that a high percentage of the data points are within an acceptable margin of the established VSOE rate. This analysis is performed quarterly on a rolling 12-month basis.

When the Company is unable to establish a selling price for non-software arrangements using VSOE or TPE, the Company uses ESP in the allocation of arrangement consideration. The objective of ESP is to determine the price at which the Company would transact a sale if the product or service were sold on a stand-alone basis. The determination of ESP is made through consultation with and formal approval by the Company's management, taking into consideration the Company's go-to-market strategy, pricing factors, and historical transactions.

The Company recognizes revenue for software arrangements that include undelivered elements using the residual method. Under the residual method, the fair value of the undelivered elements is deferred and recognized as such elements are delivered to the customer and the remaining portion of the agreement fee is recognized as license revenue upon delivery. The determination of fair value of each undelivered element in software arrangements is based on VSOE. If VSOE has not been established for certain undelivered elements in an agreement, revenue is deferred until those elements have been delivered or their VSOE has been determined.

Revenue from maintenance and SaaS services is recognized ratably over the relevant contract period.

Service revenue includes consulting and training. The Company has determined that consulting and training services are not essential to the functionality of the Company's software and SaaS offerings, and consulting and training services are typically listed separately in arrangements, are optional, and sold separately. As a result, the Company has established VSOE or ESP for consulting and training services and they therefore qualify for separate accounting.

In order to account for deliverables in a multiple-deliverable arrangement as separate unit of accounting, delivered elements must have standalone value. In determining whether professional services have standalone value, we consider the following factors for each professional services agreement: availability of the services from other vendors, the nature of the professional services, the timing of when the professional services contract was signed in comparison to the software or SaaS arrangement and the contractual dependence of the arrangement on the customer's satisfaction with the professional services. Professional services sold as part of arrangements generally qualify for separate accounting.

Consulting and training service revenue that qualifies for separate accounting is recognized as the services are performed using the proportional performance method for fixed fee consulting contracts, or when the right to the service expires. The majority of the Company's consulting contracts are billed on a time-and-materials basis.

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

Cost of revenue for licenses consists of amortization expense for developed technology acquired and third-party royalties.

Cost of subscription revenue consists primarily of employee costs of our customer support organization (including salaries, benefits, bonuses and stock-based compensation), contractor costs to supplement our staff levels, third-party cloud-hosting costs, allocated overhead and amortization expense for developed technology acquired.

Cost of revenue for services and other revenue consists primarily of personnel-related costs of our services and training departments (including salaries, commissions, benefits, bonuses and stock-based compensation), contractor costs to supplement our staff levels and allocated overhead.

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

Research and development costs are expensed as incurred. Research and development expenses consist primarily of personnel-related costs for the design and development of our platform and technologies, contractor costs to supplement our staff levels, third-party web services, consulting services, allocated overhead and amortization expense for intangible assets acquired.

### ***Advertising Expenses***

The Company expenses advertising costs as incurred and are included in sales and marketing expense. Advertising expenses were approximately \$11.3 million, \$7.3 million and \$6.0 million for the years ended December 31, 2019, 2018 and 2017, respectively.

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

The Company measures stock-based compensation expense for equity instruments granted to employees and board members based upon the estimated fair value of the award at the date of grant adjusted for estimated forfeitures. The Company estimates the fair value of stock options granted using the Black-Scholes option-pricing model, which requires us to estimate the expected term, fair value of common stock, expected volatility, expected forfeitures, risk-free interest rate, and dividend yield.

The risk-free interest rate is based on the U.S. treasury yield curve for the term consistent with the life of the stock options as of the date of grant. The Company has elected to apply the “shortcut approach” in developing the estimate of expected term for “plain vanilla” stock options by using the mid-point between the vesting date and contractual termination date. The Company has not paid and does not anticipate paying cash dividends on its common stock; therefore, the expected dividend yield is assumed to be zero.

During 2019, the Company began to determine volatility by introducing the Company’s own historical volatility measurements once two years of historical data become available in the public market. The Company used a blend of the Company’s volatility and industry peers to arrive at a volatility consistent with the life of the options. The Company intends to increase the weighting factor of the Company’s own volatility going forward as additional time periods become available.

Prior to 2019, the Company determined the volatility for stock options granted based on the average historical price volatility for industry peers over a period equivalent to the expected term of the stock option grants. The Company did not utilize its own historic volatility because, prior to November 2017, there was no public market for the Company’s common stock, and current time in the public market was not sufficiently long enough to provide representative historical data.

Stock-based compensation expense resulting from this valuation is recognized in the consolidated statements of operations on a straight-line basis over the period during which an employee provides the requisite service in exchange for the award. The Company analyzes the facts and circumstances of each equity instrument to determine if modification accounting is required. When a modification is triggered, the revised fair value is calculated, and additional stock-based compensation is recognized over the remaining service period of the modified instrument.

The Company estimates potential forfeitures of stock grants and adjusts recorded stock-based compensation expense accordingly. Based on historical experiences, the Company uses the simplified approach in estimating no forfeitures. The estimate of forfeitures is based on historical experience and is adjusted over the requisite service period to the extent that actual forfeitures differ, or are expected to differ, from the prior estimates. Changes in estimated forfeitures will be recognized in the period of change and will impact the amount of stock-based compensation expense to be recognized in future periods.

Restricted stock units ("RSUs") are generally subject to forfeiture if employment terminates prior to the vesting date. We expense the cost of the RSUs, which is determined to be the fair market value of the shares of common stock underlying the RSUs on the date of grant, ratably over the period during which the vesting restrictions lapse.

In November 2017, the Company's board of directors adopted the Employee Stock Purchase Plan (the "ESPP"). The ESPP became effective November of 2017, after the date our registration statement was declared effective by the SEC. The first offering period opened July 1, 2018 and permitted eligible employees to purchase shares by authorizing payroll deductions from 1% to 15% of employee's eligible compensation during the offering period, which is generally six-months, with an annual cap of \$25,000 in fair market value, determined at the grant date. Unless an employee has previously withdrawn from the offering, his or her accumulated payroll deductions will be used to purchase shares after the closing of the offering period at a price equal to 85% of the closing price of the shares at the opening or closing of the offering period, whichever is lower.

ESPP purchase rights have an expected volatility consistent with our volatility estimates that are used to value our stock options. The expected term represents the period of time the ESPP purchase rights are expected to be outstanding and approximates the offering period. Stock-based compensation expense associated with ESPP purchase rights is recognized on a straight-line basis over the offering period.

### ***Foreign Currency Translation***

The functional currency of our non-U.S. subsidiaries is the U.S. dollar; therefore, all gains and losses on currency transactions are expensed as incurred.

### ***Income Taxes***

The Company uses the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Valuation allowances are provided if it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company accounts for uncertainty of income taxes based on a "more-likely-than-not" threshold for the recognition and de-recognition of tax positions, which includes the accounting for interest and penalties relating to tax positions.

### ***Convertible Senior Notes***

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

### ***Leases***

The Company accounts for a contract as a lease when it has the right to control the asset for a period of time while obtaining substantially all of the assets' economic benefits. The Company's leases are primarily for office space. In accordance with the adoption of ASC 842 (defined below) effective January 1, 2019, at the inception or modification of an arrangement, we determine whether the arrangement is or contains a lease based on the unique facts and circumstances present and if so, the classification of the lease.

Right-of-use (“ROU”) assets and lease liabilities are recognized at the present value of future lease payments over the lease term. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease. The implicit rates within our operating leases are generally not determinable and therefore we use the incremental borrowing rate at the lease commencement date to determine the present value of lease payments. The determination of our incremental borrowing rate requires judgment. We determine our incremental borrowing rate for each lease using our estimated borrowing rate, adjusted for various factors including level of collateralization and term to align with the terms of the lease. ROU assets include any upfront lease payments made and exclude lease incentives. The Company leases its facilities under non-cancelable operating lease agreements. Additionally, these leases often require the Company to pay property taxes, insurance and maintenance costs, which are not recorded on the balance sheets and are generally expensed as incurred. Certain of these facility leases contain predetermined fixed escalations of the minimum rentals, and the Company recognizes expense for these leases on a straight-line basis over the full term of the lease arrangement. Certain of our leases include options to extend or terminate the lease. An option to extend the lease is considered in connection with determining the ROU asset and lease liability when it is reasonably certain we will exercise that option. An option to terminate is considered unless it is reasonably certain we will not exercise the option. Leases with an initial term of 12 months or less are not recorded on the balance sheet. The depreciable life of related leasehold improvements is based on the lease term.

We have lease agreements with lease and non-lease components which we account for as a single lease component. The Company’s non-lease components are primarily related to maintenance related costs, which are typically variable in nature and are expensed in the period incurred.

For periods prior to the adoption of ASC 842, we recorded rent expense on a straight-line basis over the term of the related lease. The difference between the straight-line rent expense and the payments made in accordance with the operating lease agreements were recognized as a deferred rent liability on the accompanying consolidated balance sheets.

#### ***Net Income (Loss) Per Share***

Basic net income (loss) per share attributable to common stockholders is calculated by dividing the net income (loss) attributable to common stockholders for the period, defined as net income (loss) minus the deemed dividends on redeemable convertible preferred stock and earnings allocated to participating securities, by the weighted-average number of shares of common stock outstanding during the period, without consideration of potentially dilutive securities. Diluted earnings per share includes the dilutive effect of common stock equivalents and is calculated using the weighted-average number of common stock and the common stock equivalents outstanding during the reporting period. Diluted earnings per share for the year ended December 31, 2018 excludes certain common stock equivalents because their inclusion would be anti-dilutive. The Company experienced a loss in the years ended December 31, 2019 and 2017; hence all common stock equivalents were excluded due to their anti-dilutive effect. Our incentive stock units have the right to receive non-forfeitable dividends on an equal basis with common stock and therefore are considered participating securities that must be included in the calculation of net income (loss) per share using the two-class method. Under the two-class method, basic and diluted net income (loss) per share is determined by calculating net income (loss) per share for common stock and participating securities based on the cash dividends paid and participation rights in undistributed earnings.

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

In February 2016, the FASB issued ASU 2016-02 and subsequent updates thereafter in ASU 2017-13, ASU 2018-10 and ASU 2018-11, Leases (collectively, Accounting Standards Codification 842 or ASC 842). This standard requires lessees to recognize right-of-use (“ROU”) assets and lease liabilities for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The standard also expands the required quantitative and qualitative disclosures surrounding leases.

On January 1, 2019, we adopted ASC 842 using the modified retrospective transition method with certain practical expedients available for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements. SailPoint evaluated whether any cumulative adjustment is required to be recorded to retained earnings as a result of applying the provisions set forth under ASC 842 for any existing arrangements not yet completed as of January 1, 2019. Adoption of ASC 842 did not result in a cumulative adjustment to retained earnings as of January 1, 2019. In addition, it is important to note that under the modified retrospective transition method, our prior period results were not recast to reflect the new standard. We elected the package of practical expedients permitted under the transition guidance, which allowed us to waive reassessing the lease classification for any expired or existing leases, the initial direct costs for any existing leases and whether any expired or existing contracts contained leases. We have lease agreements with lease and non-lease components which we have elected to account for as a single lease component. We implemented internal controls and key system functionality to enable the preparation of financial information upon adoption.

The adoption of the new standard represents a change in accounting principle with the intent to increase transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. We have made an accounting policy election not to recognize ROU assets and lease liabilities that arise from short-term leases for any class of underlying asset.

The standard did not have a material impact on our consolidated statements of operations or statements of cash flows. Upon adoption of ASC 842, the opening impact on our consolidated balance sheets was not material, but it resulted in recording ROU assets and an increase in total lease liabilities of \$3.5 million for operating leases for physical office space.

In June 2018, the FASB issued ASU 2018-07, Compensation—Stock Compensation (ASC 718): Improvements to Nonemployee Share-Based Payment Accounting (ASU 2018-07), which simplifies the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees, with certain exceptions. ASU 2018-07 is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. We adopted the standard effective January 1, 2019, using the prospective approach. This adoption resulted in no material impact on the Company's consolidated financial statements.

#### ***Recently Issued Accounting Standards Not Yet Adopted***

In August 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2018-15, Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract (ASU 2018-15), which clarifies the accounting for implementation costs in cloud computing arrangements. ASU 2018-15 is effective for public entities for annual periods, including interim periods within those annual periods beginning after December 15, 2019 and earlier adoption is permitted. The Company does not plan to early adopt, and therefore plans to adopt for the annual period beginning after December 15, 2019 on a prospective basis. The Company does not anticipate this standard will have a material impact upon adoption of ASU 2018-15 on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments—Credit Losses (Topic 326)." This standard requires the measurement and recognition of expected credit losses for financial assets held at amortized cost. The standard replaces the existing incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. ASU 2016-13 is effective for public entities for annual periods, including interim periods within those annual periods beginning after December 15, 2019 and earlier adoption is permitted. The Company does not plan to early adopt, and therefore plans to adopt for the annual period beginning after December 15, 2019 on a modified retrospective basis. The Company does not anticipate this standard will have a material impact on our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes – Simplifying the Accounting for Income Taxes." The guidance removes exceptions to the general principles in Topic 740 for allocating tax expense between financial statement components, accounting basis differences stemming from an ownership change in foreign investments and interim period income tax accounting for year-to-date losses that exceed projected losses. The guidance becomes effective for annual reporting periods beginning after December 15, 2020 and interim periods within those fiscal years with early adoption permitted. Early adoption is permitted in the first period of the year this guidance is adopted. The Company plans to early adopt ASU 2019-12 for the annual period beginning after December 15, 2019. The Company is currently evaluating the impact of ASU 2019-12, although it does not anticipate this standard will have a material effect on the consolidated financial statements.



### 3. Revenue Recognition

#### *Disaggregation of revenue*

The Company's revenue by geographic region based on the customer's location is presented in Note 16 "Geographic Information and Major Customers."

The following table presents the Company's revenue by timing of revenue recognition to understand the risks of timing of transfer of control and cash flows:

	Year Ended December 31, 2019			Year Ended December 31, 2018		
	License	Subscription	Services and other	License	Subscription	Services and other
	(In thousands)					
<b>Timing of revenue recognition</b>						
Revenue recognized at a point in time	\$ 102,800	\$ —	\$ —	\$ 105,000	\$ —	\$ —
Revenue recognized over time	—	143,390	42,325	—	104,033	39,887
Total revenue	<u>\$ 102,800</u>	<u>\$ 143,390</u>	<u>\$ 42,325</u>	<u>\$ 105,000</u>	<u>\$ 104,033</u>	<u>\$ 39,887</u>

#### *Contract Balances*

A summary of the activity impacting our contract balances during the years ended December 31, 2019 and 2018 is presented below:

	Contract Acquisition Costs	
	Year Ended December 31,	
	2019	2018
	(In thousands)	
<b>Beginning Balance</b>	\$ 28,043	\$ 5,949
Adoption of ASC 606	—	16,199
Additional deferred contract acquisition costs	17,239	13,648
Amortization of deferred contract acquisition costs	(10,130)	(7,753)
<b>Ending Balance</b>	<u>\$ 35,152</u>	<u>\$ 28,043</u>
Deferred contract acquisition costs, current	10,905	8,392
Deferred contract acquisition costs, non-current	24,247	19,651
<b>Deferred contract acquisition costs, total</b>	<u>\$ 35,152</u>	<u>\$ 28,043</u>

There were no material impairments of deferred contract acquisition costs for the years ended December 31, 2019 and 2018.

	Deferred Revenue	
	Year Ended December 31,	
	2019	2018
	(In thousands)	
<b>Beginning Balance</b>	\$ 114,301	\$ 83,125
Adoption of ASC 606	—	(8,722)
Increase, net	37,732	39,898
<b>Ending Balance</b>	<u>\$ 152,033</u>	<u>\$ 114,301</u>
Deferred revenue, current	127,132	95,919
Deferred revenue, non-current	24,901	18,382
<b>Deferred revenue, total</b>	<u>\$ 152,033</u>	<u>\$ 114,301</u>



Deferred revenue, which is a contract liability, consists primarily of payments received in advance of revenue recognition under the Company's contracts with customers and is recognized as the revenue recognition criteria are met. Revenue recognized during the 2019 and 2018 reporting periods that were previously deferred was \$113.0 million and \$75.0 million, respectively. The difference between the opening and closing balances of the Company's contract assets and deferred revenue primarily results from the timing difference between the Company's performance and the customer billings.

Contract assets primarily relate to unbilled amounts, which are netted with deferred revenue at contract level, and typically result from sales contracts when revenue recognized exceeds the amount billed to the customer, and the right to payment is subject to more than the passage of time. Contract assets are transferred to accounts receivable when the rights become unconditional and the customer is billed. Contract assets are included in prepayments and other current assets and other non-current assets in the consolidated balance sheets. During the years ended December 31, 2019 and 2018, amounts reclassified from contract assets to accounts receivable were approximately \$4.1 million and \$6.3 million, respectively, and there were no material impairment losses recognized on contract assets.

### ***Remaining performance obligations***

Our contracts with customers include amounts allocated to performance obligations that will be satisfied at a later date. Remaining performance obligations represent contracted revenue that has not yet been recognized and include deferred revenues, invoices that have been issued to customers but have not been recognized as revenues and amounts that will be invoiced and recognized as revenue in future periods. As of December 31, 2019, amounts allocated to these additional contractual obligations are \$220.0 million, of which we expect to recognize \$145.6 million as revenue over the next 12 months with the remaining amount thereafter.

## **4. Fair Value Measurements**

### ***Assets and Liabilities Measured at Fair Value on a Recurring Basis***

The following table presents information about the Company's financial assets that are measured at fair value on a recurring basis using the above input categories as of December 31, 2019. As of December 31, 2018, the Company did not have financial assets that are measured at fair value on a recurring basis.

	As of December 31, 2019			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Cash equivalents:				
Money market funds	\$ 364,127	—	—	\$ 364,127
Total cash equivalents	\$ 364,127	—	—	\$ 364,127

The Company's carrying amounts of financial instruments, including cash, accounts receivable, accounts payable, and accrued expenses are considered Level 1 and approximate their fair values due to their short maturities as of December 31, 2019 and 2018 and are excluded from the fair value table above.

See Note 9 "Convertible Senior Notes and Capped Call Transactions" for the carrying amount and estimated fair value of our Notes (as defined below) as of December 31, 2019.

## **5. Business Combinations**

### **2019 Acquisitions**

#### **Orkus**

On October 15, 2019, the Company acquired 100% of the equity interest in Orkus, Inc. ("Orkus"), a Delaware corporation engaged in the development and license of software products to assist customers in monitoring and controlling access and authorization across hybrid cloud assets. Total consideration related to the acquisition was \$16.5 million in cash, of which \$2.0 million is to be paid upon the lapse of an indemnification period of 12 months and 24 months of the acquisition date. As of December 31, 2019, \$1.0 million of holdback amount is reflected within accrued expenses and other liabilities and \$1.0 million is included in other long-term liabilities in the consolidated balance sheet. Preliminary purchase price is subject to certain adjustments with respect to Orkus' debt, cash and net working capital balances at the closing.

The following table summarizes the preliminary purchase price allocation as of the date of acquisition:

	As of October 15, 2019 (In thousands)
Cash and cash equivalents	\$ —
Prepayments and other current assets	34
Right-of-use assets	90
Goodwill	7,567
Intangible assets	9,830
Accounts payable	(21)
Accrued expenses and other liabilities	(133)
Deferred tax liability - non-current	(861)
Total fair value of assets acquired and liabilities assumed	<u>\$ 16,506</u>

The following table presents the estimated fair values and useful lives of the identifiable intangible assets acquired:

	Amount (In thousands)	Estimated Useful Life (In years)
Developed technology	\$ 9,830	5

#### Overwatch.ID

On October 15, 2019, the Company acquired 100% of the equity interest in Overwatch.ID, Inc. (“Overwatch.ID”), a Delaware corporation engaged in the development and license of software products focused on access controls security for cloud applications, cloud computing, hybrid IT environments, and on-premises infrastructure. The preliminary aggregate consideration related to the acquisition was \$20.9 million in cash, of which \$3.0 million is to be paid upon the lapse of an indemnification period of 12 months and 18 months of the acquisition date. As of December 31, 2019, \$1.5 million of holdback amount is reflected within accrued expenses and other current liabilities and \$1.5 million is included in other long-term liabilities in the consolidated balance sheet. Preliminary purchase price is subject to certain adjustments with respect to Overwatch.ID’s debt, cash and net working capital balances at the closing.

The following table summarizes the preliminary purchase price allocation as of the date of acquisition:

	As of October 15, 2019 (In thousands)
Cash and cash equivalents	\$ 45
Accounts receivable	66
Prepayments and other current assets	103
Deferred tax asset - non-current	687
Right-of-use assets	175
Goodwill	14,107
Intangible assets	6,610
Accounts payable	(256)
Accrued expenses and other liabilities	(185)
Deferred revenue	(466)
Total fair value of assets acquired and liabilities assumed	<u>\$ 20,886</u>

The following table presents the estimated fair values and useful lives of the identifiable intangible assets acquired:

	Amount (In thousands)	Estimated Useful Life (In years)
Developed technology	\$ 6,610	5

## Additional Acquisition Related Information

The operating results of the acquired companies are included in our consolidated statements of income from the respective dates of acquisition. Pro forma results of operations have not been presented because the effects of these acquisitions, individually and in the aggregate, were not material to our consolidated statement of operations. During the year ended December 31, 2019, acquisition related costs were \$1.0 million, which include legal, accounting and consulting professional service fees. Acquisition related expenses have been included primarily in general and administrative expenses in the consolidated statement of operations.

These acquisitions have been accounted for as business combinations. Assets acquired and liabilities assumed have been recorded at their estimated fair values as of the respective acquisition date. The purchase price allocations are provisional pending final valuations and purchase accounting adjustments, which were not final as of December 31, 2019. The Company will finalize the purchase price within the required one-year measurement period as of the dates of acquisition.

The fair value of developed technology was estimated using the replacement cost method (Level 3), which utilized assumptions for the cost to replace, such as the workforce, timing and resources required, as well as a theoretical developer's profit margin and entrepreneurial incentive and opportunity cost. The Company believes that for each acquisition, the acquired companies will provide opportunities for growth through investing in additional products and capabilities, among other factors. This contributed to a purchase price in excess of the estimated fair value of each acquired company's net identifiable assets acquired and, as a result, goodwill was recorded in connection with each acquisition. The excess of the purchase price over the tangible assets, identifiable intangible assets and assumed liabilities was recorded as goodwill. Goodwill arising from these acquisitions are not deductible for tax purposes.

## 6. Goodwill and Intangible Assets

### Goodwill

Goodwill represents the excess of the purchase price over the identifiable tangible and intangible assets acquired less liabilities assumed arising from business combinations. The changes in the carrying amounts of goodwill for the year ended December 31, 2019 is due to the acquisitions of Orkus and Overwatch.ID. For additional information regarding the acquisitions, see Note 5 "Business Combinations."

The following table reflects goodwill activity for the year ended December 31, 2019:

	(In thousands)
<b>Balance, December 31, 2018</b>	<b>\$ 219,377</b>
Goodwill acquired	21,674
<b>Balance, December 31, 2019</b>	<b><u>\$ 241,051</u></b>

All goodwill balances are subject to annual goodwill impairment testing. As of October 31, 2019 and 2018, the Company performed a qualitative analysis and concluded that no impairment for goodwill, including intangibles, was required. A quantitative impairment analysis was conducted in the year ended December 31, 2017. There were no impairments of goodwill during the years ended December 31, 2019, 2018 and 2017.

## Intangible Assets

Total cost and amortization of intangible assets comprised of the following:

	Weighted Average Useful Life	As of December 31,	
		2019	2018
Intangible assets, net	(In years)	(In thousands)	
Customer lists	15	\$ 42,500	\$ 42,500
Developed technology	8.9	58,440	42,000
Trade names and trademarks	17	24,500	24,500
Order backlog	1.5	—	1,100
Other	4.8	3,689	3,310
Total intangible assets		129,129	113,410
Less: Accumulated amortization		(47,478)	(38,550)
Total intangible assets, net		<u>\$ 81,651</u>	<u>\$ 74,860</u>

During the year ended December 31, 2019, the Company acquired businesses which involved the acquisition of developed technology. For more information, see Note 5 “Business Combinations.” During the year ended December 31, 2018, the Company purchased certain technology patents from an unrelated third party for approximately \$2.5 million. These patents pertain to technology that the Company plans to use by incorporating into or expanding its current products and will be amortized on a straight-line basis over five years and is included in “Other” in the table above.

Amortization expense is included in the consolidated statements of operations for each of the years ended December 31, 2019, 2018 and 2017, respectively, as follows:

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Cost of revenue - licenses	\$ 4,032	\$ 4,032	\$ 4,032
Cost of revenue - subscription	1,076	384	384
Research and development	647	136	149
Sales and marketing	4,273	4,273	4,276
Total amortization of intangibles	<u>\$ 10,028</u>	<u>\$ 8,825</u>	<u>\$ 8,841</u>

The total estimated future amortization expense of these intangible assets as of December 31, 2019 is as follows:

Year Ending December 31,	(In thousands)
2020	\$ 12,682
2021	12,599
2022	12,262
2023	11,759
2024	9,424
Thereafter	22,925
Total amortization expense	<u>\$ 81,651</u>

Periodically, the Company evaluates intangible assets for possible impairment. There were no impairments for intangible assets during the years ended December 31, 2019, 2018 and 2017.

## 7. Commitments and Contingencies

### *Operating Leases*

As of December 31, 2019, our leases, primarily relate to office leases, have remaining lease terms of less than one year to ten years. Certain leases include early termination and/or extension options; however, exercises of these options are at the Company's sole discretion. As of December 31, 2019, the Company determined it is not reasonably certain it will exercise the options to extend its leases or terminate them early. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants and as of December 31, 2019, the Company is not subleasing to any third parties.

The rates implicit in the Company's leases are not readily determinable. Therefore, in order to value the Company's lease liabilities, the Company uses an incremental borrowing rate which reflects the fixed rate at which the Company could borrow a similar amount in the same currency, for the same term, and with similar collateral as in the lease at the commencement date. As of December 31, 2019, the Company measures its lease liabilities at the net present value of the remaining lease payments discounted at the weighted average discount rate of 4.14%. The Company's incremental borrowing rate is estimated to approximate the interest rate on similar terms and payments and in economic environments where the leased asset is located. The weighted average remaining term of the Company's operating leases is 8.6 years.

Operating lease costs during the period presented were as follows:

	<b>Year Ended</b>
	<b>December 31, 2019</b>
	<b>(In thousands)</b>
<b>Lease cost</b>	
Operating lease cost	\$ 4,720
Short-term lease cost	2,389
Total lease cost	<u>\$ 7,109</u>

Facilities costs (including rent and utilities) are considered shared costs and are allocated to departments based on headcount. As such, allocated shared costs are reflected in each cost of revenue and operating expense category. Total rent expense recognized prior to our adoption of ASC 842 was approximately \$3.8 million and \$2.9 million for the years ended December 31, 2018 and 2017, respectively.

Other supplemental cash flow information related to operating leases is as follows:

	<b>Year Ended</b>
	<b>December 31, 2019</b>
	<b>(In thousands)</b>
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 4,685
Right-of-use assets obtained in exchange for lease liabilities	
Operating leases	\$ 32,015

As of December 31, 2019, we have no financing leases and we have non-cancelable operating lease commitments, excluding variable consideration. The undiscounted annual future minimum lease payments are summarized by year in the table below:

<b>Year Ending December 31,</b>	<b>(In thousands)</b>
2020	\$ 5,324
2021	5,791
2022	5,753
2023	5,266
2024	5,025
Thereafter	22,283
Total minimum lease payments	\$ 49,442
Less: interest	(7,456)
Total present value of operating lease liabilities	\$ 41,986
Less: operating lease liabilities - current	(3,951)
Long-term operating lease liabilities	<u>\$ 38,035</u>

### ***Indemnification Arrangements***

In the ordinary course of business, the Company enters into contractual arrangements under which it agrees to provide indemnification of varying scope and terms to customers, business partners and other parties with respect to certain matters, including, losses arising out of the breach of such agreements, intellectual property infringement claims made by third parties, and other liabilities with respect to our products and services and business. In these circumstances, payment may be conditional on the other party making a claim pursuant to the procedures specified in a particular contract.

The Company includes service level commitments to our cloud customers warranting certain levels of uptime reliability and performance and permitting those customers to receive credits in the event that we fail to meet those levels. To date, the Company has not incurred any material costs as a result of these commitments, and we expect the time between any potential claims and issuance of the credits to be short. As a result, we have not accrued any liabilities related to these commitments in our consolidated financial statements.

### ***Litigation Claims and Assessments***

The Company is subject to claims and suits that may arise from time to time in the ordinary course of business. In addition, some legal actions, claims and governmental inquiries may be instituted or asserted in the future against us and our subsidiaries. Although the outcome of our legal proceedings cannot be predicted with certainty and no assurances can be provided, based upon current information, we do not believe the liabilities, if any, which may ultimately result from the outcome of such matters, individually or in the aggregate, will have a material adverse impact on our consolidated financial statements.

## **8. Line of Credit and Long-Term Debt**

### ***Prior Credit Agreement***

In August 2016, the Company entered into a senior secured credit facility with a financial institution (as amended, the “Prior Credit Agreement”). The Prior Credit Agreement consisted of a term loan facility of \$160.0 million and a revolving loan facility of up to \$7.5 million. The Prior Credit Agreement established first security for the financial institution over all assets of the Company and is subject to certain financial covenants. Borrowings under this agreement bear interest based on the adjusted LIBOR rate, as defined in the agreement with a 1.0% floor, plus an applicable margin of 7.0%. The maturity date on the term loan was scheduled for August 16, 2021 with principal payment due in full on maturity date, and interest payments due quarterly. The agreement also required prepayments in the case of certain events including, asset sales, proceeds from an initial public offering (“IPO”), proceeds from an insurance settlement or proceeds from a new debt agreement.

In 2017, the Company used a portion of its net proceeds from IPO to repay \$90.0 million of borrowings outstanding under our term loan. The 2017 repayments were subject to a prepayment premium of 1.50%. For the year ended December 31, 2017, the Company incurred prepayment premiums of approximately \$1.4 million and a \$1.7 million loss on the modification and partial extinguishment of debt.

During 2018, the Company voluntarily prepaid the remaining \$70.0 million outstanding under our term loan and terminated the credit facility. The 2018 repayments were subject to a prepayment premium of 0.50%. For the year ended December 31, 2018, the Company incurred prepayment premiums of approximately \$0.4 million and a \$1.8 million loss on the modification and extinguishment of debt. Both the prepayment premium and the loss on the modification and extinguishment of debt were recorded as interest expense in the accompanying consolidated statements of operations for the years ended December 31, 2018 and 2017.

The Company incurred total debt issuance costs of \$4.5 million in connection with the Prior Credit Agreement, of which \$1.4 million relates to the modified agreement in 2017, which were to be amortized to interest expense over the life of the debt on a straight-line basis and approximates the effective interest rate method. Amortization of debt issuance costs for the Prior Credit Agreement for the years ended December 31, 2018 and 2017 were approximately \$0.2 million and \$0.7 million respectively and was recorded in interest expense in the accompanying consolidated statements of operations.



On October 5, 2017, in connection with our corporate headquarters lease, a standby letter of credit in the amount of \$6.0 million was executed. On November 29, 2018, as a result of the prepayment of the term loan, the standby letter of credit was cancelled and replaced by the 2018 Letter of Credit on behalf of the Company by U.S. Bank National Association. The 2018 Letter of Credit is an irrevocable, cash collateralized, unconditional standby letter of credit in an aggregate amount of \$6.0 million under the Company's corporate headquarters lease. The cash used as collateral is included as restricted cash on the balance sheets as of December 31, 2019 and 2018.

### ***Current Credit Agreement***

On March 11, 2019, SailPoint Technologies, Inc., as borrower, and certain of our other wholly owned subsidiaries entered into a credit agreement (as amended, the "Credit Agreement"). The Credit Agreement is guaranteed by SailPoint Technologies Intermediate Holdings, LLC, a wholly owned subsidiary, and the Borrower's material domestic subsidiaries (the "Guarantors" and, together with the Borrower, the "Loan Parties") and is supported by a security interest in substantially all of the Loan Parties' personal property and assets.

In September 2019, the Company amended the Credit Agreement in connection with the issuance and sale of the Notes (as defined below). Such amendment included a decrease in the commitments for revolving credit loans from \$150.0 million to \$75.0 million, with a \$15.0 million letter of credit sublimit, which amount can be increased or decreased under certain circumstances and is subject to certain financial covenants. In addition, the Credit Agreement provides for the ability to incur uncommitted term loan facilities if, among other things, the Senior Secured Net Leverage Ratio (as defined in the Credit Agreement), calculated giving pro forma effect to the requested term loan facility, is no greater than 3.50 to 1.00. Borrowings pursuant to the Credit Agreement may be used for working capital and other general corporate purposes, including acquisitions permitted under the Credit Agreement. The Credit Agreement also contains certain customary representations and warranties and affirmative and negative covenants. The agreement has established priority for the lenders party over all assets of the Company.

The interest rates applicable to revolving credit loans under the Credit Agreement are, at the borrower's option, either (i) a base rate, which is equal to the greatest of (a) the Prime Rate (as defined in the Credit Agreement), (b) the Federal Funds Effective Rate (as defined in the Credit Agreement) plus 1/2 of 1%, and (c) the one-month Adjusted LIBO Rate (as defined in the Credit Agreement) plus 1%, in each case, plus an interest margin ranging from 0.25% to 0.75% based on the Senior Secured Net Leverage Ratio, or (ii) the Adjusted LIBO Rate plus an interest margin ranging from 1.25% to 1.75% based on the Senior Secured Net Leverage Ratio. The Adjusted LIBO Rate cannot be less than zero. The borrower will pay an unused commitment fee during the term of the Credit Agreement ranging from 0.20% to 0.30% per annum based on the Senior Secured Net Leverage Ratio. The maturity date of the Credit Agreement is March 2024.

The Company had no outstanding revolving credit loan balance under the Credit Agreement as of December 31, 2019. The Company was in compliance with all applicable covenants as of December 31, 2019.

In 2019, the Company incurred total debt issuance costs of approximately \$0.8 million in connection with the Credit Agreement, which is included in other non-current assets on the accompanying consolidated balance sheet as of December 31, 2019. These costs are being amortized to interest expense over the life of the Credit Agreement on a straight-line basis. Amortization of debt issuance costs during the year ended December 31, 2019 was approximately \$0.1 million and was recorded in interest expense in the accompanying consolidated statement of operations.

## 9. Convertible Senior Notes and Capped Call Transactions

In September 2019, the Company issued and sold \$400.0 million aggregate principal amount of 0.125% Convertible Senior Notes due 2024 (the “Notes”) in a private offering (the “Offering”) to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”). The net proceeds from the Offering were approximately \$391.2 million, after deducting discounts and commissions and other fees and expenses payable by the Company in connection with the Offering. The Company used approximately \$37.1 million of the net proceeds from the Offering to pay the cost of the Capped Call Transactions (as defined below).

The Notes were issued pursuant to an indenture (the “Indenture”), by and between the Company and U.S. Bank National Association, as trustee. The Notes are senior unsecured obligations of the Company and will mature on September 15, 2024, unless earlier redeemed, repurchased or converted. The Notes will bear interest at a fixed rate of 0.125% per year payable semiannually in arrears on March 15 and September 15 of each year, beginning on March 15, 2020.

The Notes will be convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding March 15, 2024, only under the following circumstances:

- during any calendar quarter commencing after the calendar quarter ending on December 31, 2019 (and only during such calendar quarter), if the last reported sale price of the Company’s common stock, for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- during the five business day period after any five consecutive trading day period (the “measurement period”) in which the trading price (as defined in the Indenture) per \$1,000 principal amount of the Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of common stock and the conversion rate for the Notes on each such trading day;
- if the Company calls any or all of the Notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; and
- upon the occurrence of specified corporate events as set forth in the Indenture.

On or after March 15, 2024 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert all or any portion of their Notes, in multiples of \$1,000 principal amount, at the option of the holder regardless of the foregoing circumstances.

Upon conversion, the Company may satisfy its conversion obligation by paying and/or delivering, as the case may be, cash, shares of common stock or a combination of cash and shares of common stock, at the Company’s election, in the manner and subject to the terms and conditions provided in the Indenture. It is the Company’s current intent to settle the principal amount of the Notes with cash. The Notes are convertible at an initial conversion rate of approximately 35.1849 shares of common stock per \$1,000 principal amount of the Notes, which is equivalent to an initial conversion price of approximately \$28.42 per share of common stock, subject to adjustment upon the occurrence of specified events. The conversion rate is subject to adjustment under certain circumstances in accordance with the terms of the Indenture.

In addition, following certain corporate events that occur prior to the maturity date or if the Company delivers a notice of redemption, the Company will, in certain circumstances, increase the conversion rate for a holder who elects to convert its Notes in connection with such a corporate event or notice of redemption, as the case may be. For example, upon the occurrence of a make-whole fundamental change, as defined in the purchase agreement, the Company will, in certain circumstances, increase the conversion rate by a number of additional shares for a holder that elects to convert its Notes in connection with such make-whole fundamental change or during the relevant redemption period.

The Company may not redeem the Notes prior to September 20, 2022. The Company may redeem for cash all or any portion of the Notes, at its option, on or after September 20, 2022, if the last reported sale price of common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus any accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the Notes, which means that the Company is not required to redeem or retire the Notes periodically.

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

The Indenture includes customary covenants and sets forth certain events of default after which the Notes may be declared immediately due and payable and sets forth certain types of bankruptcy or insolvency events of default involving the Company after which the Notes become automatically due and payable. The Company was in compliance with all applicable covenants as of December 31, 2019.

As of December 31, 2019, the conditions allowing holders of the Notes to convert have not been met, and therefore, the Notes were classified as long-term debt on our consolidated balance sheet.

In accounting for the issuance of the Notes, we separated the Notes into liability and equity components. The carrying amounts of the liability components of the Notes were calculated by measuring the fair value of similar debt instruments that do not have an associated convertible feature. The carrying amounts of the equity components, representing the conversion option, were determined by deducting the fair value of the liability components from the par value of the Notes. This difference represents the debt discount that is amortized to interest expense over the terms of the Notes using the effective interest rate method. The carrying amount of the equity components representing the conversion options was approximately \$88.8 million for the Notes and is recorded in additional paid in capital and are not remeasured as long as they continue to meet the conditions for equity classification.

The Company allocates transaction costs related to the issuance of the Notes to the liability and equity components using the same proportions as the initial carrying value of the Notes. Transaction costs attributable to the liability component were approximately \$6.8 million and are being amortized to interest expense at an effective interest method rate of 5.25% over the term of the Notes. Transaction costs attributable to the equity component were approximately \$2.0 million and are netted with the equity component of the Notes in additional paid in capital.

As of December 31, 2019, the Notes have a remaining life of approximately 57 months.

The net carrying amount of the liability and equity components of the Notes as of December 31, 2019 was as follows:

	<b>As of December 31, 2019 (In thousands)</b>
<b>Liability component</b>	
Principal	\$ 400,000
Unamortized discount	(84,542)
Unamortized issuance costs	(6,407)
<b>Net carrying amount</b>	<b>\$ 309,051</b>
<b>Equity component, net of issuance costs</b>	<b>\$ 86,764</b>

The interest expense recognized related to the Notes for the year ended December 31, 2019 was as follows:

	<b>Year Ended December 31, 2019 (In thousands)</b>
Contractual interest expense	\$ 133
Amortization of debt discount	4,199
Amortization of debt issuance costs	359
<b>Total</b>	<b>\$ 4,691</b>

As of December 31, 2019, the total estimated fair value of the Notes was approximately \$435.0 million. The fair value was determined based on the closing trading price per \$100 of the Notes as of the last day of trading for the period. The fair value of the Notes is primarily affected by the trading price of our common stock and market interest rates. The fair value of the Notes is considered a Level 2 within the fair value hierarchy and was determined based on inputs that are observable in the market or that could be derived from, or corroborated with, observable market data, quoted price of the Notes in an over-the-counter market.

### **Capped Call Transactions**

In September 2019, in connection with the pricing of the Notes and in connection with the initial purchasers' exercise in full of their option to purchase additional Notes, the Company entered into privately negotiated capped call transactions (the "Capped Call Transactions") with the initial purchasers or their respective affiliates and another financial institution. The Capped Call Transactions cover, subject to anti-dilution adjustments substantially similar to those applicable to the Notes, approximately 14.1 million shares of common stock. The Capped Call Transactions are generally expected to reduce potential dilution to common stock upon any conversion of the Notes and/or offset any potential cash payments the Company is required to make in excess of the principal amount of converted Notes, as the case may be, with such reduction and/or offset subject to a cap. The Capped Call Transactions have an initial strike price of approximately \$28.42 per share, which corresponds to the initial conversion price of the Notes and is subject to certain adjustments. The cap price of the Capped Call Transactions is initially \$41.34 per share, which is subject to certain adjustments. For accounting purposes, the Capped Call Transactions are separate transactions and not part of the terms of the Notes. As the Capped Call Transactions are considered indexed to our own stock and are considered equity classified, they are recorded in stockholders' equity and are not accounted for as derivatives. The cost of approximately \$37.1 million incurred in connection with the Capped Call Transactions was recorded as a reduction to additional paid in capital.

### **10. Related Party Transactions**

In 2016, the Company entered into agreements totaling approximately \$626,000 with certain non-executive employees related to their personal tax liabilities. These agreements will be forgiven over a three-year period, beginning in 2016, if the employees remain employed by the Company through the applicable dates. During the year ended December 31, 2016, approximately \$0.2 million were forgiven related to the agreement. All the remaining balances related to these agreements were forgiven in 2017. No amounts were forgiven during the year ended December 31, 2019 or 2018.

In September 2014, the Company entered into an advisory services agreement (the "Consulting Agreement") with its controlling entity. The Consulting Agreement required quarterly payments from September 8, 2014 through December 31, 2018 for business consulting services provided by the controlling entity. Consulting fees from the Consulting Agreement totaled approximately \$1.1 million in the year ended December 31, 2017 and are included in general and administrative expenses on the accompanying consolidated statement of operations. Upon completion of the Company's initial public offering, the Consulting Agreement ceased, and the Company was no longer required to make future payments.

Throughout 2017 the Company engaged in ordinary sales transactions of approximately \$858,000 and purchase transactions of approximately \$942,000 with entities affiliated with its controlling entity. As of August 13, 2018, Thoma Bravo is no longer considered a controlling entity. Sales and purchase transactions were not considered material to the consolidated financial statements from January 1, 2018 through August 13, 2018.

The Company did not have any related party balances or incur any related party transactions as of and during the year ended December 31, 2019.

### **11. Stockholders' Equity**

In November 2017, the board of directors and stockholders approved the Amended and Restated Certificate of Incorporation to increase the authorized capital stock to 310,000,000 shares, consisting of 300,000,000 shares of common stock and 10,000,000 shares of preferred stock, each with par value of \$0.0001 per share.

### ***Common Stock***

The Company's Amended and Restated Certificate of Incorporation authorizes issuance of 300,000,000 shares of common stock with a par value of \$0.0001 per share. The common stock confers upon its holders the right to participate in the general meetings of the Company, to vote at such meetings (each share represents one vote), to elect board members and to participate in any distribution of dividends, payments of the Company's debts, other payments required by law, or other property and amounts payable upon shares of preferred stock, including the distribution of surplus assets upon liquidation equally on a per share basis. The rights of the holders of common stock will be subject to, and may be adversely affected by, the rights of holders of any preferred stock that may be issued in the future.

### ***Preferred Stock***

The company is authorized, subject to any limitations prescribed by law, without stockholder approval, to issue from up to an aggregate of 10,000,000 shares of preferred stock, in one or more series, each series to have such rights, preferences and limitations, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences as determined by the board of directors. As of December 31, 2019, the Company does not have any shares of preferred stock outstanding and currently has no plans to issue shares of preferred stock.

### ***Redeemable Convertible Preferred Stock***

Prior to the November 2017 Amended and Restated Certificate of Incorporation, the Company classified the redeemable convertible preferred stock outside of stockholders' equity (deficit) as required by ASC 480-10-S99 since the shares possessed liquidation features which may have triggered a distribution that was not solely within the Company's control. Pursuant to the Company's Amended and Restated Certificate of Incorporation in effect prior to the IPO, a deemed liquidation event would have occurred upon the closing of the transfer of the Company's securities to a person or a group of affiliated persons, in one or a series of related transactions, if immediately after such transaction, such person or group of affiliated persons would hold 50% or more of the outstanding voting stock of the Company. The holders of a majority of the outstanding preferred stock may elect to require that all or any portion of the preferred stock held by them be redeemed in connection with any of the following (each of which is defined as a "Fundamental Change"): (i) a change in control of the Company, (ii) a sale of 50% or more of the assets of the Company and its subsidiaries, and (iii) a merger or consolidation to which the Company is a party, except for a merger where the Company is the surviving corporation, the terms of the preferred stock are not changed and the preferred stock is not exchanged for cash, securities or other properties, and the holders of a majority of the voting power (with respect to election of directors) of the Company's capital stock immediately prior to the merger shall continue to hold a majority of the voting power following the merger. Upon such election, each other holder of preferred stock may also require that all or any portion of the preferred stock held by them be redeemed in connection with such Fundamental Change.

Upon the closing of the IPO on November 17, 2017, all shares of the Company's outstanding redeemable convertible preferred stock automatically converted into shares of common stock. As of such date, no redeemable convertible preferred stock was authorized or issued and outstanding.

### ***Dividends***

Prior to November 2017, the holders of the Company's redeemable convertible preferred stock were entitled to dividends when and if declared by the board of directors. Dividends were payable in preference and priority to any payment of any dividend on the Company's common stock. Dividends on redeemable convertible preferred stock were cumulative and compounded daily at a rate of 9% per annum, equivalent to \$90 per share of preferred stock. On June 27, 2017, the board of directors declared, and the Company paid, an aggregate cash dividend of approximately \$50.4 million on the issued and outstanding shares of the Company's preferred stock. The accumulated payment was made to eligible stockholders effective through December 15, 2016 and was primarily funded with the proceeds from the financing arrangement as noted in Note 8 "Line of Credit and Long-Term Debt." Upon completing the initial public offering in November 2017, approximately 224,000 shares of redeemable convertible preferred shares, with cumulative undeclared and unpaid dividends of approximately \$22.2 million, were converted to 20,500,400 shares of common stock.



## ***Treasury Stock***

During 2014, the Company entered into "Employee Purchase Agreements" with certain of its employees. Pursuant to the Employee Purchase Agreements, shares issued to the employee can be repurchased when the employee leaves the Company, subject to certain pricing parameters. Any shares purchased have been held in the Company's treasury.

The Company accounts for treasury stock under the cost method and includes treasury stock as a component of stockholders' equity (deficit). During the year ended December 31, 2017, the Company had repurchased approximately 190,000 shares, cumulatively, of its common stock for approximately \$0.5 million, at an average cost of \$2.56 per share, where all repurchased shares of treasury stock were retired. There was no treasury stock activity for the year ended December 31, 2019 or 2018.

## **12. Stock Option Plans and Stock-Based Compensation**

### ***2015 Stock Option Plans***

In 2015, the Company adopted (i) the Amended and Restated 2015 Stock Option and Grant Plan and (ii) the 2015 Stock Incentive Plan (together the "2015 Stock Option Plans") under which it may grant incentive stock options ("ISOs"), nonqualified stock options ("NSOs") for the right to purchase shares of common stock and grant restricted stock units. The 2015 Stock Option Plans reserve 5.0 million shares of common stock for issuance as ISOs, 0.5 million shares of restricted stock and 0.25 million shares for issuance under the 2015 Stock Incentive Plan. Under the 2015 Stock Option Plan, ISOs may not be granted at less than fair market value on the date of the grant and generally vest over a four-year period based on continued service. Options generally expire ten years after the grant date.

As of December 31, 2019, approximately 606,000 shares were available for issuance under the Amended and Restated 2015 Stock Option and Grant Plan. As of December 31, 2019, approximately 92,000 shares were available for issuance under the 2015 Stock Incentive Plan. The Company currently uses authorized and unissued shares to satisfy share award exercises.

### ***2017 Long Term Incentive Plan***

In November 2017, the Company's board of directors adopted the 2017 Long Term Incentive Plan (the "2017 Plan") under which it may grant stock options, nonqualified stock options to purchase shares of common stock and restricted stock units. As of December 31, 2019, the Company had reserved 13.3 million shares of common stock available for issuance under the 2017 Plan to employees, directors, officers and consultants of the Company and its subsidiaries. The number of shares of common stock available for issuance under the 2017 Plan will be increased on each January 1 hereafter by 4.4 million shares of common stock. Options and RSUs granted under the 2017 Plan generally vest over four years. Common stock subject to an award that expires or is canceled, forfeited, exchanged, settled in cash or otherwise terminated without delivery of shares, and shares withheld or surrendered to pay the exercise price of, or to satisfy the withholding obligations with respect to an award, will become available for future grants under the 2017 Plan. As of December 31, 2019, 8.9 million shares were available for issuance under the 2017 Plan. The Company currently uses authorized and unissued shares to satisfy share award exercises.

The fair value for the Company's stock options granted and Employee Stock Purchase Plan (the "ESPP") purchase rights during the years ended December 31, 2019, 2018 and 2017 was estimated at grant date using a Black Scholes option-pricing model with the following assumptions:

	December 31, 2019	Time-Based December 31, 2018	December 31, 2017	Performance-Based December 31, 2017
<b>Stock Options</b>				
Expected dividend rate	0%	0%	0%	0%
Expected volatility	38.8% - 46.0%	40.0% - 46.0%	40.9% - 49.0%	40.9% - 49.0%
Risk-free interest rate	1.39% - 2.59%	2.63% - 2.97%	1.96% - 2.18%	1.96% - 2.18%
Expected term (in years)	6.25	6.25	6.25	5.50 - 6.29
<b>ESPP</b>				
Expected dividend rate	0%	0%	NA	NA
Expected volatility	39.8% - 48.1%	40.0% - 46.0%	NA	NA
Risk-free interest rate	1.62% - 2.44%	2.00% - 2.56%	NA	NA
Expected term (in years)	0.42 - 0.5	0.50	NA	NA



### Stock Options

The following table summarizes activity for time-based stock options during the years ended December 31, 2019, 2018 and 2017:

	Number of Options (In thousands)	Weighted Average Exercise Price (Per share)	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Balances at December 31, 2016	1,622	\$ 2.21	8.9	\$ 1,547
Granted	1,592	\$ 9.54		
Conversion of performance to time based	592	\$ 2.53		
Exercised	(152)	\$ 2.22		
Forfeited	(154)	\$ 2.21		
Balances at December 31, 2017	3,500	\$ 5.43	8.8	\$ 31,784
Options vested and expected to vest at December 31, 2017	3,500	\$ 5.43	8.8	\$ 31,784
Options vested and exercisable at December 31, 2017	927	\$ 2.28	7.9	\$ 11,325
Balances at December 31, 2017	3,500	\$ 5.43	8.8	\$ 31,784
Granted	82	\$ 23.17		
Exercised	(637)	\$ 2.84		
Forfeited	(128)	\$ 3.20		
Balances at December 31, 2018	2,817	\$ 6.64	8.0	\$ 47,589
Options vested and expected to vest at December 31, 2018	2,817	\$ 6.64	8.0	\$ 47,589
Options vested and exercisable at December 31, 2018	1,095	\$ 4.72	7.4	\$ 20,558
Balances at December 31, 2018	2,817	\$ 6.64	8.0	\$ 47,589
Granted	1,068	\$ 26.63		
Exercised	(730)	\$ 4.18		
Forfeited	(369)	\$ 16.31		
Balances at December 31, 2019	2,786	\$ 13.67	7.7	\$ 31,489
Options vested and expected to vest at December 31, 2019	2,786	\$ 13.67	7.7	\$ 31,489
Options vested and exercisable at December 31, 2019	1,143	\$ 6.17	6.4	\$ 19,964

The following table summarizes the status of the Company's non-vested time-based vesting stock options for the years ended December 31, 2019, 2018 and 2017:

	Number of Shares (In thousands)	Weighted Average Grant Date Fair Value (Per share)
Non-vested at December 31, 2016	1,217	\$ 1.05
Granted	1,592	\$ 4.13
Conversion of performance to time based	323	\$ 11.95
Vested	(438)	\$ 1.04
Forfeited	(111)	\$ 1.07
Non-vested at December 31, 2017	2,583	\$ 4.32
Granted	83	\$ 10.35
Vested	(816)	\$ 2.99
Forfeited	(122)	\$ 2.32
Non-vested at December 31, 2018	1,728	\$ 5.47
Granted	1,068	\$ 11.36
Vested	(781)	\$ 5.35
Forfeited	(370)	\$ 7.60
Non-vested at December 31, 2019	1,645	\$ 8.88

The Company expects all outstanding stock options at December 31, 2019 to fully vest. During the year ended December 31, 2019, approximately \$0.5 million of vested stock options were forfeited related to the resignations of key executives. The weighted average grant date fair value per share for options granted during the years ended December 31, 2019, 2018 and 2017 was \$11.36, \$10.35 and \$4.32, respectively. The total fair value of shares vested during the years ended December 31, 2019, 2018 and 2017 was approximately \$4.2 million, \$2.4 million and \$0.3 million, respectively.

The total unrecognized compensation expense related to non-vested time-based vesting stock options granted is \$11.9 million and is expected to be recognized over a weighted average period of 2.5 years as of December 31, 2019. During the year ended December 31, 2019, approximately \$1.9 million of unrecognized compensation expense related to non-vested stock options was forfeited related to the resignation of key executives.

The following table summarizes activity of performance vesting stock options for the year ended December 31, 2017. There was no activity of performance vesting stock options for the year ended December 31, 2019 or 2018 as all performance vesting options were modified to become service-based vesting stock options during the fourth quarter of 2017.

	Number of Options (In thousands)	Weighted Average Exercise Price (Per share)	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Balances at December 31, 2016	413	\$ 2.19	8.9	\$ 402
Granted	187	\$ 3.27		
Exercised	(8)	\$ 2.38		\$ 101
Conversion of shares	(592)	\$ 2.53	8.5	
Options vested and expected to vest at December 31, 2017	—	\$ —	—	\$ —
Options vested and exercisable at December 31, 2017	—	\$ —	—	\$ —

The performance vesting stock options are subject to performance requirements, determined prior to the grant date, based on the Company meeting certain annual earnings before interest, taxes, depreciation and amortization, (“EBITDA”) targets as set by the board of directors for the applicable years. During the year ended December 31, 2017, the board of directors waived the EBITDA criteria associated with the annual tranche of performance vesting stock options resulting in a modification. These modifications resulted in an immaterial amount of incremental stock-based compensation expense for the year ended December 31, 2017.

During the fourth quarter of 2017, all performance vesting options were modified to become time vesting stock options. No other terms of the options were modified. This modification resulted in an immaterial amount of incremental stock compensation expense for the year ended December 31, 2017. Additional stock compensation expense recognized in 2019 and 2018 as a result of this modification is included within the time-based stock options summary table disclosed above.

### *Incentive Unit Plan*

In 2014 and 2015, the Company granted shares of the Company’s common stock (the “incentive units”) to certain members of management pursuant to restricted stock agreements (the “RSAs”).

The incentive units were granted with an exercise price equal to the fair market value on the date of grant, are subject to vesting, and if exercised in advance of vesting were subject to the Company’s right to repurchase until vested. Upon vesting, the incentive units automatically convert to common stock. 50% of incentive units granted to executives vest based on performance meeting or exceeding EBITDA targets, as defined in the RSAs. Incentive units granted to non-executives and the remaining 50% of incentive units granted to executives vest 25% on the first anniversary date of the grant, and ratably over the remaining three years. The graded-vesting attribution method is used by the Company to determine the monthly stock-based compensation expense over the applicable vesting periods.

During the year ended December 31, 2017, the board of directors waived the EBITDA criteria and performance vesting criteria resulting in incremental stock-based compensation expense of \$3.0 million. There were no material modifications during the year ended December 31, 2019 or 2018.

The company did not grant any additional incentive units during the year ended December 31, 2019 or 2018. During the years ended December 31, 2018 and 2017, 1.5 million and 1.8 million incentive units were vested with a weighted average grant date fair value of \$0.05 per share, respectively. During 2019, all of the remaining 0.7 million incentive units were vested with a weighted average grant date fair value of \$0.05 per share. Therefore, as of December 31, 2019, there is no further unrecognized compensation expense or intrinsic value related to non-vested incentive units. The total intrinsic value of units unvested as of December 31, 2018 and 2017 was \$17.0 million and \$32.5 million, respectively.

### ***Restricted Stock Units***

The following provides a summary of the RSU activity for the Company for the years ended December 31, 2019, 2018 and 2017:

	Number of Shares (In thousands)	Weighted Average Grant Date Fair Value (Per share)	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Balances at December 31, 2016	—	\$ —	—	\$ —
Granted	897	\$ 12.18		
Vested	—	\$ —		
Forfeited	—	\$ —		
Balances at December 31, 2017	897	\$ 12.18	9.9	\$ 186
Units expected to vest at December 31, 2017	897	\$ 12.18	9.9	\$ 186
Balances at December 31, 2017	897	\$ 12.18	9.9	\$ 186
Granted	577	\$ 19.30		
Vested	(271)	\$ 12.61		
Forfeited	(55)	\$ 17.58		
Balances at December 31, 2018	1,148	\$ 15.40	1.8	\$ 26,967
Units expected to vest at December 31, 2018	1,148	\$ 15.40	1.8	\$ 26,967
Balances at December 31, 2018	1,148	\$ 15.40	1.8	\$ 26,967
Granted	1,363	\$ 27.22		
Vested	(336)	\$ 15.94		
Forfeited	(294)	\$ 20.47		
Balances at December 31, 2019	1,881	\$ 23.08	1.6	\$ 44,386
Units expected to vest at December 31, 2019	1,881	\$ 23.08	1.6	\$ 44,386

The Company expects all outstanding RSUs to fully vest. During the year ended December 31, 2019, approximately \$0.4 million of vested RSUs were forfeited related to the resignations of key executives. Additionally, during the year ended December 31, 2019, the board of directors approved accelerated vesting of RSUs for an exiting board member that resulted in a modification and an immaterial decrease in stock-based compensation expense.

The total unrecognized compensation expense related to RSUs was \$35.3 million as of December 31, 2019 and is expected to be recognized over a weighted average period of 2.8 years. During the year ended December 31, 2019, approximately \$2.2 million of unrecognized compensation expense related to non-vested RSUs was forfeited related to the resignations of key executives.

### ***Employee Stock Purchase Plan***

The Company initially reserved 1.8 million shares of common stock for issuance under the ESPP. The number of shares available for issuance under the ESPP will increase each January 1 beginning in 2019 by 0.9 million shares of common stock. The ESPP will continue in effect unless terminated prior thereto by the Company's board of directors or compensation committee, each of which has the right to terminate the ESPP at any time. As of December 31, 2019, approximately 2.1 million shares were available for issuance under the ESPP Plan.

During the years ended December 31, 2019 and 2018, approximately 0.4 million and 0.2 million shares of common stock have been purchased or distributed pursuant to the ESPP.

A summary of the Company's stock-based compensation expense, which includes stock options, incentive units, RSUs and the ESPP is presented below:

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Stock options	\$ 4,958	\$ 3,943	\$ 1,011
Incentive units	351	8,582	3,185
RSUs	11,213	5,352	318
ESPP	2,192	1,098	—
Total stock-based compensation expense	<u>\$ 18,714</u>	<u>\$ 18,975</u>	<u>\$ 4,514</u>

A summary of the Company's stock-based compensation expense as recognized on the consolidated statements of operations is presented below:

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Cost of revenue - subscription	\$ 1,142	\$ 945	\$ 133
Cost of revenue - services and other	1,379	1,504	458
Research and development	3,517	3,026	658
General and administrative	5,990	7,798	2,062
Sales and marketing	6,686	5,702	1,203
Total stock-based compensation expense	<u>\$ 18,714</u>	<u>\$ 18,975</u>	<u>\$ 4,514</u>

### 13. Balance Sheet Related Items

#### Property and Equipment, Net

The cost and accumulated depreciation of property and equipment are as follows:

	As of December 31,	
	2019	2018
	(In thousands)	
Computer equipment	\$ 10,453	\$ 6,968
Buildout in progress	—	15,295
Furniture and fixtures	4,218	138
Leasehold improvements	13,807	726
Other	1,337	354
Total property and equipment	29,815	23,481
Less: accumulated depreciation	(8,515)	(4,213)
Total property and equipment, net	<u>\$ 21,300</u>	<u>\$ 19,268</u>

Depreciation expense was \$5.0 million, \$1.9 million and \$1.4 million for the years ended December 31, 2019, 2018 and 2017, respectively. There were no impairments of our property and equipment for the years ended December 31, 2019, 2018 and 2017. During the year ended December 31, 2019, we completed the build out of our Company's corporate headquarters resulting in material additions primarily to furniture and fixtures and leasehold improvements.

### Prepayments and Other Current Assets and Other Non-Current Assets

Prepayments and other current assets and other non-current assets include the balance of prepaid expenses, deferred contract acquisition costs, contract assets and other assets. The current portion of these assets is included in prepayments and other current assets and the non-current portion is included in other non-current assets, both of which are contained within the accompanying consolidated balance sheets. Certain balance sheet items as of December 31, 2018 were revised to be comparable with current period.

Prepayments and other current assets consisted of the following:

	As of December 31,	
	2019	2018
	(In thousands)	
Deferred contract acquisition costs, current	\$ 10,905	\$ 8,392
Prepaid expenses	11,874	9,437
Contract assets	2,955	2,464
Other	2,136	1,557
Total prepayments and other current assets	<u>\$ 27,870</u>	<u>\$ 21,850</u>

Other non-current assets consisted of the following:

	As of December 31,	
	2019	2018
	(In thousands)	
Deferred contract acquisition costs, non-current	\$ 24,247	\$ 19,651
Prepaid expenses	350	276
Contract assets	4,996	84
Other	961	363
Total other non-current assets	<u>\$ 30,554</u>	<u>\$ 20,374</u>

### Accrued Expenses and Other Liabilities

Accrued expenses and other liabilities consisted of the following:

	As of December 31,	
	2019	2018
	(In thousands)	
Commissions	\$ 9,611	\$ 7,731
Bonus	12,273	4,829
Operating lease liabilities - current	3,951	—
Payroll and related benefits	3,421	2,209
Indemnification holdbacks	2,500	—
Sales and other taxes	1,538	2,798
Other	6,920	4,164
Total accrued expenses and other liabilities	<u>\$ 40,214</u>	<u>\$ 21,731</u>

## 14. Income Taxes

### *Tax Cuts and Jobs Act*

The Tax Cuts and Jobs Act (“TCJA”) was enacted in December 2017. The TCJA significantly changes U.S. tax law by, among other things, lowering U.S. corporate income tax rates. The TCJA reduces the U.S. federal corporate income tax rate from 35% to 21%, effective January 1, 2018.

### *GILTI Tax*

While the Tax Act provides for a modified territorial tax system, beginning in 2018, global intangible low-taxed income (“GILTI”) provisions will be applied providing an incremental tax on low taxed foreign income. The GILTI provisions require us to include in our U.S. income tax return foreign subsidiary earnings in excess of an allowable return on the foreign subsidiary’s tangible assets. For the year ended December 31, 2019 and 2018, the Company determined it was in an aggregated net loss position with respect to its controlled foreign corporations. Thus, there is no GILTI tax liability as of December 31, 2019 or 2018.

### *Income Taxes*

Provision for income taxes consists of U.S. and state income taxes and income taxes in certain foreign jurisdictions in which the Company conducts business. With the previous adoption of ASC 606 in 2018, the Company is in a deferred tax liability position and no longer requires a valuation allowance. The Company still maintains a full valuation allowance for our Israel tax position due to the lack of taxable earnings for the foreseeable future.

The following table presents consolidated income (loss) before income taxes as follows:

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Domestic	\$ (11,289)	\$ 6,951	\$ (2,780)
Foreign	(1,799)	(2,191)	(2,519)
<b>Total income (loss) before income taxes</b>	<b>\$ (13,088)</b>	<b>\$ 4,760</b>	<b>\$ (5,299)</b>

The provision (benefit) for income taxes consisted of:

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Current			
Federal	\$ —	\$ —	\$ 293
State	845	630	189
Foreign	1,820	1,740	1,997
Total current	2,665	2,370	2,479
Deferred			
Federal	(5,731)	(699)	(293)
State	(1,354)	(581)	202
Foreign	(168)	—	(95)
Total deferred	(7,253)	(1,280)	(186)
<b>Provision (benefit) for income taxes</b>	<b>\$ (4,588)</b>	<b>\$ 1,090</b>	<b>\$ 2,293</b>



Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred taxes are as follows:

	As of December 31,	
	2019	2018
	(In thousands)	
Deferred tax assets:		
Research and development and other credits	\$ 6,848	\$ 4,461
Net operating loss carryforward	9,609	8,147
Deferred revenue	7,853	4,747
Stock compensation	2,826	1,046
Leases	2,300	—
Accrued expenses	2,605	1,182
Depreciable and amortizable assets	—	54
Other	528	95
Total deferred tax assets	32,569	19,732
Deferred tax liabilities:		
Depreciable and amortizable assets	(2,973)	—
Prepaid expenses	(7,382)	(5,889)
Convertible senior notes	(9,975)	—
Intangibles	(16,687)	(15,280)
Total deferred tax liability, net	(4,448)	(1,437)
Less valuation allowance for deferred tax assets	(4,452)	(2,705)
<b>Net deferred tax liability</b>	<b>\$ (8,900)</b>	<b>\$ (4,142)</b>

As of December 31, 2019 and 2018, the Company had federal net operating loss carryforwards of approximately \$24.2 million and \$23.2 million, respectively, and research and development credits of approximately \$7.7 million and \$5.3 million, respectively, which will begin to expire beginning in 2034 and 2025, respectively, if not utilized prior to that time. While the TCJA changed the net operating loss carryforward from 20 years to indefinitely, the Company has pre-TCJA net operating losses that are subject to the 20-year limitation. Utilization of the net operating loss and research and development credit carryforwards is subject to an annual limitation due to the "change in ownership" provisions of the Internal Revenue Code. However, management has determined via a formal analysis that the annual limitation will not result in the expiration of net operating loss and research credit carryforwards prior to utilization.

As of December 31, 2019 and 2018, the Company's gross deferred tax assets exceeded the Company's reversing taxable temporary differences in Israel. Given the Company's lack of earnings history in Israel, management determined it was not more likely than not that the benefit of the Company's gross deferred tax assets that exceeded its reversing taxable temporary differences would be realized. Thus, a valuation allowance totaling \$4.5 million and \$2.7 million was recorded as of December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, the Company's U.S. reversing taxable temporary differences exceeded the Company's U.S. gross deferred tax assets. As a result, management determined at December 31, 2019 and 2018, that it was more likely than not that the benefit of the Company's U.S. gross deferred tax assets would be realized. Thus, no valuation allowance was recorded as of December 31, 2019 or 2018 against the Company's U.S. gross deferred tax assets.

The following table reconciles the Company's effective tax rate to the federal statutory tax rate:

	Year Ended December 31,		
	2019	2018	2017
U.S. federal taxes at statutory rate	21.0%	21.0%	34.0%
State taxes, net of federal benefit	3.6	9.6	(4.0)
Foreign tax rate differentials	(7.6)	16.7	(9.1)
Research and development credit	18.7	(26.2)	17.8
Foreign tax credit	—	—	18.3
Amended federal return due to law change	—	(18.8)	—
Stock options	16.9	(0.1)	(23.6)
Permanent differences and other	(5.2)	3.8	(14.4)
Change in state rate	—	—	(1.9)
Change in valuation allowance due to operations	(11.3)	21.1	(58.4)
Other	(1.0)	(4.2)	(2.0)
<b>Total</b>	<b>35.1%</b>	<b>22.9%</b>	<b>(43.3)%</b>

The reconciliation of unrecognized tax benefits is as follows:

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
<b>Beginning Balance</b>	\$ 2,287	\$ 1,863	\$ 883
Additions (reductions) based on tax positions related to prior year	(204)	(263)	507
Additions based on tax positions related to current year	224	687	473
<b>Ending Balance</b>	<b>\$ 2,307</b>	<b>\$ 2,287</b>	<b>\$ 1,863</b>

Included in the balance of unrecognized tax benefits as of December 31, 2019, 2018 and 2017 is \$2.3 million, \$2.3 million and \$1.9 million, respectively, of tax benefits that, if recognized, would affect the Company's effective tax rate.

The Company's practice is to recognize interest and/or penalties related to income tax matters in income tax expense. During the years ended December 31, 2019, 2018 and 2017 the Company did not record any material interest or penalties.

The Company files income tax returns in the U.S. federal, states, and foreign jurisdictions. The Company is no longer subject to U.S. federal income tax examinations for years before 2016 and is no longer subject to state, local and foreign income tax examinations by tax authorities for years before 2015. The Company is not currently under audit for federal or state jurisdiction. The Company has an on-going audit related to Israel. Based on the progress of the audit, the Company feels its current uncertain tax liability with respect to its tax positions in Israel sufficiently covers potential assessments.

## 15. Net Income (Loss) Per Share Attributable to Common Stockholders

Basic and diluted net income (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using our weighted average outstanding common shares including the dilutive effect of stock awards. In periods when the Company recognizes a net loss, the Company excludes the impact of outstanding stock awards from the diluted loss per share calculation as their inclusion would have an anti-dilutive effect.

The following table sets forth the calculation of basic and diluted net income (loss) per share during the periods presented:

	Year Ended December 31,		
	2019	2018	2017 <sup>(1)</sup>
	(In thousands, except per share data)		
Numerator:			
Net income (loss)	\$ (8,500)	\$ 3,670	\$ (7,592)
Deemed dividends to preferred stockholders	—	—	(21,129)
Earnings allocated to participating securities	—	(29)	—
Net income (loss) available to common stockholders	\$ (8,500)	\$ 3,641	\$ (28,721)
Denominator			
Weighted average shares outstanding			
Basic	88,907	86,495	52,340
Diluted	88,907	90,003	52,340
Net income (loss) attributable to common stockholders per share			
Basic	\$ (0.10)	\$ 0.04	\$ (0.55)
Diluted	\$ (0.10)	\$ 0.04	\$ (0.55)

- (1) The comparative information for 2017 has not been adjusted to reflect the adoption of the revised revenue recognition standard and is reported on an ASC 605 basis. See Note 3 “Revenue Recognition” of our 2018 Annual Report for additional information related to our adoption of the revised revenue recognition standard (ASC 606).

The following weighted average outstanding shares of common stock equivalents were excluded from the computation of the diluted net income (loss) per share attributable to common stockholders for the periods presented because their effect would have been anti-dilutive:

	Year Ended December 31,		
	2019	2018	2017
	(In thousands)		
Stock options to purchase common stock	3,037	36	2,402
Non-vested incentive units	—	—	2,915
RSUs issued and outstanding	1,899	13	105
ESPP	15	—	—
Total	4,951	49	5,422

As we expect to settle the principal amount of the Notes in cash and any excess in shares of the Company's common stock, the Company uses the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted net income per share, if applicable. The conversion spread of approximately 14.1 million shares will have a dilutive impact on diluted net income per share of common stock when the average market price of our common stock for a given period exceeds the conversion price of \$28.42 per share.

## 16. Geographic Information and Major Customers

ASC 280, "Segment Reporting", establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision makers in deciding how to allocate resources and in assessing performance. The Company manages its business on the basis of one reportable segment, and derives revenues from licensing of software, sale of professional services, maintenance and technical support. The following are a summary of consolidated revenues within geographic areas:

	Year Ended December 31,		
	2019	2018	2017 <sup>(1)</sup>
	(In thousands)		
United States	\$ 204,500	\$ 171,497	\$ 134,676
EMEA <sup>(2)</sup>	54,315	49,871	33,097
Rest of the World <sup>(2)</sup>	29,700	27,552	18,283
Total revenue	<u>\$ 288,515</u>	<u>\$ 248,920</u>	<u>\$ 186,056</u>

- (1) The comparative information for 2017 has not been adjusted to reflect the adoption of the revised revenue recognition standard and is reported in accordance with ASC 605. See Note 3 "Revenue Recognition" of our 2018 Annual Report for additional information related to our adoption of the revised revenue recognition standard (ASC 606).
- (2) No single country represented more than 10% of our consolidated revenue.

## 17. Employee Benefit Plans

The Company has established a defined contribution savings plan under Section 401(k) of the Internal Revenue Code (the "401(k) Plan"). The 401(k) Plan covers substantially all employees who meet minimum age and service requirements and allows participants to defer a percentage of their annual compensation as defined in the 401(k) Plan. To date, the Company has made no contributions to the 401(k) Plan.

## **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None

### **Item 9A. Controls and Procedures**

#### ***Evaluation of Disclosure Controls and Procedures***

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC and to ensure that information required to be disclosed is accumulated and communicated to management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), to allow timely decisions regarding disclosure. Our CEO and CFO, with assistance from other members of management, have reviewed the effectiveness of our disclosure controls and procedures as of December 31, 2019 and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

#### ***Management’s Report on Internal Control over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the presentation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

In connection with the preparation of this Annual Report on Form 10-K, our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control—Integrated Framework (2013 framework). Based on such assessment, our management concluded that, as of December 31, 2019, our internal control over financial reporting was effective based on those criteria.

Grant Thornton LLP, an independent registered public accounting firm, issued an attestation report on our internal control over financial reporting. This report is included within Item 8 of Part II of this Annual Report on Form 10-K under the heading “Report of Independent Registered Public Accounting Firm.”

#### ***Changes in Internal Control over Financial Reporting***

We completed the implementation and testing of significant changes to our internal control over financial reporting during the quarter and year ended December 31, 2019 to strengthen and improve our overall internal control structure. The changes to our internal control over financial reporting include the following:

- Completing a robust review of internal controls to strengthen documentation, validate processes, and communicate accountability for performance of internal control related responsibilities.
- Enhancing the breadth and depth of the review of revenue transactions and underlying transactional support to ensure that the sufficient level of precision and documentation exists when determining revenue recognition.
- Adopting and implementing Accounting Standard Codification 842, *Leases*, (“ASC 842”) and simultaneously enhancing disclosure controls, procedures and internal controls over financial reporting by strengthening the level of precision of documentation.
- Designing and implementing internal controls over the accounting, documentation and reporting for certain complex, non-routine transactions, such as the issuance of our convertible senior notes, business combinations and equity compensation.
- Hiring and developing additional finance and accounting personnel with the requisite experience and skills to maintain and improve our processes, procedures and internal control environment.

We believe that we have designed, implemented and evaluated the processes, procedures and controls necessary to conclude that the material weaknesses identified in our Annual Report on Form 10-K filed for the year ended December 31, 2018 have been remediated.

Except as noted in the preceding paragraphs, there were no changes in the Company's internal control over financial reporting as defined in Exchange Act Rule 13a-15(d) and 15d-15(d) during our quarter ended December 31, 2019 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

None



## **PART III**

### **Item 10. Directors, Executive Officers and Corporate Governance**

The information called for by this item will be included in our definitive proxy statement with respect to our 2020 Annual Meeting of Stockholders to be filed with the SEC and is incorporated herein by reference.

### **Item 11. Executive Compensation**

The information called for by this item will be included in our definitive proxy statement with respect to our 2020 Annual Meeting of Stockholders to be filed with the SEC and is incorporated herein by reference.

### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information called for by this item will be included in our definitive proxy statement with respect to our 2020 Annual Meeting of Stockholders to be filed with the SEC and is incorporated herein by reference.

### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information called for by this item will be included in our definitive proxy statement with respect to our 2020 Annual Meeting of Stockholders to be filed with the SEC and is incorporated herein by reference.

### **Item 14. Principal Accounting Fees and Services**

The information called for by this item will be included in our definitive proxy statement with respect to our 2020 Annual Meeting of Stockholders to be filed with the SEC and is incorporated herein by reference.

## PART IV

### Item 15. Exhibits, Financial Statement Schedules.

(a) The following documents are filed as part of this Annual Report on Form 10-K:

#### 1. Financial Statements

<u>Report of Grant Thornton, Independent Registered Public Accounting Firm</u>	63
<u>Consolidated Balance Sheets as of December 31, 2019 and 2018</u>	67
<u>Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017</u>	68
<u>Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit) for the years ended December 31, 2019, 2018 and 2017</u>	69
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017</u>	70
<u>Notes to Consolidated Financial Statements</u>	71

#### 2. Financial Statement Schedules

All schedules have been omitted as they are either not required or not applicable or the required information is included in the Consolidated Financial Statements or notes thereto.

#### 3. See Item 15(b)

#### (b) Exhibits:

## Exhibit Index

Exhibit Number	Description
2.1***	<u>Agreement and Plan of Merger, by and among SailPoint Technologies, Inc., Whaler Merger Sub, Inc., Orkus, Inc., and Aspect Ventures II, L.P., dated as of October 7, 2019 (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K (File No. 001-38297), filed with the Securities and Exchange Commission on October 16, 2019).</u>
2.2***	<u>Agreement and Plan of Merger, by and among SailPoint Technologies, Inc., Osprey Merger Sub, Inc., Overwatch.ID, Inc., and Shareholder Representative Services LLC, dated as of October 10, 2019 (incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K (File No. 001-38297), filed with the Securities and Exchange Commission on October 16, 2019).</u>
3.1	<u>Third Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017 (File No. 001-38297)).</u>
3.2	<u>Second Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017 (File No. 001-38297)).</u>
4.1	<u>Form of common stock certificate of the Company (incorporated by reference to Exhibit 4.1 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on November 6, 2017).</u>
4.2	<u>Indenture, dated as of September 24, 2019, between SailPoint Technologies Holdings, Inc. and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 001-38297), filed with the Securities and Exchange Commission on September 25, 2019).</u>
4.3	<u>Form of 0.125% Convertible Senior Notes due 2024 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 001-38297), filed with the Securities and Exchange Commission on September 25, 2019).</u>
4.4*	<u>Description of Securities of the Company.</u>
10.1	<u>Lease, dated October 2, 2017, by and between BDN Four Points Land LP and SailPoint Technologies, Inc. (incorporated by reference to Exhibit 10.24 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on October 20, 2017).</u>
10.2+	<u>Form of Indemnification Agreement between the Company and each of its directors and executive officers (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on October 20, 2017).</u>
10.3+	<u>SailPoint Technologies Holdings, Inc. 2017 Long Term Incentive Plan. (incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 (File No. 333-221679), filed with the Securities and Exchange Commission on May 21, 2018).</u>
10.4+	<u>Form of Notice of Grant of Stock Option under the SailPoint Technologies Holdings, Inc. 2017 Long Term Incentive Plan (incorporated by reference to Exhibit 10.6 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on November 6, 2017).</u>

<b>Exhibit Number</b>	<b>Description</b>
10.5+	<u>Form of Stock Option Agreement under the SailPoint Technologies Holdings, Inc. 2017 Long Term Incentive Plan (incorporated by reference to Exhibit 10.8 the Company's Annual Report on Form 10-K for the year ended December 31, 2018 (File No. 001-38297)).</u>
10.6+	<u>Form of Notice of Stock Option Exercise under the SailPoint Technologies Holdings, Inc. 2017 Long Term Incentive Plan (incorporated by reference to Exhibit 10.8 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on November 6, 2017).</u>
10.7+	<u>Form of Notice of Grant of Restricted Stock Units under the SailPoint Technologies Holdings, Inc. 2017 Long Term Incentive Plan (incorporated by reference to Exhibit 10.9 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on November 6, 2017).</u>
10.8+	<u>Form of Restricted Stock Unit Agreement under the SailPoint Technologies Holdings, Inc. 2017 Long Term Incentive Plan (incorporated by reference to Exhibit 10.11 the Company's Annual Report on Form 10-K for the year ended December 31, 2018 (File No. 001-38297)).</u>
10.9+	<u>Amended and Restated Senior Management and Restricted Stock Agreement, dated November 5, 2017, by and among SailPoint Technologies Holdings, Inc., SailPoint Technologies, Inc. and Mark McClain (incorporated by reference to Exhibit 10.12 to Amendment No. 3 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on November 14, 2017).</u>
10.10+	<u>Amendment No. 1 to Amended and Restated Senior Management and Restricted Stock Agreement, dated as of April 2, 2019, by and among the Company, SailPoint Technologies, Inc. and Mark McClain (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 (File No. 001-38297)).</u>
10.11+	<u>Offer Letter, dated February 21, 2011, by and between SailPoint Technologies, Inc. and Cam McMartin (incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017 (File No. 001-38297)).</u>
10.12+	<u>Offer Letter, dated July 2, 2015, by and between SailPoint Technologies, Inc. and Juliette Rizkallah (incorporated by reference to Exhibit 10.15 the Company's Annual Report on Form 10-K for the year ended December 31, 2018 (File No. 001-38297)).</u>
10.13+	<u>Offer Letter, dated November 19, 2018, by and between SailPoint Technologies, Inc. and Andrew Kahl (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 2018 (File No. 001-38297)).</u>
10.14+	<u>Form of Amended and Restated Restricted Stock Agreement by and among SailPoint Technologies Holdings, Inc. and [Purchaser] (incorporated by reference to Exhibit 10.19 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017 (File No. 001-38297)).</u>
10.15+	<u>Form of Early Exercise Incentive Stock Option Agreement under the SailPoint Technologies, Holdings, Inc. Amended and Restated 2015 Stock Option Plan (incorporated by reference to Exhibit 10.17 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on November 6, 2017).</u>
10.16+	<u>Sales Incentive Plan (incorporated by reference to Exhibit 10.18 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on November 6, 2017).</u>
10.17+	<u>SailPoint Technologies Holdings, Inc. Amended and Restated 2015 Stock Option and Grant Plan (incorporated by reference to Exhibit 10.19 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on November 6, 2017).</u>

<b>Exhibit Number</b>	<b>Description</b>
10.18+	<u>Form of Non-qualified Stock Option Agreement under the SailPoint Technologies Holdings, Inc. 2015 Stock Option and Grant Plan (Time and Performance Vesting) (incorporated by reference to Exhibit 10.20 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on November 6, 2017).</u>
10.19+	<u>Form of Non-qualified Stock Option Agreement under the SailPoint Technologies Holdings, Inc. 2015 Stock Option and Grant Plan (Time-Based Vesting) (incorporated by reference to Exhibit 10.25 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on November 6, 2017).</u>
10.20+	<u>Form of Incentive Stock Option Agreement under the SailPoint Technologies Holdings, Inc. 2015 Stock Option and Grant Plan (Time and Performance Vesting) (incorporated by reference to Exhibit 10.26 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on November 6, 2017).</u>
10.21+	<u>Form of Incentive Stock Option Agreement under the SailPoint Technologies Holdings, Inc. 2015 Stock Option and Grant Plan (Time-Based Vesting) (incorporated by reference to Exhibit 10.27 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on November 6, 2017).</u>
10.22+	<u>Form of Restricted Stock Agreement under the SailPoint Technologies Holdings, Inc. 2015 Stock Option and Grant Plan (Time and Performance Vesting) (incorporated by reference to Exhibit 10.28 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on November 6, 2017).</u>
10.23+	<u>Form of Restricted Stock Agreement under the SailPoint Technologies Holdings, Inc. 2015 Stock Option and Grant Plan (Time-Based Vesting) (incorporated by reference to Exhibit 10.29 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on November 6, 2017).</u>
10.24+	<u>SailPoint Technologies Holdings, Inc. 2015 Stock Incentive Plan (incorporated by reference to Exhibit 10.30 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on November 6, 2017).</u>
10.25+	<u>Form of Notice of Option Grant under the SailPoint Technologies Holdings, Inc. 2015 Stock Incentive Plan (incorporated by reference to Exhibit 10.31 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on November 6, 2017).</u>
10.26+	<u>Form of Notice of Grant of Restricted Share Units under the SailPoint Technologies Holdings, Inc. 2015 Stock Incentive Plan (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K for the year ended December 31, 2018 (File No. 001-38297)).</u>
10.27+	<u>Form of Restricted Share Unit Agreement under the SailPoint Technologies Holdings, Inc. 2015 Stock Incentive Plan (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K for the year ended December 31, 2018 (File No. 001-38297)).</u>
10.28+	<u>Form of SailPoint Technologies Holdings, Inc. Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.32 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on May 21, 2018).</u>
10.29+	<u>Form of Employee Co-Invest Stock Purchase Agreement (incorporated by reference to Exhibit 10.33 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on November 6, 2017).</u>

<b>Exhibit Number</b>	<b>Description</b>
10.30+	<u>Form of Director Purchase Agreement (incorporated by reference to Exhibit 10.34 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on November 6, 2017).</u>
10.31+	<u>Form of Notice of Grant of Restricted Stock Units (Non-Employee Directors) under the SailPoint Technologies Holdings, Inc. 2017 Long Term Incentive Plan (incorporated by reference to Exhibit 10.35 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on November 6, 2017).</u>
10.32+	<u>Form of Restricted Stock Unit Agreement (Non-Employee Directors) under the SailPoint Technologies Holdings, Inc. 2017 Long Term Incentive Plan (incorporated by reference to Exhibit 10.36 to Amendment No. 2 to the Company's Registration Statement on Form S-1 (File No. 333-221036), filed with the Securities and Exchange Commission on November 6, 2017).</u>
10.33+	<u>Summary of Non-Employee Director Compensation (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (File No. 001-38297)).</u>
10.34+	<u>SailPoint Technologies Holdings, Inc. Severance Pay Plan, dated November 6, 2018 (incorporated by reference to Exhibit 10.37 to the Company's Annual Report on Form 10-K for the year ended December 31, 2018 (File No. 001-38297)).</u>
10.35	<u>Credit Agreement, dated as of March 11, 2019, among the Company, SailPoint Technologies, Inc., the other loan parties party thereto, the lenders party thereto, Citibank, N.A., as administrative agent, sole lead arranger and sole bookrunner, and Royal Bank of Canada and Bank of America, N.A., as co-documentation agents (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-38297), filed with the Securities and Exchange Commission on March 15, 2019).</u>
10.36	<u>Amendment No. 1 to Credit Agreement, dated as of September 18, 2019, among the Company, SailPoint Technologies, Inc., the other loan parties party thereto, the lenders party thereto, Citibank, N.A., as administrative agent, and certain lenders party thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-38297), filed with the Securities and Exchange Commission on September 18, 2019).</u>
10.37	<u>Purchase Agreement, dated September 19, 2019, between SailPoint Technologies Holdings, Inc. and Morgan Stanley &amp; Co. LLC and Citigroup Global Markets Inc., as representative of the several initial purchasers named in Schedule I attached thereto (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-38297), filed with the Securities and Exchange Commission on September 25, 2019).</u>
10.38	<u>Form of Capped Call Confirmation (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K (File No. 001-38297), filed with the Securities and Exchange Commission on September 25, 2019).</u>
10.39+	<u>Separation Agreement, dated April 19, 2019, by and between SailPoint Technologies, Inc. and Howard Greenfield (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 (File No. 001-38297)).</u>
10.40+	<u>Offer Letter, dated May 3, 2019, by and between SailPoint Technologies, Inc. and Jason Ream (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 (File No. 001-38297)).</u>
10.41+	<u>Offer Letter, dated August 19, 2019, by and between SailPoint Technologies, Inc. and Matt Mills (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019 (File No. 001-38297)).</u>
10.42+*	<u>Separation Agreement, dated November 27, 2019, by and between SailPoint Technologies, Inc. and Cam McMartin.</u>



<b>Exhibit Number</b>	<b>Description</b>
21.1*	<u>List of subsidiaries of the Company.</u>
23.1*	<u>Consent of Grant Thornton LLP, independent registered public accounting firm.</u>
31.1*	<u>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.</u>
31.2*	<u>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.</u>
32.1**	<u>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.</u>
32.2**	<u>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.</u>
101.INS*	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)
* Filed herewith.	
** Furnished herewith (such certification shall not be deemed “filed” for purposes of Section 18 of the Exchange Act, except to the extent that the Company specifically incorporates it by reference).	
*** Certain schedules and exhibits have been omitted in accordance with Item 601(a)(5) of Regulation S-K. A copy of any omitted schedule and/or exhibit will be furnished to the Securities and Exchange Commission on request.	
+ Management contract or compensatory plan or arrangement.	

#### **Item 16. Form 10-K Summary**

None.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### SailPoint Technologies Holdings, Inc.,

Date: February 24, 2020

By: /s/ Mark McClain  
**Mark McClain**  
**Chief Executive Officer and Director**

Date: February 24, 2020

By: /s/ Jason Ream  
**Jason Ream**  
**Chief Financial Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Name	Title	Date
<u>/s/ Mark McClain</u> <b>Mark McClain</b>	Chief Executive Officer and Director (Principal Executive Officer)	February 24, 2020
<u>/s/ Jason Ream</u> <b>Jason Ream</b>	Chief Financial Officer (Principal Financial Officer)	February 24, 2020
<u>/s/ Eric Domagalski</u> <b>Eric Domagalski</b>	Chief Accounting Officer (Principal Accounting Officer)	February 24, 2020
<u>/s/ William Gregory Bock</u> <b>William Gregory Bock</b>	Director	February 24, 2020
<u>/s/ Cam McMartin</u> <b>Cam McMartin</b>	Director	February 24, 2020
<u>/s/ Heidi Melin</u> <b>Heidi Melin</b>	Director	February 24, 2020
<u>/s/ James Michael Pflaging</u> <b>James Michael Pflaging</b>	Director	February 24, 2020
<u>/s/ Michael J. Sullivan</u> <b>Michael J. Sullivan</b>	Director	February 24, 2020
<u>/s/ Tracey E. Newell</u> <b>Tracey E. Newell</b>	Director	February 24, 2020

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## **Corporate Information**

### ***Executive Officers:***

Mark McClain  
Chief Executive Officer and Director

Jason Ream  
Chief Financial Officer

Matt Mills  
Chief Revenue Officer

Juliette Rizkallah  
Chief Marketing Officer

### ***Board of Directors:***

William G. Bock  
Former President  
Silicon Laboratories Inc.

Mark McClain  
Chief Executive Officer and Director  
SailPoint Technologies Holdings, Inc.

Cam McMartin  
Former Chief Operating Officer  
SailPoint Technologies Holdings, Inc.

Heidi M. Melin  
Chief Marketing Officer  
Workfront Inc.

Tracey E. Newell  
President, Global Field Operations  
Informatica LLC

James M. Pflaging  
Managing Partner  
Cynergy Partners Inc.

Michael J. Sullivan  
Former Chief Financial Officer  
Ping Identity

### ***Corporate Headquarters:***

SailPoint Technologies Holdings, Inc.  
11120 Four Points Drive, Suite 100  
Austin, Texas 78726

### ***Stock Transfer Agent:***

American Stock Transfer & Trust Company, LLC  
6201 15th Avenue  
Brooklyn, New York 11219  
(800) 937-5449

### ***Investor Relations:***

investors.sailpoint.com  
investor@sailpoint.com  
(512) 664-8916

### ***Stock Exchange Listing:***

NYSE  
Symbol: SAIL



[sailpoint.com](https://sailpoint.com)