qualtrics XM

Annual Report

Fiscal 2022

Dear Qualtrics shareholders,

The pandemic redefined the way we all live and work, and the experience management category that we pioneered is changing how we all do business. Over the past year, Qualtrics has become even more central to the way organizations make mission-critical decisions about their customers and employees, and we are helping more than 18,750 customers around the world protect their revenue, increase efficiency, and improve their operations.

Our platform helps companies quickly identify, understand and resolve points of friction across all digital and human touchpoints. That makes our business resilient, even in times of macroeconomic uncertainty. Our full-year 2022 revenue showed strong, 36 percent annual growth, to $1.46 billion. And we finished 2022 with strong win rates as our customers invested in Qualtrics because of our proven leadership, platform capabilities, and innovation roadmap.

Now more than ever, every organization needs to deliver the products, services and experiences that keep their employees engaged and their customers coming back. And connecting with each other is a beautiful part of what makes us human. For the first time since the pandemic began, we hosted 10,000 of our customers at the X4: Experience Management Summit this past month in Salt Lake City – to inspire each other, learn from each other, and make new connections.

We are building a generational business focused on durable, long-term growth and profitability. Our announcement in March 2023 that we have agreed to be acquired by Silver Lake and CPP Investments for approximately $12.5 billion shows the strength of the business and category we created. Our team couldn't be more excited about this next step.

We are leading the next wave of innovation in experience management (XM), with purpose-built solutions that help our customers do more with less for their customers and employees. As the leader in XM, we have a vast universe of experience data, advanced AI and analytics, and a system of action. This gives us – and our customers – a competitive advantage.

In fact, at the end of 2022, we passed a major milestone, doubling the number of Experience IDs on our platform in a single year, to 10 billion. Experience ID captures structured and unstructured feedback across every touchpoint of the customer journey to build a rich profile, allowing organizations that use the XM Operating System to know their customers like never before, and take the right action at the right time. No other company has this technology, which makes the Qualtrics platform incredibly sticky for our customers.

We believe that the future belongs to the companies that are tearing down their operating models and reimagining new ones with customer and employee journeys as their blueprints. This is the exciting category we are building at Qualtrics, and it has the power to make business more human.

I want to thank our shareholders for your partnership and support as we prepare to take another step in our journey as a company and category-creator.

Sincerely,

Zig Serafin, CEO

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, 2022

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: 001-39952

QUALTRICS INTERNATIONAL INC.

(Exact name of Registrant as specified in its charter)

Delaware	**47-1754215**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

333 West River Park Drive
Provo, Utah 84604
(Address, including zip code of principal executive offices)

385-203-4999
(Telephone number, including area code, of principal executive offices)

Title of each class	**Trading Symbol**	**Name of each exchange on which registered**
Class A Common Stock, $0.0001 par value per share	XM	The Nasdaq Global Select Market

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 Section 15(d) of the Act. Yes ☐ No ☒

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatement that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐

The aggregate market value of the registrant's Class A common stock held by non-affiliates of the registrant (based on $12.51, which was the closing price of a share of the registrant's Class A common stock on June 30, 2022, as reported by The Nasdaq Global Select Market) was approximately $1.4 billion.

As of February 16, 2023, the registrant had 602,456,311 shares of common stock outstanding, consisting of 179,285,701 shares of Class A common stock and 423,170,610 shares of Class B common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement relating to its 2023 Annual Meeting of Stockholders, or the 2023 Proxy Statement, are incorporated by reference into Part III of this Form 10-K where indicated. Such 2023 Proxy Statement will be filed with the United States Securities and Exchange Commission within 120 days after the end of the fiscal year to which this Annual Report on Form 10-K relates.

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SPECIAL NOTE REGARDING 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. 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 that concern our expectations, strategy, plans or intentions. All statements within the meaning of the U.S. Private Securities Litigation Reform Act and Section 21E of the Securities Exchange Act of 1934, as amended, other than statements of historical fact, contained in this Annual Report on Form 10-K are forward-looking statements. Forward-looking statements contained in this Annual Report on Form 10-K include, but are not limited to, statements about:

- our future financial performance, including our revenue, cost of revenue, gross profit, operating expenses, ability to generate positive cash flow, and ability to be profitable;
- our ability to grow at or near historical growth rates;
- anticipated technology trends, such as the use of and demand for experience management software;
- our ability to attract and retain customers to use our products;
- our ability to address and overcome challenges caused by the current economic downturn;
- our ability to attract enterprises and international organizations as customers for our products;
- our ability to expand our network with content consulting partners, delivery partners, and technology partners;
- the evolution of technology affecting our products and the competitive landscape;
- our ability to introduce new products and enhance existing products and to compete effectively with competitors;
- our ability to successfully enter into new markets and manage our international expansion;
- the attraction and retention of qualified employees and key personnel;
- our ability to effectively manage our growth and future expenses and maintain our corporate culture;
- our ability to realize cost savings and achieve other benefits related to our restructuring efforts;
- our anticipated investments in sales and marketing and research and development;
- our ability to maintain, protect, and enhance our intellectual property rights;
- our ability to successfully defend litigation brought against us;
- our ability to maintain data privacy and data security, including compliance with the broad spectrum of relevant laws;
- our ability to remediate our material weakness in our internal control over financial reporting;
- the sufficiency of our cash and cash equivalents to meet our liquidity needs;
- our ability to comply with modified or new laws and regulations applying to our business;
- the effects on our business of recent volatility in capital markets and lower market prices for our securities;

- our ability to respond to and overcome challenges brought by the COVID-19 pandemic;
- our ability to meet investor and customer expectations and evolving regulations regarding environmental, social and governance issues;
- our reduced ability to leverage resources at SAP as an independent company from SAP; and
- the increased expenses associated with being an independent public company.

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

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Annual Report on Form 10-K primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in the section titled "Risk Factors" and elsewhere in this Annual Report on Form 10-K. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Annual Report on Form 10-K. 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. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make.

You should read this Annual Report on Form 10-K and exhibits with the understanding that our actual future results, levels of activity, performance, and events and circumstances may be materially different from what we expect.

Part I.

Item 1. Business

Overview

Qualtrics pioneered a new category of software, experience management, or XM, that enables organizations to find and fix broken experiences and drive operational improvements to improve customer loyalty, increase employee retention, and become a brand that people love.

Qualtrics technology helps organizations find and keep customers, retain and engage employees, and improve their competitive position in their product categories and talent markets. Our XM Platform helps organizations listen to their employees and customers, understand their feedback, and then take action in response.

Why It Matters:

The experiences organizations deliver are vital to their ability to compete and win. In 2022, half of consumers said they had cut spending or switched brands due to a poor experience, potentially impacting $3.1 trillion in global spending, according to the XM institute. The global pandemic, which has altered the way people work, shop, and interact with each other, accelerated a shift in nearly every expectation people have of businesses.

Companies are facing an economic downturn, and they need to focus on the essentials – finding and keeping customers, retaining key employees, bringing the right products to market, and mitigating risks that exist in the business. They cannot afford customer churn, unexpected employee departures, or costly compliance issues. Qualtrics seeks to protect companies from these risks by helping them:

- quickly identify points of friction in the customer journey – from the website to the contact center – and resolve issues immediately to win new customers and deepen customer satisfaction of existing ones; and

- understand exactly where and why employees are frustrated so they can quickly intervene to keep their employees productive and reduce unwanted attrition.

And Qualtrics helps its customers to do this with empathy, speed, and scale.

Experience management is growing because businesses are facing unprecedented fluidity and risk. Nearly a quarter of a million people list "Qualtrics" as a skill on LinkedIn, and more than 5.6 million people list "experience management" as a skill, demonstrating our Company's transformative influence on the world of work. Qualtrics helps companies get things right to attract great talent, develop loyalty among their customers, and build lasting, meaningful businesses and brands.

Qualtrics is a mission-critical software platform that enables breakthrough design and continuous improvement of customer and employee experiences on a single, secure, cloud-native platform.

In addition to using surveys to collect post-transaction feedback to monitor trends in satisfaction scores, our XM Platform enables organizations to bring together all of their experience data, both structured and unstructured, analyze it with native advanced AI-powered analytics, and take real-time action to continually improve the experiences they deliver to their customers and employees.

As of December 31, 2022, the Qualtrics XM Platform is trusted by more than 18,750 customers of all sizes, including over 90% of the Fortune 100. The broad adoption of our platform is facilitated by a multi-pronged go-to-market model comprised of inside and field sales teams, joint solution selling with SAP, and our growing Qualtrics Partner Network ("QPN") of over 400 global member companies that are partnering with us on our platform to help drive breakthrough business outcomes for our customers.

Qualtrics is a system of action that guides users with specific instructions for improvement and automated actions to improve experiences. It provides each individual employee in an organization a powerful, easy-to-use interface that creates everyday habits to take action on feedback from customers and employees. It has the power to change organizational behavior and create a culture of action.

The Qualtrics XM Platform

The Qualtrics XM Platform helps organizations design the next set of experiences that will attract new customers and employees, and then continuously improve each of those experiences to stay relevant, retain customers and employees, and become even more competitive across the four core experiences of business—employee, customer, brand, and product.

In 2022, the Qualtrics XM Platform reached 10 billion Experience iDs over the life of the XM Platform—serving as the largest human sentiment database in the world. Innovations on the XM Platform have deepened Qualtrics' ability to give organizations quick, actionable insights to drive business results, and deepen their customer relationships.

Qualtrics captures every form of customer and employee feedback, including survey responses, contact center chat interactions, social media posts, product reviews, and more. With advanced machine learning and AI, Qualtrics analyzes this data to understand the emotion, effort, and intent behind the words. Experience iD captures all of this customer experience data in a single profile, creating a digital history of all user interactions and experiences over time in a single view.

Qualtrics' AI technology captures aggregated data, offering organizations insights to help them take the right action to improve customer experiences. The data captured within XiD also enables development of a library of benchmark metrics, such as Customer Satisfaction ("CSAT") and Net Promoter Score ("NPS"), so companies can assess their results against their peers.

Listen - Experience ID: Listen to every customer, and remember what they need

Experience iD offers a single, unified view of every form of customer and employee feedback, including survey responses, contact center chat interactions, social media posts, product reviews and more.

Qualtrics' AI technology captures aggregated data within the 10 billion Experience iD profiles, offering organizations deeper insights to help them take the right action to improve customer experiences.

Understand - Understand what's happening, why it's happening, and take action

Qualtrics XM Discover helps organizations listen to, analyze and act on everything that customers and employees are saying on every platform with omnichannel conversational analytics, extending the power of Qualtrics to understand the emotion, intensity, and effort behind every customer and employee experience. By adding Discover to the Qualtrics XM Platform, it is simple and scalable for companies to ask people how they feel about their experiences, analyze the data with sophisticated analytics, and take action on feedback, whether they offered it through surveys or other places people share their experiences, such as customer service chats, social media, or online product reviews.

With Qualtrics CrossXM, company leaders can learn how their employee, customer and brand experiences impact one another, helping them identify the actions they can take to drive the biggest impact across their business. This innovation allows them to understand how key employee experience metrics, such as manager support, career development, and recognition, have a direct, statistically significant impact on customer outcomes. With these insights, leaders can focus on initiatives that will drive the most value for employees and customers.

Qualtrics has advanced natural language processing, or NLP, in 23 languages and over 150 categorization models to measure sentiment (the positivity or negative of comments), effort (the ease or difficulty expressed within feedback), emotions, empathy, intent, and more.

Act - Build a culture of action

With Experience Workflows, or xFlow, the Qualtrics XM Platform can automatically route recommended actions to the people in the best position to address issues with customers or employees using experience workflow automation. Employees can log into a role-based account and receive alerts relevant to their role and be given specific actions to drive improvement. The system tracks issues, progress, and next steps to help monitor progress and keep managers informed.

The Qualtrics XM Platform is well positioned to solve the key challenges companies are struggling with around the world today.

With Qualtrics, teams are empowered with the ability to build and save experience workflows that can be shared and scaled across departments, retail locations, or global deployments. Built with an open API architecture, our highly configurable platform provides a robust ecosystem of integrations for automating and connecting the entire experience management process—from collecting experience feedback from any third-party channel, to uncovering hidden trends using native or third-party analysis, to driving activities and action using any operational system that employees already use as part of their existing routines. These automated solutions are available out of the box, purpose-built for specific industries, departments, and geographies.

What Sets Us Apart

Our approach to architecting solutions and how we bring those solutions to our customers has enabled us to strengthen our lead in the experience management (XM) category. We pioneered the XM category two decades ago and remain a recognized market leader in the category today. We are the leading and largest pure-play XM provider in the market. Our brand is synonymous with experience management and associated with quality and usability, providing us an advantage with attracting new customers. We are also thought leaders in the market. Through our founding of the XM Institute, we deliver a wide variety of industry-specific content, leadership, training, networking, and research to help XM leaders develop and excel in their jobs.

We have several distinguishing advantages:

- ***Single Cloud Native Platform.*** Qualtrics allows organizations to manage the experiences of customers and employees on a single, connected platform. Organizations power experience management programs across their customer, employee, product, and brand, monitor the health of their entire business through robust analytics and dashboards, and drive action across the entire organization from one common interface.

- ***Ability to Address Experience Holistically.*** We provide specific solutions across the key areas that have the highest impact on an organization: customers, employees, product, and brand. CrossXM analyzes experiences within customers, employees, and brands individually and correlates data across areas to provide targeted actions leaders can make to impact business results and customer outcomes. Our XM Platform integrates experience, or X-data that we collect with siloed operational, or O-data, that organizations already have, providing everyone in an organization from the C-suite to employees on the front line with a holistic view of experiences across key areas and constituencies and a clear set of actions they can take to have the biggest impact.

- ***Combined Insights from all Sources of Feedback.*** Qualtrics XM Discover, a new set of products launched in 2022, helps companies tune into conversations that are already happening and build a richer understanding of what customers and employees want and expect. XM Discover extends the Qualtrics XM Platform's AI and machine learning capabilities, analyzing conversations in 23 languages and consisting of more than 150 out-of-the-box models tuned into the nuanced terminologies and discussions that happen across industries. Based on customer and employee interactions, organizations can capture, at scale:

    - emotions and emotional intensity across a spectrum of 50+ emotions;

    - the customer's or employee's intent – what they were trying to accomplish;

    - how much effort a customer or employee had to expend at any step of their journey; and

    - the presence or absence of empathy in a conversation.

  With this addition, organizations can use Qualtrics to gather experience data from any structured and unstructured source, analyze it with sophisticated AI and machine learning, and take action to deliver better customer and employee experiences.

- ***Built for Action.*** Qualtrics xFlow helps organizations build a culture of action through a low code / no-code interface to create automated workflows to close experience gaps at scale. xFlow enables organizations to automate experience workflows to drive action natively or by integrating with systems that an organization already uses. For example, with our analytics-driven Smart Routing, our XM Platform can automatically generate a customer ticket and action to resolution when a negative sentiment is expressed on a social media site. In this way, our XM Platform not only helps to identify issues, but also serves as a system of action by automatically directing feedback and recommended actions to the teams that are in the best position to make improvements. Or the system can bypass the need for employees to resolve issues and instead automate service recovery so customer or employee issues do not slip through the cracks. xFlow works across our XM Platform and provides automatic notifications, raises tickets, and closes experience gaps immediately.

- ***Real-time Insight.*** Our XM Platform uses advanced AI and machine learning to extract feedback and provide real-time coaching, insights and analysis. This timeliness is necessary to affect outcomes, including reducing churn, increasing sales, preventing employee turnover, increasing engagement, and enhancing brand among others.

- ***Enterprise Ready***. Our XM Platform is scalable and secure. We have built our XM Platform on open-source technologies that are designed to scale horizontally to support large-scale streaming and batch processing, with 'always-on' infrastructure. As an example of our scalability, up to one million healthcare providers within the Aetna network link customer digital behavior with net promoter score, or NPS, and customer satisfaction, or CSAT, across their 22 million customers on our XM Platform. Our XM Platform adheres to the high standards of security and privacy demanded by the largest organizations in the world. Our XM Platform enables role-based permissioning to ensure that the right people have access to sensitive customer and employee information. We are ISO 27001 certified and enable our customers to maintain their compliance with General Data Protection Guidelines, or GDPR and SOC2, and we are certified on Health Information Alliance Trust, or HITRUST. We have achieved Federal Risk and Authorization Management Program, or FedRAMP, authorization to deliver services to United States federal government agencies. Additionally, organizations own and retain all their data gathered on our XM Platform.

- ***Easy Adoption and Rapid Time to Value.*** Our technology is designed to be easy to deploy, configure, use, and scale. By making the complex capabilities of our XM Platform simple to use, we allow customers of all types and sizes to generate value quickly. In addition, the modularity of our XM Platform allows our customers to deploy one or more of our solutions initially and then adopt additional modules as their use cases grow and evolve. As initial deployments generate valuable X-data and the value of that data compounds over time, we see many customers adding additional functionality as the power and influence of experience management insights spread throughout their organizations.

- ***Powerful and Multi-Pronged Go-to-Market Model.*** Our powerful go-to-market model enables us to land both small and large customers initially and expand those relationships significantly over time. The broad adoption of our XM Platform is facilitated by a multi-pronged go-to-market model comprising highly productive field and inside-sales teams, a joint development and solution selling partnership with SAP, and our robust and growing QPN. QPN has over 400 global member companies partnering with us on our XM Platform to help drive breakthrough business outcomes for joint customers. The Qualtrics Developer Platform, or QDP, a core element of QPN, provides deep technical capabilities that enable companies to build robust XM extensions and deliver automated workflows to drive action.

Our Growth Strategies

Key elements of our growth strategies include:

- ***Drive New Customer Sales.*** We believe that our market opportunity remains largely under penetrated. We estimate that our total addressable market is $60 billion. We will continue to invest aggressively in our direct and indirect sales and marketing capabilities to continue to acquire new customers, including continued growth in the number of enterprise customers. We plan to continue to acquire new customers with our powerful multi-pronged go-to-market model.

- ***Expand Within Existing Customers.*** Our customer base of more than 18,750 organizations as of December 31, 2022, represents a significant growth opportunity for us. There is opportunity to expand both the number of users and use cases within an organization. As users start to focus more deeply on specific experiences, they often look to add integrated solutions, CustomerXM, EmployeeXM, ProductXM, BrandXM, and DesignXM. We offer a flexible pricing model that helps further expand our presence within organizations as they increase volume of responses, add solutions and integrations, grow users and employees and increase features and workflows within each solution. Our goal is to increase the number of customers that standardize on our XM Platform within their organization, increasing the number of our organization-wide deployments and creating opportunity for expanded use cases.

- ***Expand Our Global Presence.*** A key focus of our company is to continue to penetrate unaddressed global markets. Constituents can provide feedback in over 75 languages, and our core admin user interface supports over 20 languages. To penetrate markets outside North America, we have developed a hub-and-spoke sales model comprised of centralized inside-sales teams surrounded by regional direct sales groups. Our first two hubs outside North America were in Dublin, Ireland and Sydney, Australia. We have opened sales offices in additional countries, including Belgium, Brazil, Canada, France, Germany, India, Japan, Mexico, the Netherlands, South Korea, Sweden, Spain, Singapore, Switzerland, and the United Kingdom. To address data sovereignty concerns among our international customers, we have data centers in Canada, Germany, Japan, Singapore, the United Kingdom, and Australia. We believe that this investment should further increase our international expansion opportunities. For the year ended December 31, 2022, 30% of our revenue came from markets outside the United States, and we believe that there is significant opportunity for continued growth in the global markets.

- ***Continue to Innovate and Enhance Our XM Platform.*** As we add to our customer base, we use our technology to draw insights and ensure that we are best serving our customers' needs. These insights lead to innovative features, such as XM Solutions for creating faster time-to-value, XM Benchmarks to derive deeper insights, XM Automated Actions to quickly close identified experience gaps, and improvements in our iQ product features to drive intelligent action taking. These innovations lead to a greater value proposition for our customers and increased adoption of our XM Platform by both new and existing customers.

- ***Grow Revenue from Key Industry Verticals.*** While our XM Platform is industry-agnostic, we have made a number of industry-specific investments that will accelerate our adoption within certain verticals, including government, education, healthcare, technology, and financial services. We have developed Certified XM Solutions, leveraging partners' expertise, and embedding industry-specific content into our products. Our Certified XM Solutions are packaged projects and programs with expert content, workflow, and automation. In every key vertical, we have reference customers that we believe validate the adoption of our XM Platform.

- ***Further Develop Our Partner Ecosystem.*** We have developed a network of leading and consulting partners, delivery partners, and technology partners who enrich our offerings, scale our coverage, and help us reach a broader audience than we would be able to reach on our own. Our partner channel extends our sales reach, enhances our products, and provides implementation leverage both domestically and internationally. Since the launch of QPN in 2018, we have entered into many impactful partnerships with over 400 global member companies, including Accenture, Ernst & Young, Deloitte, IBM, J.D. Power, and Kantar. During 2019, we launched the Qualtrics Developer Platform as a core element of QPN. We will continue to partner with other leading organizations to broaden our reach and maintain our strong net retention rates.

- ***Jointly Develop, Market and Sell our Solutions with SAP.*** As part of SAP, we have been able to utilize our partnership to grow and enhance our business. We will continue to jointly develop, market, and sell our solutions with SAP. SAP has a global footprint, which has allowed us to reach new geographies and expand our international presence faster. Our go-to-market motion has greater enterprise reach through SAP's global customer base, allowing Qualtrics to be sold alongside SAP applications through our solution selling partnership.

Our Platform, Solutions, and Technology

Our XM Platform was built to provide flexible, scalable solutions for our clients. We use a secure, modern data processing architecture to ensure the specific needs of our clients are met across their organizations. Clients can deploy experience management or choose to access the entire XM Platform and add on specific solutions as their needs evolve. We offer over 140 out-of-the-box integrations, with leading enterprise vendors such as SAP, Microsoft, and Salesforce, as well as custom integrations for our clients. Our architecture is designed to scale horizontally and cost-effectively by combining the Platform-as-a-Service offerings available in public cloud data center facilities and modern open-source technology stacks running within our co-location data centers.

We offer a range of experience management solutions, including Integrated Solutions for experience design, customer experience, employee experience, product experience, and brand experience—all built on the Qualtrics XM platform, a collection of powerful capabilities, tools, and building blocks.

Integrated Solutions

CustomerXM

Our CustomerXM product line provides customer experience, marketing, and operations leaders with a holistic solution set to gain a true understanding across all moments that impact the customer experience and surfaces these insights in real-time so decisions can be made with confidence. With Qualtrics, organizations can capture, analyze, and then act on customer sentiment across all channels and touchpoints along the customer lifecycle–from acquiring first-time customers to engaging and building loyal customers and supporting customers when they need it most. Qualtrics provides customer-focused analytics that help organizations take effective, data-driven actions that lead to reduced customer acquisition costs, higher conversion rates, reduced customer churn, increased share of wallet, and increased time to value.

At the core of our CustomerXM products is our customer-centric data management system, which consolidates all experience data across all touchpoints, along with relevant operational data, into a single system of record. This enables personalized experiences at scale, deep journey and segment intelligence, and predictions about future behavior. Our listening engine enables omni-channel engagement and data collection across in-app, SMS, interactive voice response, or IVR, chat and call center platforms, messaging apps, social media and review sites, video, voice, email, web, and more. Qualtrics analyzes this data in real time, surfacing recommended actions tailored by role and department. With low/no-code automated actions, workflows, and integrations, as well as our open developer platform, organizations can quickly take action and deeply embed CustomerXM within existing operational workflow systems. This drives high adoption and action taking across the entire organization, which ultimately leads to meaningful change and business outcomes.

EmployeeXM

Our EmployeeXM solution empowers HR leaders to solve people initiatives while delivering ROI across the business. It provides a holistic view of an employee's experience to help companies reduce unwanted attrition, improve employee engagement with the right KPIs, develop and retain top performers, improve customer experience, activate managers for action at scale, and build strong teams and cultures. It allows organizations to listen across every channel to make informed decisions and continuously improve every facet of the employee experience during the employment lifecycle— from recruitment onwards.

We have architected our EmployeeXM solution to meet the exacting requirements of human resource managers. It features workflows that enable employees to seek the right feedback from across the organization, robust administrator rights that enable higher anonymity thresholds, interactive data visualization that conveys the right information to each user, and expert designed, guided action planning surfacing the areas where potential improvements would drive the highest impact. The solution also seamlessly integrates with a number of Human Capital Management, or HCM, and Learning Management System, or LMS, vendors.

ProductXM

Our ProductXM solution helps organizations develop and continuously improve products and services that their customers love. Collect feedback and insights across the entire product lifecycle and turn it into actionable data to increase speed to market and improve product market fit. This solution identifies ideal target markets, uncovers unmet needs, and validates product ideas to identify the most promising product concepts. Organizations can also quickly determine the top drivers of product satisfaction and loyalty and incorporate experience insights into key product decisions, assisting in product feature prioritization, increasing product decision velocity, and building a customer and data-driven product roadmap.

Our ProductXM solution packages our omni-channel listening capabilities, AI-powered insights from structured and unstructured data, and automated workflows and actions in a turnkey, guided, easy to use user interface that enables anyone without a degree in statistics to make smart data-driven product decisions. It seamlessly supports contextual operational data such as cost of production, margins or click stream behavioral data to augment human factor data, which enables product teams to identify actionable insights such as key drivers of retention, engagement, or profit maximizing scenarios. With our ProductXM capabilities, product teams can continuously tune their products and services through every phase of the product life cycle.

BrandXM

Our BrandXM solution provides a real-time view of all brand experience drivers across the brand funnel from awareness to purchase and post-purchase experience to increase new customer acquisitions, repeat purchases, and share of wallet. This solution delivers automated, real-time analysis to help organizations understand how to improve brand perception and experiences relative to competitors at a specific market and segment level. Marketing teams can quickly optimize brand advertising and communication strategies, as well as work across the organization to improve the experiences that matter most.

Our BrandXM solution provides real-time, role-based insights that help organizations take the right actions to improve brand perception. It includes workflows that integrate with marketing platforms and other operational systems that enable organizations to improve how a brand is experienced by customers and potential customers alike.

DesignXM

Our DesignXM solution helps organizations uncover the products, services, brands, and cultures that customers and employees want next. Our software helps teams connect with people in authentic ways to create new experiences that shift markets, define brands, establish cultures, and attract new customers.

These tools are used by market research professionals, marketing teams, product teams, HR teams, academics, insights professionals, data analysts, and developers to do advanced market, customer, and employee research. These customers use DesignXM to adopt a self-service approach to conducting a wide variety of research projects that formerly required hiring expensive outsourced consultants.

Our DesignXM solution can be purchased as software only or can be packaged with expert research services delivered in house, or via our ecosystem partners.

Qualtrics Developer Platform

The Qualtrics Developer Platform, or QDP, enables customers to seamlessly integrate Qualtrics with their existing applications and workflows and extend the functionality of the XM Platform. QDP includes a robust set of developer tools—including Software Developer Kits, or SDKs, APIs, and workflow configuration tools—for our customers or third-party developers to build data connectors, widgets, plug-ins, visualizations, workflows, and automations. Leveraging the QDP, customers can connect Qualtrics with third-party software systems to automate key business processes, enhance their XM program by bringing experience data from other listening posts into Qualtrics, and extend the XM Platform to address their specific business requirements.

Through the QDP, we provide over 140 out-of-the-box integrations, primarily built through XM Extensions, across 30 complementary technology categories with leading enterprise solutions like SAP, Adobe, Atlassian, Microsoft, Salesforce, ServiceNow, Slack, and Zendesk, and applications in adjacent software categories such as digital experience, social analytics, user research, help desk and support, and contact center management. The aforementioned XM Extensions, along with select partner solutions, can be marketed and sold on the XM Marketplace, our enterprise cloud marketplace, or sold directly by our innovation partners.

Modern Data Processing Architecture

Over 160 million interactions are analyzed and over 100 million distinct responses are generated each month on our XM Platform. Each piece of X-data represents a distinct data stream, which are combined with related streams generated from social media, enterprise, and third-party integrations via API. Our XM Platform continually aggregates these data streams to provide up-to-the-minute analytics, as well as near real-time analysis across billions of historical data points collected. Our architecture is designed to scale horizontally and cost effectively by combining the Platform-as-a-Service offerings available in public cloud data center facilities and modern open-source technology stacks running within our co-location data centers.

Information Security as a Key Business Enabler

We have achieved multiple information security certifications, including the globally recognized ISO 27001 standard in addition to FedRAMP certification to authorize the use of our XM Platform for U.S. Federal Government agencies. These certifications require ongoing independent validation of our compliance frameworks to provide our customers with confidence in choosing our XM Platform. Our premium Data Isolation feature protects customer response data with a customer specific encryption key. Qualtrics provides our customers with self-service tools to help comply with privacy frameworks such as GDPR.

Research and Development

Our ability to compete depends in large part on our continuous commitment to research and development and our ability to rapidly introduce new technologies, features, and functionality. Our research and development organization is responsible for the design, architecture, testing, and quality of our XM Platform. We focus our efforts on developing our core technologies and further enhancing their usability, functionality, reliability, performance, and flexibility. We prioritize research and development and attempt to foster creativity and autonomy in our engineering teams. Research and development expenses were $427.2 million, $324.2 million, and $212.8 million for the years ended December 31, 2022, 2021, and 2020, respectively.

Customers

As of December 31, 2022, we had more than 18,750 customers using our XM Platform in more than 120 countries. We have key reference customers in many industry verticals that we believe validate our solutions in the market, and our customers range from small and medium-sized organizations to Fortune 100 companies.

Our Go-To-Market Strategy

Our XM Platform is used by more than 18,750 customers of all sizes globally across a broad range of industries, including over 90% of the Fortune 100 as of December 31, 2022. No one industry comprises more than 15% of our revenues, with banking, professional & business services, technology, education, and healthcare making up the top five. Our XM Platform has been adopted by many of the world's largest organizations that view us as a strategic partner in their digital transformation initiatives.

This broad adoption of our XM Platform is facilitated by a multi-pronged go-to-market model comprised of highly productive inside and field sales teams, a joint development and solution selling partnership with SAP, and our robust and growing QPN. We primarily generate sales through our direct sales team, which includes both inside and field sales personnel. All sales personnel focus on attracting new customers as well as expanding usage within our existing customer base. Our sales team is supported by technical sales professionals and subject-matter experts who facilitate the sales process through developing and presenting demonstrations of our XM Platform after assessing requirements, addressing security and technical questions, and matching customer needs with the appropriate Qualtrics solutions. We also have a team of solution experts who help advise on best practices and methodologies, assist with program design, and provide assistance as required through customer launch to accelerate time to value. Our customer success team complements our sales team by consulting with our customers and helping drive adoption, subscription renewal, expansion to additional use cases, and customer value.

Our marketing efforts are focused on generating awareness of our XM Platform, creating sales leads, establishing and promoting our brand, and cultivating a community of loyal customers and users. We utilize both online and offline marketing initiatives, including user conferences (such as our annual X4 Summit), online advertising, webinars, blogs, corporate communications, white papers, and case studies.

We also work with partners through QPN, which has over 400 global member companies delivering breakthrough business outcomes for our customers.

QPN consists of the following:

- *Strategic Partners* offer a full suite of capabilities to accelerate XM within customers' organizations, including implementation, consulting, and XM program and solution design. Strategic partners include Accenture, Bain, Capgemini, Deloitte, EY, and others.

- *Innovation Partners* bring XM into customers' existing IT ecosystems and augment the capabilities of our XM Platform. Leveraging the Qualtrics Developer Platform, customers can connect Qualtrics to third-party software systems to automate key business processes, enhance their XM programs by bringing experience data from other listening posts into Qualtrics, and extend our XM Platform to address their specific business requirements. Innovation partners include enterprise software leaders such as Adobe, Salesforce, ServiceNow, and independent software vendors in adjacent software categories (e.g., digital experience, social listening & analytics, user research).

- *Advisory Partners* are trusted XM scientists and consultants trained on our XM Platform. They work with customers to design plans and roadmaps for starting their experience management journeys. Advisory partners include Ipsos, JD Power, Kantar TNS, and many more.

- *Alliance Partners* help customers understand how XM can benefit their organization by evaluating their current business needs and desired outcomes. Alliance partners include Walker, Korn Ferry, commonFont, and others.

- *Delivery Partners* are trained and certified to implement the Qualtrics XM Platform. Enterprise organizations work with these accredited partners to scope and implement XM programs and to provide ongoing platform customizations. Delivery partners include Acumen Solutions, Ugam (a Merkle company), Workforce Science Associates, and many others.

We will continue to jointly develop, market, and sell our solutions with SAP. Examples include the use of our XM Platform within SAP SuccessFactors to gauge employee sentiment at various stages of the employee lifecycle and create workflows to resolve experience gaps that might lead to dissatisfaction and employee attrition, within SAP's e-commerce applications to listen and act upon customer sentiment to drive higher conversion rates as consumer buying behavior moves online, and within procurement applications to enable buyers and suppliers to better understand and collaborate with each other. In addition, we have a robust roadmap of potential areas of collaboration across SAP's product portfolio. As an independent subsidiary of SAP, we will aim to replicate those collaborations with a broader ecosystem of partners.

Professional Services

Our professional services team helps customers design and execute their market intelligence projects, through our DesignXM offering, and provides our customers with implementation, training, and similar services to help them realize the full benefits of our XM Platform. Our training programs include a mix of virtual and in-person offerings with different options focused either on helping onboard teams of users quickly or helping individuals achieve certification level subject matter expertise. Our team works closely with our partners and enables them to deploy our solutions. By working with these partners, we both augment our pipeline and our ability to scale globally by size and complexity of deployment.

Competition

Experience management is a new and rapidly developing software category. Certain features of our XM Platform compete in certain segments of the overall experience management market. Our main competitors fall into the following categories:

- Providers of software for specific use cases, such as Medallia for customer experience;

- Traditional professional and marketing research services firms, such as Aon Hewitt and Towers Watson; and

- Individual-focused and self-service survey tools, such as Momentive.

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

- Product features, quality, functionality, and design;

- Ease of deployment and use;
- Market vision and pace of product innovation;
- Security and privacy;
- Overall platform experience;
- Third-party integrations;
- Pricing and total cost of ownership;
- Brand awareness and reputation;
- Accessibility across several devices, operating systems, and applications;
- Strength of sales and marketing efforts; and
- Customer support.

Some of our competitors and potential competitors are larger and have greater brand name recognition, longer operating histories, larger marketing budgets and established marketing relationships, access to larger customer bases and significantly greater resources for the development of their offerings. Moreover, because our market is new and rapidly developing, it is possible that new entrants, especially those with substantial resources, more efficient operating models, more rapid technology and content development cycles or lower marketing costs, could introduce new products and services that disrupt our market and better address the needs of our customers and potential customers. See "Risk Factors—Risks Related to Our Business and Industry—The experience management software category is relatively new and rapidly changing, and if we do not compete effectively, our business, results of operations, and financial condition could be harmed" for additional information.

Intellectual Property

We rely on a combination of patent, copyright, trademark, and trade secret laws in the United States and other jurisdictions, as well as license agreements and other contractual provisions, to protect our proprietary technology. We also rely on a number of international and domestic registered, pending, and common law trademarks to protect our brand.

In addition, we seek to protect our intellectual property rights by requiring our employees and independent contractors involved in development of intellectual property on our behalf to enter into agreements acknowledging that all works or other intellectual property generated or conceived by them on our behalf are our property, and assigning to us any rights, including intellectual property rights, that they may claim or otherwise have in those works or property, to the extent allowable under applicable law.

Despite our efforts to protect our technology and proprietary rights through intellectual property rights, licenses, and other contractual protections, unauthorized parties may still copy or otherwise obtain and use our software and other technology. In addition, we intend to continue to expand our international operations, and effective patent, copyright, trademark, trade secret, and other intellectual property protection may not be available or may be limited in foreign countries. Any significant impairment of our intellectual property rights could harm our business or our ability to compete. Further, many companies in the communications and technology industries own large numbers of patents, copyrights, and trademarks and may threaten litigation or file suit against us based on allegations of infringement or other violations of intellectual property rights. We may face in the future allegations that we have infringed the intellectual property rights of third parties. See "Risk Factors—Risks Related to Our Business and Industry—We may be sued by third parties for alleged infringement or misappropriation of their proprietary rights" for additional information.

Seasonality

We generally experience seasonality in billings with our customers, and we typically record a higher percentage of billings in our fourth quarter, as we have historically executed many of our contracts in the third and fourth quarters due to the fiscal year ends and procurement cycles of our customers.

Corporate Information

We were formed in 2002 as Qualtrics Labs, Inc. In 2012, Qualtrics, LLC, a Delaware limited liability company, was established as a new parent company for our operating business. In September 2014, we incorporated Qualtrics International Inc. in Delaware. Through a corporate restructuring in September 2014, Qualtrics, LLC became a wholly-owned subsidiary of Qualtrics International Inc. In January 2019, we were acquired by SAP America, Inc., a wholly-owned subsidiary of SAP SE (“SAP”), a multinational corporation that is headquartered in Walldorf, Germany. In January 2021, we completed the initial public offering of our common stock (the “IPO”). Our common stock trades on the Nasdaq Global Select Market (“Nasdaq”) under the symbol “XM.” SAP continues to be our controlling shareholder.

Our principal executive offices are located at 333 West River Park Drive, Provo, Utah 84604, and our telephone number is 385-203-4999. Our website address is www.qualtrics.com. We make available on or through our website certain reports and amendments to those reports that we file with or furnish to the Securities and Exchange Commission (“SEC”) in accordance with the Securities Exchange Act of 1934, as amended (Exchange Act). These include our annual reports on Form 10-K, our quarterly reports on Form 10-Q, and our current reports on Form 8-K, including exhibits, and amendments to those reports and our Proxy Statement for our annual meeting of stockholders. These filings are available for download free of charge on our investor relations website located at www.qualtrics.com/investors. The SEC also maintains a website that contains reports, proxy statements, and other information about issuers, like us, that file electronically with the SEC. The address of that website is www.sec.gov.

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

“Qualtrics” and our other registered or common law trade names, trademarks, or service marks are our property. Other trademarks and trade names are the property of their respective owners.

Human Capital Resources

As of December 31, 2022, we had over 5,600 full-time employees. We also engage contractors and consultants from time to time. We have not experienced any work stoppages, and we believe that our employee relations are good.

Our Values

Our mission is to make business more human. Our values are TACOS: that’s Transparency, All-In, Customer Obsessed, One Team, and Scrappy.

Our values support how we achieve our mission and how we engage with each other and our customers.

This is how we explain our values—we are transparent with each other and openly share our goals, strengths and improvement areas as one diverse and inclusive team. We are committed to helping our customers succeed and deliver results with care and responsibility. We are innovators and creative problem solvers.

This is not just who we are, but what we do.

Diversity, Equity and Inclusion (DEI)

We seek for ourselves representation that matches the world around us and inclusion that far exceeds it. We will use our people, processes, and technology to measure progress and aim to become a guiding light for our customers to do the same.

DEI is a cornerstone of our company culture and embedded into our People strategy. We transparently share progress internally and externally to remain accountable.

We believe in pay equity and proactively measure for gender and racial gaps.

We believe in measurable inclusion and use our technology to measure overall inclusion at our company.

We want everyone to bring their whole selves to work. Our employee resource groups and business resource groups play a vital role in creating a culture of inclusion. These are entirely run by our employees with the support and backing of our company. By the end of 2022, close to 50% of all Qualtrics employees belong to a community group.

Our communities include (among others):

- **Disability:** our employee resource group called Q&Able empowers all employees, regardless of their ability, to succeed by promoting accessibility in physical and online spaces for employees and clients with mental, intellectual, and/or physical disabilities;
- **Gender:** our employee resource group called Women's Leadership Development has a mission to empower all women at Qualtrics to globally thrive through attracting and developing top talent and elevating the voices of all women;
- **LGBTQ+:** our employee resource group called Q Pride makes Qualtrics a welcoming place to work for members of the LGBTQ+ community;
- **Racial and Ethnic Minorities:** our employee resource group called MosaiQ aims to advance the careers, goals, and well-being of racial and ethnic minorities by intentionally and continuously creating spaces for them to connect, amplifying their voices, and supporting their professional careers;
- **Sustainability:** our business resource group called The Green Team is a vibrant community of employees who are passionately helping Qualtrics be a force for good in creating a healthier planet; and
- **Veterans:** our employee resource group called Q Salute builds a community and camaraderie that enables successful careers for Veterans and their families in the civilian world starting at Qualtrics.

Item 1a. Risk Factors

Investing in our Class A common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Annual Report on Form 10-K, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes, before making a decision to invest in our Class A common stock. The risks and uncertainties described below may not be the only ones we face. If any of the risks actually occur, our business, financial condition, results of operations, and prospects could be materially and adversely affected. In that event, the market price of our Class A common stock could decline, and you could lose part or all of your investment.

Risk Factor Summary

The following is a summary of some of the risks and uncertainties that could materially adversely affect our business, financial condition, and results of operations. You should read this summary together with the more detailed risk factors contained below.

- Our rapid growth makes it difficult to evaluate our future prospects and may increase the risk that we will not continue to grow at or near historical rates.
- We may not be able to sustain our revenue growth rate or achieve or maintain profitability in the future.
- If we fail to effectively manage our growth, our business and results of operations could be harmed.
- The experience management software category is relatively new and rapidly changing, and if we do not compete effectively, our business, results of operations, and financial condition could be harmed.
- The current economic downturn has adversely affected and could continue to adversely affect our business, financial condition, and results of operations.
- The impact of the COVID-19 pandemic has adversely affected and could continue to adversely affect our business, financial condition, and results of operations.
- If we are unable to retain customers at existing levels or sell additional functionality to our existing customers, our revenue growth will be adversely affected.
- If the experience management software category does not develop further, develops more slowly, or develops in a way that we do not expect, our business may be adversely affected.
- If we are not able to develop new solutions and enhancements to our existing solutions that achieve market acceptance and that keep pace with technological developments, or if we are not able to deliver these new or enhanced solutions so that they can be easily and consistently deployed by our customers, our business and results of operations would be harmed.
- If our security measures are breached or unauthorized access to data is otherwise obtained, our XM Platform may be perceived as insecure, we may lose existing customers or fail to attract new customers, our reputation may be harmed, and we may incur significant liabilities.
- Our business could be harmed by any significant disruption of service on our XM Platform or loss of content.
- If we fail to offer high quality customer support, our business and reputation could suffer.
- We may acquire other companies or technologies which could divert our management's attention, result in additional dilution to our stockholders, and otherwise disrupt our operations and harm our results of operations.

- We invest significantly in research and development, and to the extent our research and development investments do not translate into new solutions or material enhancements to our current solutions, or if we do not use those investments efficiently, our business and results of operations would be harmed.
- Our business depends on a strong brand, and if we are not able to maintain and enhance our brand, our ability to expand our number of customers will be impaired and our business, results of operations, and financial condition will be harmed.
- Failure to effectively expand our sales and marketing capabilities could harm our ability to increase our customer base and achieve broader market acceptance of our XM Platform.
- We rely on the performance of highly skilled personnel, including our management and other key employees, and the loss of one or more of such personnel, or of a significant number of our team members, could harm our business.
- If we are unable to develop and maintain successful relationships with certain partners, our business, results of operations, and financial condition could be harmed.
- Our sales cycle with enterprise, government, and international customers can be long and unpredictable.
- We identified a material weakness in our internal control over financing reporting, and although it has not resulted in any material misstatements or omissions of our consolidated financial statements to date, if it is not fully remediated, it could result in material misstatements of our consolidated financial statements in the future.
- As long as SAP controls us, the ability of holders of Class A common stock to influence matters requiring stockholder approval will be limited.
- Our historical financial information as a business segment of SAP may not be representative of our results as an independent public company.
- SAP's ability to control our board of directors and company may make it difficult for us to recruit high-quality independent directors and employees.
- We are a "controlled company" within the meaning of the corporate governance rules of Nasdaq and, as a result, rely on exemptions from certain corporate governance requirements that provide protection to stockholders of other companies.
- Recent volatility in capital markets and lower market prices for our securities may affect our ability to access new capital through sales of shares of our common stock or issuance of indebtedness, which may materially harm our liquidity, limit our ability to grow our business, pursue acquisitions or improve our operating infrastructure and restrict our ability to compete in our markets.

Risks Related to Our Business and Industry

Our rapid growth makes it difficult to evaluate our future prospects and may increase the risk that we will not continue to grow at or near historical rates.

We have been growing rapidly over the last several years, and as a result, our ability to forecast our future results of operations is subject to a number of uncertainties, including our ability to effectively plan for and model future growth. Our recent and historical growth should not be considered indicative of our future performance. We have encountered in the past, and will encounter in the future, risks and uncertainties frequently experienced by growing companies in new and rapidly changing markets. If our assumptions regarding these risks and uncertainties, which we use to plan and operate our business, are incorrect or change, or if we do not address these risks successfully, our operating and financial results could differ materially from our expectations, our growth rates may slow, and our business would suffer.

We may not be able to sustain our revenue growth rate or achieve or maintain profitability in the future.

In future periods, our revenue could grow more slowly than in recent periods or decline for a number of reasons, including any reduction in demand for our XM Platform, the impact on spending and budgets due to the ongoing global economic downturn, increase in competition, limited ability to, or our decision not to, increase pricing, contraction of the experience management software category, or our failure to capitalize on growth opportunities. In addition, our revenue from subscription and professional services and other may grow at different rates than in recent periods or decline for a number of reasons, including those described above. Excluding the impact of cash settled stock-based compensation, we expect expenses to increase in the near term, particularly as we continue to make significant investments in research and development and technology infrastructure, expand our operations globally and develop new solutions and features for, and enhancements of, our XM Platform. In addition, in connection with operating as an independent public company, we will incur additional legal, accounting, and other expenses that we did not incur as a previously wholly-owned subsidiary of SAP. In addition, the added expenses we will incur may not lead to sufficient additional revenue to maintain historical revenue growth rates or achieve or maintain profitability in the future.

If we fail to effectively manage our growth, our business and results of operations could be harmed.

We have experienced, and may continue to experience, rapid growth, which has placed, and may continue to place, significant demands on our management and our operational and financial resources. In addition, we operate globally, sell subscriptions to more than 18,750 customers in more than 120 countries, and have employees in the United States, Argentina, Australia, Belgium, Brazil, Canada, Denmark, France, Germany, Hong Kong, Ireland, Italy, Japan, Malaysia, the Netherlands, Poland, Serbia, Singapore, South Korea, Spain, Sweden, Switzerland, and the United Kingdom as well as SAP employees we work with in numerous other countries. We plan to continue to expand our international presence in the future, which will place additional demands on our resources and operations. Unfavorable global economic conditions have and may continue to cause our customers or their customers to modify spending priorities or delay or abandon purchasing decisions, thereby lengthening sales cycles, and may make it difficult for us to forecast our sales and operating results and to make decisions about future investments. These and other potential effects on our business due to the unfavorable global economic conditions may be significant and could materially harm our business, operating results and financial condition. Additionally, political developments impacting government spending and international trade, including pandemics such as the COVID-19 pandemic and geopolitical events such as the ongoing conflict between Russia and Ukraine and the related sanctions, may negatively impact our dealings with our international partners. In addition to expanding our global presence, we continue to increase the breadth and scope of our XM Platform and our operations and continue to develop our partner network. Even with the support of SAP, in order to successfully manage our future growth we will need to continue to improve our IT and financial infrastructures, our operating and administrative systems, and our ability to manage headcount, capital, and internal processes in an efficient manner and deepen our industry experience in key verticals. Our organizational structure is also becoming more complex as we grow our operational, financial, and management infrastructure and we must continue to improve our internal controls as well as our reporting systems and procedures. We intend to continue to invest to expand our business, including investing in technology, sales and marketing operations, developing new solutions and features for our existing solutions, hiring additional personnel, and upgrading our infrastructure. These investments will require significant capital expenditures and the allocation of management resources, and any investments we make will occur in advance of experiencing the benefits from such investments, making it difficult to determine in a timely manner if we are efficiently allocating our resources. If we do not achieve the benefits anticipated from these investments, or if the achievement of these benefits is delayed, our results of operations may be adversely affected.

The experience management software category is relatively new and rapidly changing, and if we do not compete effectively, our business, results of operations, and financial condition could be harmed.

The experience management software category is relatively new and rapidly changing and has relatively low barriers to entry compared to some categories. While we do not believe that any of our competitors currently offer a full suite of experience management solutions that competes with our entire XM Platform, we do have numerous competitors who offer products and services that compete with certain features of our XM Platform. Our main competitors fall into the following categories:

- Providers of software for specific use cases, such as Medallia for customer experience;
- Traditional professional and marketing research services firms, such as Aon Hewitt and Towers Watson; and
- Individual-focused and self-service survey tools, such as Momentive.

While we have reasons to believe we compete favorably against these competitors, some of our existing competitors and potential future competitors are larger and have greater brand name recognition, longer operating histories, larger marketing budgets, established marketing relationships, access to larger customer bases, and significantly greater resources for the development of their offerings. These competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, or customer requirements.

With the introduction of new technologies, the evolution of our solutions, and new market entrants, we expect competition to intensify in the future. We also anticipate that potential competition may come in the future from incumbent software providers. For example, as we expand our focus into new use cases or other solutions beyond our existing solutions, we expect competition to increase. Pricing pressures from competitors undercutting our prices, and increased competition generally could result in reduced sales, reduced margins, losses, or the failure of our solutions to achieve or maintain more widespread market acceptance, any of which could harm our business, results of operations, and financial condition. Furthermore, our actual and potential competitors may establish cooperative relationships among themselves or with third parties, or consolidate through acquisitions or be sold to our competitors with greater resources than we have, that may further enhance their resources and offerings in the market we address and may increase the likelihood of our competitors offering bundled or integrated products with which we cannot compete effectively. Additionally, some current and potential customers and partners, particularly large organizations, have elected, and may in the future elect, to develop or acquire their own internal experience management software tools that would reduce or eliminate the demand for our solutions. For all of these reasons and others we do not or cannot anticipate today, we may not be able to compete successfully against our current and future competitors, which could harm our business, results of operations, and financial condition.

The current economic downturn has adversely affected and could continue to adversely affect our business, financial condition, and results of operations.

As a result of the current economic downturn, we have experienced, and may continue to experience, an adverse impact on certain parts of our business. The conditions caused by the current economic downturn have adversely affected or may in the future adversely affect, among other things, demand, spending by new customers, renewal and retention rates of existing customers, the length of our sales cycles, the value and duration of subscriptions, supply of goods and services provided by third parties, collections of accounts receivable, our IT and other expenses, all of which have and could continue to adversely affect our business, results of operations, and financial condition.

Our overall performance depends, in part, on worldwide economic conditions. In recent months, we have observed increased economic uncertainty in the United States and abroad. Impacts of such economic weakness have included and may continue to include:

- falling overall demand for goods and services, leading to reduced profitability;
- reduced credit availability;
- higher borrowing costs;
- reduced liquidity and tighter budgets;
- volatility in credit, equity and foreign exchange markets; and
- bankruptcies.

These developments have resulted in supply disruption, reduced budgets, inflation, higher interest rates, and uncertainty about business continuity, which may adversely affect our business and our results of operations. As our existing and potential customers react to global economic conditions and the potential for a global recession, certain customers have, and may again in the future, reduce spending on our products and take additional precautionary measures to limit or delay expenditures and preserve capital and liquidity. Reductions in spending on our solutions, delays in purchasing decisions, lack of renewals, inability to attract new customers, as well as pressure for extended billing terms or pricing discounts, have and may continue to limit our ability to grow our business and negatively affect our operating results and financial condition.

Our inability to streamline operations and improve cost efficiencies could result in the contraction of our business and the implementation of additional significant cost cutting measures. Our restructuring and reorganization activities may also be disruptive to our operations.

We have undertaken efforts to streamline operations and improve cost efficiencies to align with our highest priorities for 2023. For example, on January 11, 2023, we announced a reduction-in-force affecting less than 5% of our global workforce. We may not realize, in full or in part, the anticipated benefits, savings and improvements in our operating results from these efforts due to unforeseen difficulties, delays or unexpected costs. If there are unforeseen expenses associated with these efforts and we incur unanticipated charges or liabilities, or if we are unable to realize the expected operational efficiencies and cost savings, our operating results and financial condition could be adversely affected. Furthermore, our workforce reductions may be disruptive to our operations. For example, our workforce reductions could yield unanticipated consequences, such as attrition beyond planned staff reductions, increased difficulties in our day-to-day operations and reduced employee morale or productivity. We may also discover that the reductions in workforce and cost cutting measures will make it difficult for us to pursue new opportunities and initiatives and require us to hire qualified replacement personnel, which may require us to incur additional and unanticipated costs and expenses. Moreover, there is no assurance we will be successful in our efforts. We may also take similar steps in the future as we seek to realize operating synergies, optimize our operations to achieve our target operating model and profitability objectives, respond to market forces or better reflect changes in the strategic direction of our business. Our failure to successfully accomplish any of the above activities and goals may have a material adverse impact on our business, financial condition, and results of operations.

The impact of the COVID-19 pandemic has adversely affected and could continue to adversely affect our business, financial condition, and results of operations.

The COVID-19 pandemic has been widespread across the United States and around the globe, creating significant uncertainty and economic disruption as businesses and federal, state, and local governments have taken broad actions to mitigate this public health crisis. In response, we implemented a variety of measures which had the potential to disrupt how we operate our business. We have now discontinued or relaxed most of these measures. As the COVID-19 pandemic continues to evolve, however, we may be required to take new or further actions as required by government entities or that we determine are in the best interests of our employees, customers, partners, and suppliers.

As a result of the COVID-19 pandemic, we have experienced, and may continue to experience, an adverse impact on certain parts of our business. While the adverse effects and disruptions related to the COVID-19 pandemic on our business have decreased in recent months, the global impact of COVID-19 continues to evolve, including as a result of the emergence of new variants of the virus, vaccination efforts and the rapidly changing legal landscape, and we will continue to monitor the situation and the effects on our business and operations closely. Although we believe our business is well-suited to navigate the current environment, the ultimate duration and extent of the COVID-19 pandemic cannot be accurately predicted at this time, and the direct or indirect impact on our business, results of operations, cash flows, and financial condition will depend on future developments that are highly uncertain. The potential impacts of COVID-19 could also have the effect of heightening other risks described in this "Risk Factor" section.

If we are unable to retain customers at existing levels or sell additional functionality to our existing customers, our revenue growth will be adversely affected.

To increase our revenue, we must retain existing customers, convince them to expand their use of our solutions across their organizations and for a variety of use cases, and expand their subscriptions on terms favorable to us. If we are not able to renew our agreements with existing customers or attract new business from existing customers on favorable terms, this could have an adverse effect on our business, revenue, gross margins, and other operating results, and accordingly on the value of our common stock. The rate at which our customers purchase new or enhanced solutions from us, as well as the expansion of use of our solutions across organizations, depend on a number of factors, including general economic conditions, customer specific conditions, competitive pricing, integration with existing technologies, and satisfaction and market acceptance of our XM Platform generally. If our efforts to sell additional functionality and solutions to our customers are not successful, our business and growth prospects may suffer. Our customers have no obligation to renew their subscriptions for our solutions after the expiration of their initial subscription period, and a majority of our subscription contracts were one year or longer in duration for the year ended December 31, 2022.

If the experience management software category does not develop further, develops more slowly, or develops in a way that we do not expect, our business may be adversely affected.

We generate, and expect to continue to generate, revenue from the sale of subscriptions to our XM Platform. As a result, widespread acceptance and use of experience management solutions in general, and our XM Platform in particular, is critical to our future growth and success. If the experience management software category fails to grow or grows more slowly than we currently anticipate, demand for our XM Platform could be negatively affected.

Changes in user preferences for experience management may have a disproportionately greater impact on us than if we offered multiple platforms or a variety of products. Demand for experience management solutions in general, and our XM Platform in particular, is affected by a number of factors, many of which are beyond our control. Some of these factors include:

- awareness of the experience management category generally;
- availability of products and solutions that compete with ours;
- ease of adoption and use;
- features, performance and overall platform experience;
- brand;
- security and privacy;
- accessibility across several devices, operating systems, and applications;
- customer support;
- continued innovation; and
- pricing.

The experience management software category is subject to rapidly changing user demand and trends in preferences. If we fail to successfully predict and address these changes and trends, meet user demands, or achieve more widespread market acceptance of our XM Platform, our business, results of operations, and financial condition could be harmed.

If we are not able to develop new solutions and enhancements to our existing solutions that achieve market acceptance and that keep pace with technological developments, or if we are not able to deliver these new or enhanced solutions so that they can be easily and consistently deployed by our customers, our business and results of operations would be harmed.

Our ability to attract new customers and increase revenue from existing customers depends in large part on our ability to enhance and improve our existing solutions and to introduce compelling new solutions. The success of any enhancement to our solutions depends on several factors, including timely completion and delivery, competitive pricing, adequate quality testing, integration with other technologies and our XM Platform, and overall market acceptance. Any new solution that we develop may not be introduced in a timely or cost-effective manner, may contain errors, vulnerabilities or bugs, or may not achieve the market acceptance necessary to generate significant revenue. If we are unable to successfully develop new solutions, enhance our existing solutions to meet customer requirements, or otherwise gain market acceptance, our reputation, business, results of operations, and financial condition would be harmed.

Our ability to attract new customers and increase revenue from existing customers also depends on our ability to deliver enhancements and new solutions to our customers in a format where they can be easily and consistently deployed by most or all users without significant customer support. If our customers believe that deploying our enhancements and new solutions would be overly time-consuming, confusing, or technically challenging, then our ability to grow our business would be substantially harmed. We need to deliver a repeatable, user-friendly, prescriptive approach to deployment that allows users of all kinds to effectively and easily deploy our solutions, and if we fail to do so, our business and results of operations would be harmed.

Our success also depends on our ability to identify important and emerging use cases for our customers and quickly develop new and effective solutions to address those use cases. For example, prior to 2017, we did not offer a solution specifically tailored for either Product Experience or Brand Experience. We developed solutions for these specific use cases because we were able to identify that many of our customers were using our existing tools for those purposes. If we are unable to identify similar emerging use cases or applications of our XM Platform in a timely manner and innovate in a way that allows us to address these emerging use cases or applications, and also present them to our customers in a compelling package that differentiates those solutions from our existing capabilities, then we may lose customers to more innovative competitors or alternative solutions, and we will experience difficulties in attracting new customers and expanding revenue from existing customers.

If our security measures are breached or unauthorized access to data is otherwise obtained, our XM Platform may be perceived as insecure, we may lose existing customers or fail to attract new customers, our reputation may be harmed, and we may incur significant liabilities.

Unauthorized access to, or other security breaches of, our XM Platform or the other systems or networks used in our business, including our own systems as well as those of our vendors, contractors, partners or those with which we have strategic relationships, could result in the unauthorized disclosure, loss, compromise, exfiltration, destruction or corruption of customer or other personal data, including sensitive data, loss of business, reputational damage adversely affecting customer or investor confidence, regulatory investigations and orders, class action or other litigation, indemnity obligations, damages for contract breach, penalties for violation of applicable laws or regulations, notification obligations, significant costs for remediation, and other liabilities. We have errors and omissions insurance coverage for certain security and privacy damages and claim expenses, but this coverage may be insufficient to compensate us for the type or quantity of liabilities that we may incur.

Our XM Platform and the other systems or networks used in our business are also at risk for breaches as a result of third-party action, or employee, contractor, vendor, partner or customer error or malfeasance. Security incidents have occurred in the past, and may occur in the future, resulting in unauthorized access to, loss or destruction of or unauthorized disclosure of information, regulatory enforcement actions, litigation, indemnity obligations, and other possible liabilities, as well as negative publicity, which could damage our reputation or customer satisfaction, impair our sales, and harm our business. Cyberattacks and other malicious activity continue to increase in frequency and complexity, and cloud-based platform providers of services have been and are expected to continue to be targeted. Cyber threat actors may damage or infiltrate our systems by a variety of methods, including by deploying malware (including ransomware) that disrupts their operability, using social engineering to obtain access credentials or otherwise bypass security controls to gain access to our environment, exploiting vulnerabilities in software and hardware that we and our third-party service providers use in our business, or using botnets to conduct denial of service or other attacks. These threats may arise through the actions of lone actors, hacktivist groups, sophisticated criminals organizations, nation states, or insiders. Despite significant efforts to implement security designed to protect against such threats, it is impossible for us to entirely protect against or mitigate these risks. If our security measures are compromised, for example, as a result of third-party action, employee or customer error, malfeasance, stolen or fraudulently obtained log-in credentials or otherwise, our reputation or customer satisfaction could be damaged, our business, including our delivery of services, may be harmed, and we could incur significant liability. We have not always been able in the past and may be unable in the future to anticipate or prevent techniques used to obtain unauthorized access or to compromise our systems, in part because they are continuously evolving and changing, and may not be known or detected until after an incident has occurred. Concerns regarding data privacy and security may cause some of our customers to stop using our solutions and fail to renew their subscriptions. This discontinuance in use or failure to renew could substantially harm our business, operating results, and growth prospects. Further, as we rely on third-party and public-cloud infrastructure, we will depend in part on third parties' security measures to protect against unauthorized access, cyberattacks, and the mishandling of customer data. In addition, the ongoing COVID-19 pandemic could potentially disrupt the supply chain of hardware needed to maintain these third party systems and services to run our business. Failures to meet customers' expectations with respect to security and confidentiality of their data and information could damage our reputation and affect our ability to retain customers, attract new customers, and grow our business. In addition, a cybersecurity event could result in significant increases in costs, including costs for remediating the effects of such an event, legal and advisor fees, and legal claims; lost revenue due to network downtime and decrease in customer trust; increases in insurance premiums and coverage; and damage to our reputation.

Our business could be harmed by any significant disruption of service on our XM Platform or loss of content.

Our brand, reputation, and ability to attract, retain, and serve our customers are dependent upon the reliable performance of our XM Platform, including our underlying technical infrastructure. Our technical infrastructure may not be adequately designed with sufficient reliability and redundancy to avoid performance delays or outages that could be harmful to our business. If our XM Platform is unavailable when users attempt to access it, or if it does not load as quickly as they expect, users may not use our XM Platform as often in the future, or at all.

As our user base and the amount and types of information stored and shared on our XM Platform continue to grow, we will need an increasing amount of technical infrastructure, including network capacity and computing power, to continue to satisfy the needs of our users. Further, as we continue to grow and scale our business to meet the needs of our users, we may overestimate or underestimate our infrastructure capacity requirements, which could adversely affect our results of operations. We regularly evaluate our short- and long-term infrastructure capacity requirements to ensure adequate capacity for new and existing users while minimizing unnecessary excess capacity costs. If we overestimate the demand for our XM Platform and therefore secure excess infrastructure capacity, our operating margins could be reduced. If we underestimate our infrastructure capacity requirements, we may not be able to service the expanding needs of new and existing users, and our hosting facilities, network, or systems may fail. In some cases, our contracts with our customers stipulate a minimum uptime availability of our XM Platform, and to the extent we do not meet these obligations, we may be subject to penalties, refunds or other contractual claims from our customers. If any of these events occur, our reputation, business, and financial condition would be harmed.

We have relied on administrative and other resources of SAP to operate our business. We have entered into various service agreements with SAP to retain the ability for specified periods to use these SAP resources. These services may also not be sufficient to meet our needs, and after these arrangements with SAP expire, we may not be able to replace these services at all or obtain these services at prices and on terms as favorable as we currently have with SAP. We will need to create our own administrative and other support systems or contract with third parties to replace SAP's systems. In addition, we have received informal support from SAP which may not be adequately addressed in the agreements entered into with SAP and the level of this informal support may diminish over time as we become a more independent company. Any failure or significant downtime in our own administrative systems or in SAP's administrative systems during the transitional period could result in unexpected costs, impact our results and/or prevent us from paying our suppliers or employees and performing other administrative services on a timely basis.

If we fail to offer high quality customer support, our business and reputation could suffer.

Our customers rely on our customer support teams to resolve technical and operational issues if and when they arise. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for customer support. We also may be unable to modify the nature, scope, and delivery of our customer support to compete with changes in customer support services provided by our competitors or to adapt to product and industry developments. Increased customer demand for customer support, without corresponding revenue, could increase costs and harm our results of operations. In addition, as we continue to grow our operations and reach a large global customer base, we need to be able to provide efficient customer support that meets our customers' needs globally at scale. The number of our customers has grown significantly, and that growth has and will continue to put additional pressure on our support organization. As our business scales, we may need to engage third-party customer support service providers, which could negatively impact the quality of our customer support if such third parties are unable to provide customer support that is as effective as that we provide ourselves. Our sales are highly dependent on our business reputation and on positive recommendations from our existing customers. Accordingly, high quality customer support is important for the renewal and expansion of our agreements with existing customers and any failure to maintain such standards of customer support, or a market perception that we do not maintain high quality customer support, could harm our reputation, our ability to sell product to existing and prospective customers, and our business, results of operations, and financial condition.

We invest significantly in research and development, and to the extent our research and development investments do not translate into new solutions or material enhancements to our current solutions, or if we do not use those investments efficiently, our business and results of operations would be harmed.

A key element of our strategy is to invest significantly in our research and development efforts to develop new solutions and rapidly introduce new technologies, features and functionality of our existing solutions. For the years ended December 31, 2022, 2021, and 2020, our research and development expenses were 29%, 30%, and 28% of our revenue, respectively. If we do not spend our research and development budget efficiently or effectively on compelling innovation and technologies, our business may be harmed and we may not realize the expected benefits of our strategy. Moreover, research and development projects can be technically challenging and expensive. The nature of these research and development cycles may cause us to experience delays between the time we incur expenses associated with research and development and the time we are able to offer compelling solutions and generate revenue, if any, from such investment. Additionally, anticipated customer demand for a solution or solutions we are developing could decrease after the development cycle has commenced, and we would nonetheless be unable to avoid substantial costs associated with the development of any such solution or solutions. If we expend a significant amount of resources on research and development and our efforts do not lead to the successful introduction or improvement of solutions that are competitive in our current or future markets, it would harm our business and results of operations.

Our business depends on a strong brand, and if we are not able to maintain and enhance our brand, our ability to expand our number of customers will be impaired and our business, results of operations, and financial condition will be harmed.

We believe that our brand identity and awareness have significantly contributed to our success and have helped fuel our efficient go-to-market model. We also believe that maintaining and enhancing our Qualtrics brand and our other brands, as well as our reputation generally, is critical to expanding our number of customers. We anticipate that, as our market becomes increasingly competitive, maintaining and enhancing our brand may become increasingly difficult and expensive. The perception of our brand by our customers, prospective customers, and partners has likely evolved as a result of our acquisition by SAP and will likely continue to evolve, including in ways that may be unforeseeable or unfavorable to us. Any unfavorable publicity or consumer perception of our XM Platform, or even a competitor's platform in the experience management software category generally, could adversely affect our reputation and our ability to attract and retain customers on our XM Platform, and diminish customer interest in the experience management market generally. Positions we take on social and ethical issues may be unpopular with some of our employees or potential employees, and with our customers or potential customers, which may impact our brand, reputation and ability to attract or retain employees and customers. We also may choose not to conduct business with potential customers or discontinue or not expand business with existing customers due to these positions. Further, actions taken by our customers, including through the use or misuse of our products, may adversely affect our brand or result in reputational harm or possible liability. Additionally, if we fail to promote and maintain the Qualtrics brand, or if we incur excessive expenses in this effort, our business, results of operations, and financial condition will be materially and adversely affected. As an SAP company, we also face the risk that unfavorable publicity or negative consumer perception of SAP may adversely affect our business and brand.

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

Our ability to broaden our customer base, particularly our business customer base, and achieve broader market acceptance of our XM Platform will depend to a significant extent on the ability of our sales and marketing organizations to work together to drive our sales pipeline and cultivate customer and partner relationships to drive revenue growth. As an SAP company, we have been able to utilize our partnership to grow and enhance our business. We continue to jointly develop, market, and sell our solutions with SAP, and SAP's global footprint has allowed us to reach new geographies and expand our international presence faster. If we are unable to effectively leverage our partnership with SAP to drive sales, increase our customer base, and achieve broader market acceptance, our growth plans could be adversely affected.

We have invested in and plan to continue to invest aggressively to expand our sales and marketing organizations, both domestically and internationally. Identifying, recruiting, and training sales personnel will require significant time, expense, and attention. In addition to our partnership with SAP, we have also developed a network of leading content and consulting partners, delivery partners, and technology partners who enrich our offerings, scale our coverage, and help us reach a broader audience than we would be able to reach on our own. If we are unable to recruit, hire, develop, and retain talented sales or marketing personnel, if our new sales or marketing personnel and partners are unable to achieve desired productivity levels in a reasonable period of time, or if our sales and marketing programs are not effective, our ability to broaden our customer base and achieve broader market acceptance of our XM Platform could be harmed. In addition, the investments we make in our sales and marketing organization will occur in advance of experiencing benefits from such investments, making it difficult to determine in a timely manner if we are efficiently allocating our resources in these areas.

We also plan to dedicate significant resources to sales and marketing programs, including user conferences (such as our annual X4 Summit), online advertising, webinars, blogs, corporate communications, white papers, and case studies. We were unable to hold our in-person X4 Summit event in 2020, 2021 and 2022 due to the COVID-19 pandemic. As the traveling and gathering restrictions related to the COVID-19 pandemic have eased, we have announced an in-person X4 Summit event for March 2023, but we may be unable to do so in future years as a result of how this pandemic evolves or changes in the public's perception of live events resulting therefrom. To the extent that we are unable to hold in person events such as user conferences due to the COVID-19 pandemic or fewer users choose to attend, our efforts to achieve broader market acceptance of our XM Platform may be adversely affected.

If we are unable to develop and maintain successful relationships with certain partners, our business, results of operations, and financial condition could be harmed.

In addition to our sales force and our joint go-to-market strategy with SAP, we work with certain strategic partners to help grow and develop our sales and distribution channels and implement our XM Platform. We believe that continued growth in our business is dependent upon identifying, developing, and maintaining strategic relationships with our existing and potential partners that can drive revenue and provide additional solutions to our customers. We engage certain partners to generate customer acquisition opportunities, certain other partners to implement our XM Platform with our existing customers, and certain other partners to participate in our Qualtrics Developer Platform. In some cases, we do not yet have sufficient data or feedback regarding the effectiveness of these partnerships. If we are unable to develop and maintain successful relationships with these partners, or if they otherwise fail to succeed in the objectives of our relationships with them, our business, results of operations, and financial condition could be harmed.

Our sales cycle with enterprise, government, and international customers can be long and unpredictable.

The timing of our sales with our enterprise, government, and international customers and related revenue recognition is difficult to predict because of the length and unpredictability of the sales cycle for these customers. We sell to United States federal, state and local, as well as foreign, governmental agency customers, and government demand and payment for our offerings are affected by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our offerings. We are often required to spend significant time and resources to better educate and familiarize these potential customers with the value proposition of paying for our solutions. The length of our sales cycle for these customers, from initial evaluation to payment for our offerings, is often significantly longer than other customers, and can vary substantially from customer to customer, and thus it is difficult to predict whether and when a sale will be completed.

Our ability to sell subscriptions to our XM Platform could be harmed by real or perceived material defects or errors in our platform.

The software technology underlying our XM Platform is inherently complex and may contain material defects or errors, particularly when first introduced or when new features or capabilities are released. We have from time to time found defects or errors in our XM Platform, and new defects or errors in our existing XM Platform or new software may be detected in the future by us or our users. There can be no assurance that our existing XM Platform and new software will not contain defects. Any real or perceived errors, failures, vulnerabilities, or bugs in our XM Platform could result in negative publicity or lead to data security, access, retention, or other performance issues, all of which could harm our business. The costs incurred in correcting such defects or errors may be substantial and could harm our results of operations and financial condition. Moreover, the harm to our reputation and legal liability related to such defects or errors may be substantial and could harm our business, results of operations, and financial condition.

We also utilize hardware purchased or leased, and software and services licensed, from third parties to host and provide security over our XM Platform. Our customers may also seek to integrate our XM Platform with other software systems developed by third parties. Any defect in, or unavailability of, our or third-party software, services or hardware, or problems with integrating our XM Platform with third-party software that causes interruptions to the availability of our XM Platform, loss of data, or performance issues could, among other things:

- cause a reduction in revenue or delay in market acceptance of our XM Platform;

- require us to issue refunds to our users or expose us to claims for damages;
- cause us to lose existing users and make it more difficult to attract new users;
- divert our development resources or require us to make extensive changes to our XM Platform, which would increase our expenses;
- increase our technical support costs; and
- harm our reputation and brand.

If we cannot maintain our company culture as we grow, we could lose the innovation, teamwork, passion, and focus on execution that we believe contribute to our success and our business may be harmed.

We believe that a critical component to our success has been our company culture. Our company is aligned behind our culture and key values, and we have invested substantial time and resources in building our team within this company culture. Our company culture has evolved as a result of the SAP Acquisition and will likely continue to evolve as a result of being a public company, including in ways that may be unforeseeable or unfavorable to us. As we reduce, maintain, or increase the size of our employee base depending on market conditions and company priorities, grow and develop the infrastructure of a public company, transition from wholly-owned subsidiary to majority-owned subsidiary of, or acquire other companies, we may find it difficult to maintain our company culture. Any failure to preserve our culture could harm our future success, including our ability to retain and recruit personnel, innovate and operate effectively, and execute on our business strategy.

We are continuing to expand our operations outside the United States, where we may be subject to increased business and economic risks that could impact our results of operations.

A key focus of our company is to continue to expand our operations outside of the United States. In order to do so, we use a hub-and-spoke sales model, comprised of a centralized inside-sales team surrounded by regional direct sales efforts. We have invested significant effort to building and optimizing our international growth. For the year ended December 31, 2022, 30% of our revenue is from outside the United States, and we have continued to add employees and offices in new countries. We expect to continue to expand our international operations, which may include opening additional offices in new jurisdictions and providing our XM Platform in additional languages. Any new markets or countries into which we attempt to sell subscriptions to our XM Platform may not be receptive. For example, we may not be able to expand further in some markets if we are not able to satisfy certain government- and industry-specific requirements. If we are not successful in converting our investments in international expansion to additional revenue, our business and results of operations may be harmed. In addition, our ability to manage our business and conduct our operations internationally requires considerable management attention and resources and is subject to the particular challenges of supporting a rapidly growing business in an environment of multiple languages, cultures, customs, legal and regulatory systems, alternative dispute systems, and commercial markets. International expansion has required, and will continue to require, investment of significant funds and other resources. In addition, in certain ways it was easier for us to expand internationally as a previously wholly-owned subsidiary of SAP, given SAP's significant global presence, than it is as a majority-owned subsidiary of SAP. Operating internationally subjects us to new risks and may increase risks that we currently face, including risks associated with:

- recruiting and retaining talented and capable employees outside the United States and maintaining our company culture across all of our offices;
- providing our XM Platform and operating our business across a significant distance, in different languages and among different cultures, including the potential need to modify our XM Platform and features to ensure that they are culturally appropriate and relevant in different countries;
- compliance with applicable international laws and regulations, including laws and regulations with respect to privacy, data protection, consumer protection, and unsolicited email, and the risk of penalties to our users and individual members of management or employees if our practices are deemed to be out of compliance;

- management of an employee base in jurisdictions that may not give us the same employment and retention flexibility as does the United States;

- operating in jurisdictions that do not protect intellectual property rights to the same extent as does the United States;

- compliance by us and our business partners with anti-corruption laws, import and export control laws, tariffs, trade barriers, economic sanctions, and other regulatory limitations on our ability to provide our XM Platform in certain international markets;

- foreign exchange controls that might require significant lead time in setting up operations in certain geographic territories and might prevent us from repatriating cash earned outside the United States;

- political and economic instability in countries where we may operate, including the potential effects of the current COVID-19 pandemic and the ongoing conflict between Russia and Ukraine;

- double taxation of our international earnings and potentially adverse tax consequences due to changes in the income and other tax laws of the United States or the international jurisdictions in which we operate;

- higher costs of doing business internationally, including increased accounting, travel, infrastructure, and legal compliance costs; and

- other events or factors, including those resulting from war such as the ongoing conflict between Russia and Ukraine, incidents of terrorism, natural disasters, disease, global pandemics such as COVID-19, or responses to these events.

Compliance with laws and regulations applicable to our global operations substantially increases our cost of doing business in international jurisdictions. We may be unable to keep current with changes in laws and regulations as they change. Although we have implemented policies and procedures designed to support compliance with these laws and regulations, there can be no assurance that we will always maintain compliance or that all of our employees, contractors, partners, and agents will comply. Any violations could result in enforcement actions, fines, civil and criminal penalties, damages, injunctions, or reputational harm. If we are unable to comply with these laws and regulations or manage the complexity of our global operations successfully, our business, results of operations, and financial condition could be adversely affected.

We may acquire other companies or technologies which could divert our management's attention, result in additional dilution to our stockholders, and otherwise disrupt our operations and harm our results of operations.

As we have in the past, we may in the future seek to acquire or invest in businesses, people, or technologies that we believe could complement, expand, or enhance our XM Platform or otherwise offer growth opportunities. The pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating, and pursuing suitable acquisitions, whether or not they are ultimately consummated.

Any integration process may result in unforeseen operating difficulties and require significant time and resources and, we may not be able to integrate the acquired personnel, operations, and technologies successfully or effectively manage the combined business in connection with any future acquisition. Our prior acquisitions have been relatively small, and thus we are relatively inexperienced in effectively implementing an integration process. We may also not achieve the anticipated benefits from the acquired business due to a number of factors, including, among others:

- costs or liabilities associated with the acquisition;

- diversion of management's attention from other business concerns;

- inability to integrate or benefit from acquired content, technologies, or solutions in a profitable manner;

- harm to our existing relationships with customers and partners as a result of the acquisition;

- difficulty integrating the accounting systems, operations, and personnel of the acquired business;
- difficulty converting the customers of the acquired business onto our XM Platform and contract terms;
- the potential loss of key employees;
- use of resources that are needed in other parts of our business; and
- the use of substantial portions of our available cash or equity to consummate the acquisition.

In the future, if our acquisitions do not yield expected returns, we may be required to take charges for the write-down or impairment of amounts related to goodwill and acquired intangible assets, which could negatively impact our results of operations. We may issue additional equity securities in connection with any future acquisitions that would dilute our existing stockholders, use cash that we may need in the future to operate our business, incur debt on terms unfavorable to us or that we are unable to pay, incur large charges or substantial liabilities, and become subject to adverse tax consequences, substantial depreciation, or deferred compensation charges. These challenges could adversely affect our business, financial conditions, results of operations, and prospects.

Integrating Clarabridge with our business may be more difficult, costly, or time-consuming than expected, and we may not realize the expected benefits of the Clarabridge Acquisition, which may adversely affect our business, results of operations, and financial condition.

If we experience greater than anticipated costs to integrate, or are not able to successfully integrate, Clarabridge into our existing operations, we may not be able to achieve the anticipated benefits of the Clarabridge Acquisition, including advancement of our business strategy and growth opportunities. Even if we integrate and retain Clarabridge employees, business systems, and technology successfully, we may not realize all of the anticipated benefits of the Clarabridge Acquisition in the time frame anticipated, or at all. For example, events outside our control, such as changes in laws and regulations, could adversely affect our ability to realize the expected benefits from the Clarabridge Acquisition. Further, it is possible that there could be a loss of our and/or Clarabridge's key employees and customers. Specifically, the following issues, among others, must be addressed in combining Clarabridge's operations with ours in order to realize the anticipated benefits of the Clarabridge Acquisition so the combined company performs as the parties anticipate:

- combining Clarabridge's business with our business in a manner that permits us to achieve the benefits anticipated to result from the Clarabridge Acquisition;
- maintaining existing agreements with customers, distributors, providers, talent and vendors and avoiding delays in entering into new agreements with prospective customers, distributors, providers, talent and vendors;
- determining whether and how to address possible differences in corporate cultures and management philosophies;
- integrating the companies' administrative and information technology infrastructure;
- developing products and technology that allow value to be unlocked in the future; and
- evaluating and forecasting the financial impact of the Clarabridge Acquisition, including accounting charges.

An inability to realize the full extent of the anticipated benefits of the Clarabridge Acquisition, as well as any delays encountered in the integration process, could have an adverse effect upon our business, results of operations, and financial condition. In addition, it is possible that the integration process could result in the disruption of our ongoing business and business relationships or inconsistencies in standards, controls, procedures, and policies that may adversely affect our business or our ability to achieve the anticipated benefits of the Clarabridge Acquisition. Integration efforts also may divert significant management attention and resources or require significant non-recurring costs, including costs to maintain employee morale and to retain key employees. For all of these reasons, we may not be able to achieve the anticipated benefits of the Clarabridge Acquisition, which could adversely affect our business, results of operations, and financial condition and could cause the price of our Class A common stock to decline.

Clarabridge may have liabilities that are not known to us.

Clarabridge may have liabilities that we failed, or were unable, to discover in the course of performing our due diligence investigations in connection with the Clarabridge Acquisition. Following the completion of the Clarabridge Acquisition, we may learn additional information about Clarabridge that materially and adversely affects us and Clarabridge, such as unknown or contingent liabilities and liabilities related to compliance with applicable laws and regulations. Even if we were able to seek an indemnification claim under the Merger Agreement for such liabilities, we may not be able to fully recover our potential losses. Any such liabilities, individually or in the aggregate, could have an adverse effect on our business, results of operations, and financial condition.

Purchase price accounting in connection with our acquisitions requires estimates that may be subject to change and could impact our condensed consolidated financial statements and future results of operations and financial position.

Pursuant to the acquisition method of accounting, the purchase price we pay for acquisitions is allocated to the underlying tangible and intangible assets acquired and liabilities assumed based on their respective fair market values with any excess purchase price allocated to goodwill. The acquisition method of accounting is dependent upon certain valuations and other studies which may be preliminary. Differences between preliminary estimates and the final acquisition accounting may occur, and these differences could have a material impact on our condensed consolidated financial statements and the combined company's future results of operations and financial position.

Privacy, data protection, and information security concerns, and data collection and transfer restrictions and regulations, may limit the use and adoption of our XM Platform and adversely affect our business.

Use of our XM Platform involves the storage, transmission, and processing of data from our customers and their users, employees or other personnel, including certain personal or individually identifying information. Personal privacy, information security, and data protection are significant issues in the United States, including at the individual state level, Europe, and many other jurisdictions where we offer our XM Platform.

The United States federal and various state governments have adopted or proposed requirements regarding the collection, distribution, use, security, and storage of, and individual rights relating to, personally identifiable information and other data relating to individuals, and federal and state consumer protection laws are also commonly applied to investigate and enforce companies' statements regarding their collection, use, dissemination and other treatment of data, as well as security measures implemented to protect data.

In the United States, state laws are increasingly playing a significant role in privacy regulation. For example, in 2018, the State of California adopted the California Consumer Privacy Act of 2018, or the CCPA, which came into effect January 1, 2020 and was amended by the California Privacy Rights Act (CPRA), which recently became effective on January 1, 2023. The CCPA establishes a new privacy framework for covered businesses with expansive definitions of "personal information" and the "sale" of personal information, and by establishing new data privacy rights for consumers in the State of California, imposing special rules on the collection of consumer data from minors, requiring businesses to provide consumers in the State of California a means of opt-out from the sale of personal information and creating a new and potentially severe statutory damages framework for violations of the CCPA and for businesses that fail to implement reasonable security procedures and practices to prevent data breaches. Enforcement priorities and interpretation of certain provisions of the CCPA are still unclear. To comply with the rules imposed by CCPA we may be required to put in place additional mechanisms ensuring compliance and other substantial expenditures. This may be onerous and adversely affect our business, financial condition, results of operations, and prospects.

The CPRA significantly modifies the CCPA by, among other things, creating a dedicated privacy regulatory agency, requiring businesses to implement data minimization and data integrity principles, and imposing additional requirements for contracts addressing the processing of personal information. Moreover, the CPRA calls for additional regulations to be implemented and these regulations have not yet been finalized, leading to uncertainty about how the changes introduced by the CPRA will be interpreted and enforced. The regulations may result in further uncertainty with respect to privacy, data protection, and information security issues and will require us to incur additional costs and expenses in an effort to comply. The enactment of the CCPA has prompted similar legislative developments in other states, which could create the potential for a patchwork of overlapping but different state laws. For example, Virginia, Colorado, Connecticut and Utah have each passed privacy laws that share many similarities with the CCPA.

These new requirements, together with laws and regulations that may be passed in the future, could reduce demand for our XM Platform, increase our costs, impair our ability to grow our business, restrict our ability to store and process data, subject us to liability, or, in some cases, impact our ability to offer our XM Platform in some locations. Further, in view of new or modified federal or state laws and regulations, industry standards, contractual obligations, and other legal obligations, or any changes in their interpretation, we may find it necessary or desirable to fundamentally change our business activities and practices or to expend significant resources to modify our XM Platform and otherwise adapt to these changes. We may be unable to make such changes and modifications in a commercially reasonable manner, or at all, and our ability to develop new content and features could be limited. Further, failure to comply with privacy or data security-related laws, rules, regulations of jurisdictions in which we do business, or other privacy and data security obligations could result in material fines and other penalties imposed by regulators, affect our compliance with client contracts and have an adverse effect on our business, financial condition, and results of operations. Our activities could also result in litigation (including class-related claims), mandatory disclosures of breaches to affected individuals, customers, and data protection supervisory authorities, as well as investigations and administrative measures by data protection supervisory authorities, such as the instruction to alter or stop non-compliant data processing activities, including the instruction to stop using non-compliant subcontractors.

Our XM Platform allows our customers to communicate through email, SMS, and other means. We generally require that communications sent though our XM Platform include an unsubscribe or opt-out function; however, users who elect to unsubscribe are typically unsubscribed only from one particular customer's communications and not from all communications sent via our XM Platform. From time to time, consumers have complained to us after receiving communications via our platform from one customer despite having opted out of communications from another customer. Consumers must unsubscribe from each customer on an individual basis. Similarly, consumers have complained to us after receiving communications sent directly to them by our customers, outside of our XM Platform, after mistakenly believing they were sent via our platform. If consumers do not understand this process or do not believe we are following the appropriate rules and regulations in their respective jurisdictions, or if we fail to build and maintain our XM Platform in a manner that complies with relevant laws and rules relating to unsubscribe and opt-out capabilities, then consumers may complain to us or to our regulators and could seek to take legal or regulatory action against us or our customers.

In many jurisdictions outside of the United States personal data collection and processing are governed by restrictive regulations governing the use, processing and cross-border transfer of personal information.

As a global software and service provider, we are required to comply with local laws of various countries and jurisdictions. The regulatory frameworks governing the collection, processing, storage, and use of business information, particularly information that includes personal data, are rapidly and continuously evolving across multiple jurisdictions, which may introduce conflicts between compliance obligations or other uncertainties. Any failure or perceived failure to comply with applicable privacy, security, or data protection laws, regulations and/or contractual obligations may adversely affect our business. Such evolving regulations and new laws globally regarding data protection and privacy or other standards are increasingly aimed at the use of personal information, such as for marketing purposes and the tracking of individuals' online activities. We may have additional burdens imposed on us due to increasing compliance standards that could restrict the use and adoption of our products and services and make it more challenging and complex to meet customer expectations.

Many foreign countries and governmental bodies, including the European Economic Area, or EEA, where we conduct business, have laws and regulations concerning the collection and use of personal data. These laws and regulations are often more wide-ranging and more restrictive than those in the United States. Laws and regulations in these jurisdictions apply broadly to the collection, use, storage, disclosure, and security of data that identifies or may be used to identify or locate an individual, such as names, email addresses and Internet Protocol addresses. For instance, the General Data Protection Regulation, or GDPR, regulates the collection and use of personal data of data subjects in the EEA. Further, following Brexit, we must also ensure we comply with the GDPR as it is transposed into the laws of the United Kingdom by virtue of United Kingdom's European Union (Withdrawal) Act 2018 (the UK GDPR). Unless otherwise specified, references to the GDPR shall also include the UK GDPR. The GDPR applies extraterritorially and imposes several stringent requirements for controllers and processors of personal data, including, for example, higher standards for obtaining consent from individuals to process their personal data, more robust disclosures to individuals and a strengthened individual data rights regime, shortened timelines for data breach notifications, limitations on retention of information, increased requirements pertaining to special categories of personal data and pseudonymized (i.e., key-coded) data and additional obligations when we contract third-party processors in connection with the processing of the personal data. The GDPR provides that EU member states may make their own further laws and regulations limiting the (i) processing of personal data, including special categories of special data (e.g., racial or ethnic origin, political opinions, religious or philosophical beliefs); and (ii) profiling and automated individual decision-making of individual; which could limit our ability to use and share personal data or other data and could cause our costs to increase, and harm our business and financial condition. Noncompliance with the GDPR can trigger steep fines of up to €20 million (i.e., £17.5 million under the UK GDPR) or 4% of global annual revenue, whichever is higher. In addition to such fines, we could be subject to litigation and/or adverse publicity, which could have a material adverse effect on our reputation and business. Note, separate European laws and regulations (and EEA member states' implementations thereof) govern the protection of consumers and of electronic communications.

Further, European data protection laws also prohibit the transfer of personal data from the UK, EEA, and Switzerland to other countries, including the United States, unless adequate protections are provided for personal data in such recipient countries. With regard to transfers of personal data from our European employees and customers to the United States, we historically relied on our adherence to the United States Department of Commerce's Safe Harbor Privacy Principles and compliance with the EU-U.S. and Swiss-U.S. Safe Harbor Frameworks as agreed to and set forth by the United States Department of Commerce, the EU, and Switzerland. Following the invalidation of the EU-U.S. Safe Harbor Framework by the Court of Justice of the European Union, or CJEU, in October 2015, we implemented certain measures in order to certify our adherence to the EU-U.S, UK-US, Swiss-U.S. Privacy Shield Frameworks. In addition, we have relied on standard contractual clauses approved by the European Commission for this purpose. In July 2020, the EU-U.S. Privacy Shield Framework was also invalidated by the CJEU. Since the invalidation of the EU-U.S. Privacy Shield Framework, we have sought to implement other measures to permit transfers of personal data from the UK, EEA and Switzerland to the United States, including continuing to rely on the standard contractual clauses approved by the European Commission for this purpose.

On June 4, 2021, the European Commission published new versions of the Standard Contractual Clauses, or New SCCs, which, among other things, seek to address the issues identified by the CJEU invalidating Privacy Shield. On June 18, 2021, the European Data Protection Board, or EDPB, issued its final guidance that imposes significant new diligence requirements on transferring data outside the EEA, including under an approved transfer mechanism. This guidance requires an "essential equivalency" assessment of the laws of the destination country transferred. If the "essentially equivalent" level of protection standard outlined by the CJEU's decision is not satisfied in the destination country, the exporting entity must then assess if supplementary technical, organizational and/or contractual measures can be put in place that, in combination with the chosen transfer mechanism, would address the deficiency in the laws and ensure that essentially equivalent protection can be given to the data. Complying with this guidance will be expensive and time consuming and may ultimately prevent us from transferring personal data outside the EEA, which would cause significant business disruption. At present, there are few, if any, viable alternatives to the SCCs. The UK is not subject to the European Commission's New SCCs; however, it has published its own transfer mechanism, the International Data Transfer Agreement or International Data Transfer Addendum, which enables transfers from the UK. Further, the standard contractual clauses could also be subject to challenges, and could ultimately be invalidated by the European courts.

Relatedly, the Swiss data protection authority determined the Swiss-U.S. Privacy Shield framework was no longer a valid mechanism for Swiss-U.S. data transfers and also raised questions about the validity of the standard contractual clauses as a mechanism for transferring personal data from Switzerland.

In addition to the present uncertainty as to valid means to assure adequate safeguards of EEA and Swiss personal data transferred to the United States, we expect to be impacted by future changes in law as a result of a further reviews of transfer mechanisms by European regulators, as well as challenges to these mechanisms in the European courts. There are also questions of whether and by what mechanisms personal data may be transferred from the EEA and Switzerland to the United Kingdom, post-Brexit. In June 2021, the European Commission issued an adequacy decision under the GDPR which allows transfers of personal data from the EEA to the United Kingdom to continue without restriction for a period of four years. But if the adequacy decision is not renewed, such transfers of personal data will require a valid transfer mechanism and companies making such transfers may be required to implement new processes and put new agreements in place to continue making such transfers. If we cannot implement a valid compliance mechanism for cross-border personal data transfers, we may face increased exposure to regulatory actions, substantial fines, and injunctions against processing or transferring personal data from Europe.

Further, additional changes in EU and UK data protection law may be on the horizon. The UK has announced plans to reform the country's data protection legal framework in its Data Protection and Digital Information Bill. While these plans are currently on hold, if they do manifest, they will likely cause additional complications and carry additional compliance burdens. Also, at the European level, the EU's Digital Services Act, or DSA, was formally approved by EU law makers in October 2022; however, the majority of the DSA's provisions will not be applicable until February 2024. The DSA will — inter alia — impose new obligations on providers of intermediary services and hosting services (a subset of the former). Such obligations include establishing points of contact to facilitate direct communication with supervisory authorities and the recipients of services, and implementation of mechanisms to allow third parties to notify the presence of allegedly illegal content.

Failure to comply with applicable foreign privacy or data security-related laws, rules could result in material fines and other penalties imposed by regulators, affect our compliance with client contracts and have an adverse effect on our business, financial condition, and results of operations. Our activities could also result in litigation (including class-related claims), mandatory disclosures of breaches to affected individuals, customers, and data protection supervisory authorities, as well as investigations and administrative measures by data protection supervisory authorities, such as the instruction to alter or stop non-compliant data processing activities, including the instruction to stop using non-compliant subcontractors.

Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand.

Our success and ability to compete depends in part upon our intellectual property and other proprietary rights. We primarily rely on a combination of patent, copyright, trade secret, and trademark laws, trade secret protection and confidentiality or license agreements with our employees, contractors, customers, partners, suppliers and others to protect our intellectual property rights. However, the steps we take to protect our intellectual property rights may be insufficient, and our intellectual property may still be challenged, invalidated, disclosed, or subject to other attacks from competitors or former employees. We cannot guarantee that any of our pending applications will be approved or that our existing and future intellectual property rights will be sufficiently broad to protect our proprietary technology. For example, competitors may try to use brand names confusingly similar to ours for similar products and services in order to benefit from our brand's value. Others, including our competitors, may independently develop similar technology, duplicate our services or design around our intellectual property and, in such cases, we may not be able assert our intellectual property rights against such parties. Further, our contractual arrangements may not effectively prevent disclosure of our confidential information or provide an adequate remedy in the event of unauthorized disclosure of our confidential information, and we may be unable to detect the unauthorized use of, or take appropriate steps to enforce, our intellectual property rights.

We hold a number of patents and patent applications in the United States and a number of international patent applications that we may use to pursue patents and patent applications in other foreign jurisdictions. We make business decisions about when to seek patent protection for a particular technology and when to rely upon trade secret protection, and the approach we select may ultimately prove to be inadequate. Even in cases where we seek patent protection, there is no assurance that the resulting patents will effectively protect every significant feature of our solutions, technology, or proprietary information, or provide us with any competitive advantages. Moreover, we cannot guarantee that any of our pending patent applications will issue or be approved. The United States Patent and Trademark Office and various foreign governmental patent agencies also require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process and after a patent has issued. There are situations in which noncompliance can result in abandonment or lapse of the patent, trademark or application, resulting in partial or complete loss of rights in the relevant jurisdiction. If this occurs, our competitors might be able to enter the market, which would have a material adverse effect on our business. In addition, we believe that the protection of our trademark rights is an important factor in Qualtrics' recognition, protecting our brand, and maintaining goodwill. If we do not adequately protect our rights in our trademarks from infringement, any goodwill that we have developed in those trademarks could be lost or impaired, which could harm our brand and our business. Furthermore, we may not always detect infringement of our intellectual property rights, and any infringement of our intellectual property rights, even if successfully detected, prosecuted and enjoined, could be costly to deal with and could harm our business. In any event, in order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these rights. Litigation may be necessary in the future to enforce our intellectual property rights and to protect our trade secrets.

Effective trademark, copyright, patent, and trade secret protection may not be available in every country in which we conduct business. In addition, many foreign countries limit the enforceability of patents or other intellectual property against third parties, including government agencies or government contractors, or have patent and intellectual property laws that are less developed or less enforceable than in the United States. In these countries, patents and other intellectual property may provide limited or no benefit. Further, intellectual property law, including statutory and case law, particularly in the United States, is constantly developing, and any changes in the law could make it harder for us to enforce our rights.

Litigation brought to protect and enforce our intellectual property rights, has been in the past, and could be in the future, costly, time consuming and distracting to management. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and counter-suits attacking the validity and enforceability of our intellectual property rights, which could result in the impairment or loss of portions of our intellectual property rights. An adverse determination of any litigation proceedings could put our intellectual property at risk of being invalidated or interpreted narrowly and could put our related pending patent applications at risk of not issuing. Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential or sensitive information could be compromised by disclosure in the event of litigation. In addition, during the course of litigation, there could be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our common stock. Our failure to secure, protect, and enforce our intellectual property rights could delay further implementation of our XM Platform, impair functionality of our XM Platform, delay introductions of new products and services, result in our substituting inferior or more costly technologies into our XM Platform or harm our brand and our business. Further, we may not always successfully monitor and detect infringement of our intellectual property rights, and defending our intellectual property rights, even if successfully detected, prosecuted, enjoined, or remedied, could result in the expenditure of significant financial and managerial resources.

Moreover, a portion of our intellectual property has been acquired from one or more third parties. While we have conducted diligence with respect to such acquisitions, because we did not participate in the development or prosecution of much of the acquired intellectual property, we cannot guarantee that our diligence efforts identified and/or remedied all issues related to such intellectual property, including potential ownership errors, potential errors during prosecution of such intellectual property, and potential encumbrances that could limit our ability to enforce such intellectual property rights.

We may be sued by third parties for alleged infringement or misappropriation of their proprietary rights.

There is considerable patent and other intellectual property development activity in our industry. Our future success depends in part on not infringing upon or misappropriating the intellectual property rights of others. From time to time, our competitors or other third parties have claimed, and may claim in the future, that we are infringing upon or misappropriating their intellectual property rights, and we may be found to be infringing upon or misappropriating such rights. We may not be successful in defending against any such challenges, securing settlements, or obtaining licenses to avoid or resolve any intellectual property disputes.

In a patent infringement claim against us, we may assert, as a defense, that we do not infringe the relevant patent claims, that the patent is invalid, or both. The strength of our defenses will depend on the patents asserted, the interpretation of these patents, the state of the law, and our ability to invalidate the asserted patents. However, we could be unsuccessful in advancing non-infringement and/or invalidity arguments in our defense. In the United States, issued patents enjoy a presumption of validity, and the party challenging the validity of a patent claim must present clear and convincing evidence of invalidity, which is a high burden of proof. Conversely, the patent owner need only prove infringement by a preponderance of the evidence, which is a lower burden of proof. We may be unaware of the intellectual property rights of others that may cover some or all of our technology, or technology that we obtain from third parties. Because patent applications can take years to issue and are often afforded confidentiality for some period of time there may currently be pending applications, unknown to us, that later result in issued patents that could cover one or more of our products. Any claims or litigation (with or without merit) could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our solutions or using certain technologies, require us to implement expensive workarounds, or require that we comply with other unfavorable terms. In the case of infringement or misappropriation caused by technology that we obtain from third parties, any indemnification or other contractual protections we obtain from such third parties, if any, may be insufficient to cover the liabilities we incur as a result of such infringement or misappropriation. We may also be obligated to indemnify our customers or business partners in connection with any such claims and litigation and to obtain licenses, modify our solutions, or refund fees, which could further exhaust our resources. In addition, we may incur substantial costs to resolve claims or litigation, whether or not successfully asserted against us, which could include payment of significant settlement, royalty, or license fees, modification of our solutions or refunds to customers of fees, which would negatively impact our financial performance. Even if we were to prevail in the event of claims or litigation against us, any claim or litigation regarding our intellectual property could be costly and time-consuming and divert the attention of our management and other employees from our business operations and disrupt our business or harm our brand and reputation.

Moreover, our intellectual property acquired from one or more third parties may have previously been the subject of one or more intellectual property infringement suits and/or allegations. While we have conducted diligence with respect to such acquisitions, we cannot guarantee that our diligence efforts identified and/or remedied all issues related to such intellectual property infringement suits and/or allegations. Moreover, we cannot guarantee that we understand and/or have complied with all obligations related to the settlement of such intellectual property suits and/or the resolution of such intellectual property allegations.

We use open source software in our XM Platform that may subject our XM Platform to general release or require us to re-engineer our XM Platform, which may harm our business.

We use open source software in our XM Platform and expect to continue to use open source software in our platform in the future. There are uncertainties regarding the proper interpretation of and compliance with open source software licenses. Moreover, we cannot assure you that our processes for controlling our use of open source software in our XM Platform have been or will be effective. Our current or future use of open source software could result in claims of copyright infringement, the subjecting of our proprietary software to general release, forced changes to and re-engineering of our XM Platform, reputational harm and harm to our business and results of operations. In addition, if the license terms for the open source software we utilize change, we may be forced to incur additional costs to comply with the changed license terms or to replace the affected open source software. Although we have implemented policies and tools to regulate the use and incorporation of open source software into our XM Platform, we cannot be certain that we have not incorporated open source software in our XM Platform in a manner that is inconsistent with such policies and the relevant open source licenses.

Responding to any infringement claim, regardless of its validity, or discovering unknown or improper use of open source software code in our XM Platform could harm our business, operating results, and financial condition, by, among other things:

- resulting in time-consuming and costly litigation;
- diverting management’s time and attention from developing our business;

- requiring us to pay monetary damages or enter into royalty and licensing agreements that we would not normally find acceptable;
- causing delays in the deployment of our XM Platform;
- requiring us to stop selling certain of our XM Platform;
- requiring us to redesign certain components of our XM Platform using alternative non-infringing or non-open source technology or practices, which could require significant effort and expense;
- requiring us to disclose our software source code, the detailed program commands for our software; and
- requiring us to satisfy indemnification obligations to our customers.

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

Our agreements with customers, suppliers, partners and other third parties may include indemnification or other provisions under which we agree to indemnify or otherwise be liable to them for losses suffered or incurred as a result of claims of intellectual property infringement, damages caused by us to property or persons, data and security breaches, and other liabilities relating to or arising from our software, services, acts or omissions. The term of these contractual provisions often survives termination or expiration of the applicable agreement. Large indemnity payments or damage claims from contractual breach could harm our business, results of operations and financial condition. Although in some cases we contractually limit our liability with respect to such obligations, we do not always do so, and in the future we may still incur substantial liability related to them. In some cases, we agree to limit the liability of our partners and suppliers to us with respect to such indemnification obligations, and this may cause us to incur substantial liability for which we have limited recourse from such suppliers and partners. Any dispute with a customer with respect to such obligations could have adverse effects on our relationship with that customer and other current and prospective customers, reduce demand for our solutions, and harm our business, results of operations, and financial condition.

Our business is subject to a variety of United States and international laws and regulations that could subject us to claims, increase the cost of operations, or otherwise harm our business, including due to changes in such laws, changes in the interpretations of such laws, greater enforcement of such laws, or investigations into compliance with such laws.

Our business is subject to laws and regulations from various federal, state, local, and foreign governments and agencies, including those relating to copyright, labor and employment, workplace safety, consumer protection, privacy and data protection, anti-bribery and anti-corruption, import and export controls, sanctions, securities, and tax. In certain foreign jurisdictions, these regulatory requirements may be more stringent than, or otherwise different from, those in the United States. These laws and regulations are subject to change over time, and thus we must continue to monitor and dedicate resources to ensure continued compliance. Non-compliance with applicable laws, regulations or requirements could subject us to investigations, sanctions, enforcement actions, disgorgement of profits, fines, damages, civil and criminal penalties, and injunctions, any of which could adversely affect our business, operating results, and financial condition. In addition, responding to any action could result in a significant diversion of management’s attention and resources and an increase in professional fees.

We are also subject to consumer protection laws that may impact our sales and marketing efforts, including laws related to subscriptions, billing, and auto-renewal. These laws, as well as any changes in these laws, could make it more difficult for us to retain existing customers and attract new ones.

We are subject to governmental export and import controls, economic sanctions, and anti-corruption laws and regulations 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 United States export controls and other similar laws and regulations, including the United States Department of Commerce's Export Administration Regulations, or the EAR, and various economic and trade sanctions regulations administered by the United States Treasury Department's Office of Foreign Assets Controls, or OFAC. The United States export control laws and United States economic sanctions laws include restrictions or prohibitions on the sale or supply of certain products and services to United States embargoed or sanctioned countries, governments, persons and entities. In addition, various countries regulate the import of certain technology and have enacted or could enact laws that could limit our ability to provide our customers access to our XM Platform or could limit our customers' ability to access or use our XM Platform in those countries. Import and export control regulations in the U.S. and other countries are subject to change and uncertainty, including as a result of geopolitical developments and relations between the United States and Russia and the ongoing conflict between Russia and Ukraine.

While we take precautions to prevent our products and services from being exported in violation of these laws, including geoblocking and other screening checks, we cannot guarantee that the precautions we take will prevent violations of export control and sanctions laws. If we are found to be in violation of U.S. economic sanctions or export control laws in the future, it could result in substantial fines and penalties for us and for the individuals working for us. We may also be adversely affected through other penalties, reputational harm, loss of access to certain markets, or otherwise.

In addition, in July 2018, we filed initial notifications of Voluntary Self-Disclosure with OFAC regarding the provision of services to some customers in apparent violation of U.S. economic sanction laws, and the U.S. Department of Commerce's Bureau of Industry and Security, or BIS, regarding the export of software to some customers prior to submitting required filings to BIS. We supplemented the initial notifications with final reports to OFAC and BIS in December 2018. In August 2019, BIS notified us that it had completed its review and closed the matter with the issuance of a warning letter. In December 2019, OFAC notified us that it had completed its review and closed the matter with the issuance of a cautionary letter. Although no monetary penalties or other sanctions were imposed by either agency in connection with their investigations, our compliance history, including the issuance of a warning letter or cautionary letter, may be considered an aggravating factor in any future investigations by or disclosures to these agencies.

In addition, various countries regulate the import and export of certain encryption and other technology, including by imposing permitting and licensing requirements, and have enacted laws that could limit our ability to distribute our platform or could limit our users' ability to access our products and services in those countries. Changes in our products or services, or future changes in export and import regulations may prevent our users with international operations from utilizing our products and services globally or, in some cases, prevent the export or import of our products and services to certain countries, governments, or persons altogether. Any change in export or import regulations, economic sanctions, or related legislation, or change in the countries, governments, persons, or technologies targeted by such regulations, could result in decreased use of our products and services by, or in our decreased ability to export or sell subscriptions to our platform to, existing or potential users with international operations. Any decreased use of our products or services or limitation on our ability to export or sell our products or services would likely adversely affect our business, results of operations, and financial results.

We are also subject to various domestic and international anti-corruption laws, such as the United States Foreign Corrupt Practices Act and the U.K. Bribery Act, as well as other similar anti-bribery and anti-kickback laws and regulations. These laws and regulations generally prohibit companies and their employees and intermediaries from authorizing, offering, providing, or accepting improper payments or benefits for improper purposes. These laws also require that we keep accurate books and records and maintain compliance procedures designed to prevent any such unlawful activities. Although we take precautions to prevent violations of these laws, our exposure for violating these laws increases as our international presence expands and as we increase sales and operations in foreign jurisdictions.

Our subscription or pricing models may not accurately reflect the optimal pricing necessary to attract new customers and retain existing customers as the market matures.

As the market for our solutions matures, or as competitors introduce new solutions that compete with ours, we may be unable to attract new customers at the same price or based on the same pricing models as we have used historically. We provide our software on a subscription basis priced on the number of solutions and level of functionality required by customers and the number of users and level of interactions through our software, and therefore, pricing decisions may also impact the mix of adoption among our subscription plans and negatively impact our overall revenue. Further, pricing pressures and increased competition generally could result in reduced sales, reduced margins, losses, or the failure of our products to achieve or maintain more widespread market acceptance, any of which could harm our business, results of operations, and financial condition. In the future we may be required to reduce our prices or develop new pricing models, which could adversely affect our revenue, gross margin, profitability, financial position, and cash flow.

Interruptions or delays in service from our data center facilities could impair the delivery of our XM Platform and harm our business.

We currently serve our customers both from our co-location data center facilities in the United States, Australia, and Germany, and from public cloud data center facilities located in the United States, Australia, Canada, Germany, Japan, Singapore, and the United Kingdom. Any damage to, or failure of, our systems generally could result in interruptions in our XM Platform. As we continue to add new public cloud data centers, add capacity in our existing data centers and migrate to public cloud data center facilities, we may move or transfer our data and our customers' data. Despite precautions taken during this process, any unsuccessful data transfers may impair the use of our XM Platform. Any damage to, or failure of, our XM Platform, or those of our third-party data centers, could result in interruptions in use of our XM Platform. Impairment of or interruptions in customers accessing our XM Platform may reduce our revenue, cause us to issue credits or pay penalties, subject us to claims and litigation, cause our customers to terminate their subscriptions and adversely affect our renewal rates and our ability to attract new customers. We have experienced interruptions and delays in service in the past, and we may experience interruptions and delays in service in the future. Our business will also be harmed if our customers and potential customers believe our XM Platform is unreliable.

We do not control, or in some cases have limited control over, the operation of the data center facilities we use, and they are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and other similar events. They may also be subject to break-ins, sabotage, attacks, intentional acts of vandalism and similar misconduct, adverse events caused by operator error, and delays or interruptions in service due to capacity constraints. We cannot rapidly switch to new data centers or move customers from one data center to another in the event of an adverse event. Despite precautions taken at these facilities, the occurrence of a natural disaster, an act of terrorism or other act of malfeasance, a decision to close the facilities without adequate notice or other problems at these facilities could result in lengthy interruptions in accessing our XM Platform and the loss or exposure of customer data.

We plan to transition from managed co-location data center facilities to public cloud alternatives, which could impact our gross margins and our financial results.

We currently use both managed co-location data center facilities and public cloud options. We have made and will continue to make substantial investments in new equipment to support growth at our data centers and provide enhanced levels of service to our customers. This may include increases in network bandwidth, CPU, storage, power or other elements of our hosting operations. We plan to move our data centers away from co-location facilities to public cloud options over the next few years. We anticipate this transition could impact operating margins, particularly as we move our spend from capital expenditures to operating expenses. Additionally, to the extent that we are required to add data center capacity to accommodate customer demands, we may need to significantly increase the bandwidth, storage, power or other elements of our hosting operations, and the costs associated with adjustments to our data center architecture could also harm our margins and operating results.

We recognize revenue from subscriptions ratably over the term of our customer contracts, and as such our reported revenue and billings may differ significantly in a given period, and our revenue in any period may not be indicative of our financial health and future performance.

We recognize revenue from subscriptions ratably over the subscription term of the underlying customer contract, which is generally one year. Our billings are recorded upon invoicing for access to our XM Platform, and thus a significant portion of the billings we report in each quarter are generated from customer agreements entered and invoiced during the period. As a result, much of the revenue we report each quarter is derived from contracts that we entered into with customers in prior periods. Consequently, a decline in new or renewed subscriptions in any quarter will not be fully reflected in revenue or other results of operations in that quarter but will negatively affect our revenue and other results of operations across future quarters. It is difficult for us to rapidly increase our revenue from additional billings in a given period. Any increases in the average term of subscriptions would result in revenue for those contracts being recognized over longer periods of time with little impact on our results of operations in the near term. Our professional services and certain other revenue is recognized upon completion of the performance or as the service is rendered. Accordingly, our revenue in any given period may not be an accurate indicator of our financial health and future performance.

If we fail to integrate our solutions with a variety of operating systems, software applications, platforms, and hardware that are developed by others, our solutions may become less marketable, less competitive, or obsolete, and our results of operations could be harmed.

Our customers and prospective customers expect that our solutions integrate with a variety of network, hardware, and software platforms, and we need to continuously modify and enhance our solutions to adapt to changes in hardware, software, networking, browser, and database technologies. We have developed our solutions to be able to integrate with third-party software-as-a-service (SaaS) applications through the interaction of application programming interfaces, or APIs. In general, we rely on the fact that the providers of such software systems continue to allow us access to their APIs to enable these custom integrations. We are subject to the standard terms and conditions of such providers, or other agreements we may have with them, which govern the distribution, operation, and fees of such software systems, and which may be subject to change by such providers. Certain of our current and future potential integrations are with organizations that compete with us or with SAP, and which may have incentives to limit or prohibit our ability to integrate with them. We may not successfully build, deploy, or offer the integrations we need to as a result of limits or prohibitions by other parties, unacceptable terms, technical difficulties, our failure to recognize the demand for them, or for other reasons. If we fail to offer a variety of integrations or the integrations that our customers and prospective customers expect and demand, then our solutions may become less marketable, less competitive, or obsolete, and our results of operations could be harmed.

Our business could be adversely impacted by changes in internet access for our users or laws specifically governing the internet.

Our XM Platform depends on the quality of our users' access to the internet. Certain features of our XM Platform require significant bandwidth and fidelity to work effectively. Internet access is frequently provided by companies that have significant market power that could take actions that degrade, disrupt, or increase the cost of user access to our XM Platform, which would negatively impact our business.

In December 2017, the Federal Communications Commission, or the FCC, voted to repeal its "net neutrality" Open Internet rules, effective June 2018. The rules were designed to ensure that all online content is treated the same by internet service providers and other companies that provide broadband services. The FCC's new rules, which took effect on June 11, 2018, repealed the neutrality obligations imposed by the Open Internet rules and granted providers of broadband internet access services greater freedom to make changes to their services. Such changes may cause us to incur greater operating expenses, make it more difficult for us to provide our products and services, or discriminate against or harm our business, all of which could have an adverse effect on our business operations.

As the internet continues to experience growth in the number of users, frequency of use, and amount of data transmitted, the internet infrastructure that we and our users rely on may be unable to support the demands placed upon it. The failure of the internet infrastructure that we or our users rely on, even for a short period of time, could undermine our operations and harm our results of operations.

In addition, there are various laws and regulations that could impede the growth of the internet or other online services, and new laws and regulations may be adopted in the future. These laws and regulations could, in addition to limiting internet neutrality, involve taxation, tariffs, privacy, data protection, information security, content, copyrights, distribution, electronic contracts and other communications, consumer protection, and the characteristics and quality of services, any of which could decrease the demand for, or the usage of, our XM Platform. Legislators and regulators may make legal and regulatory changes, or interpret and apply existing laws, in ways that require us to incur substantial costs, expose us to unanticipated civil or criminal liability, or cause us to change our business practices. These changes or increased costs could materially harm our business, results of operations, and financial condition.

Our international operations subject us to potentially adverse tax consequences.

We are subject to income taxes as well as non-income-based taxes, such as payroll, sales, use, value-added, property, and goods and services taxes, in both the United States and various foreign jurisdictions. Our domestic and international tax liabilities are subject to various jurisdictional rules regarding the timing and allocation of revenue and expenses. Additionally, the amount of income taxes paid is subject to our interpretation of applicable tax laws in the jurisdictions in which we file and to changes in tax laws. Judgment is required in determining our worldwide provision for income taxes and other tax liabilities. From time to time, we may be subject to income and non-income tax audits by U.S. and non-U.S. taxing authorities. While we believe we have complied with all applicable income tax laws, there can be no assurance that a governing tax authority will not have a different interpretation of the law and assess us with additional taxes. Should we be assessed with additional taxes, there could be a material adverse effect on our business, results of operations, and financial condition.

Our future effective tax rate may be affected by such factors as changes in tax laws, regulations, or rates, changing interpretation of existing laws or regulations, the impact of accounting for equity-based compensation, the impact of accounting for business combinations, changes in our international organization, and changes in overall levels of income before tax. In addition, in the ordinary course of our global business, there are many intercompany transactions and calculations where the ultimate tax determination is uncertain. Although we believe that our tax estimates are reasonable, we cannot ensure that the final determination of tax audits or tax disputes will not be different from what is reflected in our historical income tax provisions and accruals.

We may have exposure to greater than anticipated tax liabilities and may be affected by changes in tax laws or interpretations, any of which could adversely impact our results of operations.

We are subject to income taxes in the United States and various jurisdictions outside of the United States. Our effective tax rate could fluctuate due to changes in the mix of earnings and losses in countries with differing statutory tax rates. Our tax expense could also be impacted by changes in non-deductible expenses, changes in excess tax benefits of equity-based compensation, changes in the valuation of deferred tax assets and liabilities and our ability to utilize them, the applicability of withholding taxes, effects from acquisitions, and the evaluation of new information that results in a change to a tax position taken in a prior period. A successful assertion by a country, state, or other jurisdiction that we have an income tax filing obligation could result in substantial tax liabilities for prior tax years.

Our tax position could also be impacted by changes in accounting principles, changes in U.S. federal, state, or international tax laws applicable to corporate multinationals, other fundamental law changes currently being considered by many countries, including the United States, and changes in taxing jurisdictions' administrative interpretations, decisions, policies, and positions. Any of the foregoing changes could have an adverse impact on our results of operations, cash flows, and financial condition.

Additionally, the Organization for Economic Co-Operation and Development has released guidance covering various topics, including transfer pricing, country-by-country reporting, and definitional changes to permanent establishment that could ultimately impact our tax liabilities as it is implemented in various jurisdictions.

Our results of operations may be harmed if we are required to collect sales or other related taxes for our subscription solutions in jurisdictions where we have not historically done so.

We collect sales and similar value-added taxes as part of our customer agreements in a number of jurisdictions in which we have determined that we are subject to tax. Sales and use, value-added, and similar tax laws and rates vary greatly by jurisdiction. One or more states or countries may seek to impose additional sales, use, or other tax collection obligations on us, including for past sales by us. Furthermore, in June 2018, the Supreme Court held in South Dakota v. Wayfair, Inc. that states could impose sales tax collection obligations on out-of-state retailers even if those retailers lack any physical presence within the states imposing the sales taxes. Under Wayfair, a person requires only a "substantial nexus" with the taxing state before the state may subject the person to sales tax collection obligations therein. An increasing number of states (both before and after the publication of Wayfair) have considered or adopted laws that attempt to impose sales tax collection obligations on out-of-state retailers. The Supreme Court's Wayfair decision has removed a significant impediment to the enactment and enforcement of these laws, and it is possible that states may seek to tax out-of-state retailers on sales that occurred in prior tax years. A successful assertion by a state, country, or other jurisdiction that we should have been or should be collecting additional sales, use, or other taxes on our XM Platform could, among other things, result in substantial tax liabilities for past sales, create significant administrative burdens for us, discourage customers from purchasing our XM Platform, or otherwise harm our business, results of operations, and financial condition.

The nature of our business requires the application of complex revenue and expense recognition rules, and any significant changes in current rules could affect our financial statements and results of operations.

The accounting rules and regulations that we must comply with are complex and subject to interpretation by the Financial Accounting Standards Board, or the FASB, the SEC, and various bodies formed to promulgate and interpret appropriate accounting principles. Recent actions and public comments from the FASB and the SEC have focused on the integrity of financial reporting and internal controls over financial reporting. In addition, many companies' accounting policies and practices are being subjected to heightened scrutiny by regulators and the public. The accounting rules and regulations are continually changing, and may change in the future in ways that could materially impact our financial statements. In addition, if we were to change our critical accounting estimates, including those related to the recognition of subscription revenue and other revenue sources or the period of benefit for deferred contract acquisition costs, our results of operations could be significantly affected.

If our judgments or estimates relating to our critical accounting policies and estimates are based on assumptions that change or prove to be incorrect, our results of operations could fall below expectations of securities analysts and investors, resulting in a decline in our stock price.

The preparation of our financial statements in conformity with GAAP requires management to make judgments, estimates, and assumptions that affect the amounts reported in the 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 the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations," the results of which 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. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of securities analysts and investors, resulting in a decline in the trading price of our Class A common stock. Significant judgments, estimates, and assumptions used in preparing our consolidated financial statements include, or may in the future include, those related to revenue recognition, stock-based compensation expense, business combinations, and tax sharing liability.

We identified a material weakness in our internal control over financial reporting, and although it has not resulted in any material misstatements or omissions of our consolidated financial statements to date, if it is not fully remediated, it could result in material misstatements of our consolidated financial statements in the future.

As described in Part II, Item 9A — Controls and Procedures, of this Annual Report on Form 10-K, we identified a material weakness in our internal control over financial reporting related to management's risk assessment process over information technology general controls, including certain controls over logical access and change management, and process level controls including information used in the execution of those controls that impacted our financial reporting processes. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

We are in the process of developing and implementing a remediation plan to address the material weakness. These remediation measures may be time consuming and costly and there is no assurance that these initiatives will ultimately have the intended effects. If our remediation efforts are insufficient or if additional material weakness in internal control over financial reporting are discovered or occur in the future, our consolidated financial statements may contain material misstatements and we could be required to revise or restate our financial results, which could materially and adversely affect our business, results of operations and financial condition, restrict our ability to access the capital markets, require us to expend significant resources to correct the material weakness, subject us to fines, penalties or judgments, harm our reputation, adversely affect the trading price of our common stock, or otherwise cause a decline in investor confidence.

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

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, and the rules and regulations of the listing standards of Nasdaq. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting, and financial compliance costs, make some activities more difficult, time-consuming, and costly, and place significant strain on our personnel, systems, and resources. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file with the SEC is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers. We are also continuing to improve our internal control over financial reporting. 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.

Changes in conditions in our business may require that we develop new or make changes to existing controls. Further, additional weaknesses in our disclosure controls and internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls or any difficulties encountered in their implementation or improvement could harm our results of operations or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting also could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting. 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 could have a negative effect on the trading price of our Class A common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on Nasdaq.

We are required to comply with the SEC rules that implement Section 404 of the Sarbanes-Oxley Act and are required to provide an annual management report on the effectiveness of our internal control over financial reporting, which must be attested to by our independent registered public accounting firm. Our independent registered public accounting firm issued, and may in the future issue, a report that is adverse in the event it is not satisfied with the level at which our internal control over financial reporting is documented, designed, or operating. Any failure to maintain effective disclosure controls and internal control over financial reporting could have a material and adverse effect on our business and results of operations and could cause a decline in the price of our Class A common stock.

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

We intend to continue to make investments to support our growth and may require additional funds to respond to business challenges, including the need to develop new features or enhance our existing XM Platform or acquire complementary businesses, technologies, and content. While we expect that SAP, as our majority owner, may continue to support our growth, SAP may be unable or unwilling to address particular financial needs or may prefer that we look to other funding sources in the first instance. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences, and privileges superior to those of holders of our common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing from SAP or in the capital markets on terms favorable to us, if at all. Additionally, a deterioration of current conditions in worldwide credit markets could limit our ability to obtain external financing. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our growth and to respond to business challenges could be significantly impaired.

We may face exposure to foreign currency exchange rate fluctuations.

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Euro, British Pound sterling, and Australian Dollar. We have not instituted a hedging program. We expect our international operations to continue to grow in the near term, and we regularly monitor our foreign currency exposure to determine when we should begin a hedging program. Today, our international contracts are denominated in either U.S. dollars or local currency, while our international operating expenses are often denominated in local currencies. Additionally, as we expand our international operations, a larger portion of our operating expenses will be denominated in local currencies. Therefore, fluctuations in the value of the U.S. dollar and foreign currencies may affect our results of operations when translated into U.S. dollars.

Risks Related to Our Relationship with SAP and Being a "Controlled Company"

As long as SAP controls us, the ability of the holders of Class A common stock to influence matters requiring stockholder approval will be limited.

SAP owns 100% of the shares of Class B common stock, representing a controlling interest in the total outstanding shares of the Company. The rights of the holders of Class A and Class B common stock differ in a number of ways, including with respect to voting and conversion rights, certain actions that require the consent of holders of Class B common stock, and other protective provisions. Holders of our Class B common stock are entitled to ten votes per share of Class B common stock, and the holders of our Class A common stock are entitled to one vote per share of Class A common stock. Subject to any rights of any series of preferred stock to elect directors, the holders of Class A common stock and the holders of Class B common stock, voting together as a single class, are entitled to elect all directors to our board of directors. If, prior to the occurrence of any Distribution, SAP transfers shares of our Class B common stock to any party that is not beneficially owned by SAP, those shares would automatically convert into Class A common stock. For so long as SAP beneficially owns shares of our common stock representing at least a majority of the votes entitled to be cast by the holders of outstanding voting stock, SAP will be able to elect all of the members of our board of directors.

In addition, until such time as SAP beneficially owns shares of our common stock representing less than a majority of the votes entitled to be cast by the holders of outstanding voting stock, SAP will have the ability to take stockholder action without the vote of any other stockholder and without having to call a stockholder meeting, and holders of Class A common stock will not be able to affect the outcome of any stockholder vote during this period. As a result, SAP has the ability to control all matters affecting us, including:

- the composition of our board of directors and, through our board of directors, any determination with respect to our business plans and policies;
- any determinations with respect to mergers, acquisitions, and other business combinations, including a potential whole-company sale of Qualtrics as may result from SAP's sale process for its stake in the Company, as described below;
- our acquisition or disposition of assets;
- our financing activities;
- changes to our amended and restated certificate of incorporation and amended and restated bylaws;
- changes to the agreements related to our becoming a public company;
- corporate opportunities that may be suitable for us and SAP;
- determinations with respect to enforcement of rights we may have against third parties, including with respect to intellectual property rights;
- the payment of dividends on our common stock;
- the number of shares available for issuance under our stock plans for our prospective and existing employees; and
- the strategy, direction, and objectives of our business.

Our amended and restated certificate of incorporation and the stockholders' agreement contain provisions that require that as long as SAP beneficially owns at least 20% or more of the outstanding shares of our common stock, the prior affirmative vote or written consent of SAP as the holder of the Class B common stock is required (subject in each case to certain exceptions) in order to authorize us to:

- adopt or implement any stockholder rights plan or similar takeover defense measure;

- consolidate or merge with or into any other entity, including in connection with a potential whole-company sale of Qualtrics as may result from SAP's sale process for its stake in the Company, as described below;
- permit any of our subsidiaries to consolidate or merge with or into any other entity, with certain exceptions;
- acquire the stock or assets of another entity for consideration in excess of $100 million except in connection with acquisitions of securities pursuant to portfolio investment decisions in the ordinary course of business to which the company and one or more of our wholly-owned subsidiaries are the only parties;
- issue any stock or other equity securities except to our subsidiaries or to our employee benefit plans;
- conduct any business other than the business of enterprise software and related businesses;
- create, incur, assume, or permit to exist any indebtedness or guarantee any indebtedness in excess of $100 million;
- make any loan to or purchase any debt securities of any person in excess of $50 million;
- take any actions to dissolve, liquidate, or wind-up our company;
- declare dividends on our stock;
- redeem, purchase, or otherwise acquire or retire for value any equity securities of the company except repurchases from employees, officers, directors, or other service providers upon termination of employment or through the exercise of any right of first refusal;
- enter into any joint venture or any exclusive or exclusionary arrangement with a third party; and
- amend, terminate, or adopt any provision inconsistent with certain provisions of our amended and restated certificate of incorporation or amended and restated bylaws.

If SAP does not provide any requisite consent allowing us to conduct such activities when requested, we will not be able to conduct such activities and, as a result, our business and our operating results may be harmed.

SAP's voting control and its additional rights described above may discourage transactions involving a change of control of us, including transactions in which holders of our Class A common stock might otherwise receive a premium for their shares over the then-current market price. SAP is not prohibited from selling a controlling interest in us to a third party and may do so without the approval of the holders of Class A common stock and without providing for a purchase of the shares of Class A common stock. Accordingly, the shares of Class A common stock may be worth less than they would be if SAP did not maintain voting control over us or have the additional rights described above.

SAP's interests and objectives as a stockholder may not align with, or may even directly conflict with, the interests and objectives of holders of our Class A common stock. For example, SAP may be more or less interested in us entering into a transaction or conducting an activity due to the impact such transaction or activity may have on SAP as a company, independent of us. In such instances, SAP may exercise its control over us in a way that is beneficial to SAP, and holders of our Class A common stock will not be able to affect the outcome so long as SAP continues to hold a majority of the shareholder votes.

In the event SAP is acquired or otherwise undergoes a change of control, any acquiror or successor will be entitled to exercise the voting control and contractual rights of SAP, and may do so in a manner that could vary significantly from that of SAP.

By becoming a stockholder in our company, holders of Class A common stock are deemed to have notice of and have consented to the provisions of our amended and restated certificate of incorporation and the stockholders' agreement with respect to the limitations that are described above.

Our business and that of SAP overlap, and SAP is not prohibited from competing with us, which could reduce our market share.

SAP and we are both software companies providing products that help companies succeed. There can be no assurance that SAP will not engage in increased competition with us in the future. In addition, the intellectual property matters agreement that we have entered into with SAP provide SAP the right to use our intellectual property, which, subject to limitations, it may use to produce certain products that compete with ours. SAP's rights in this regard extend to its majority-owned subsidiaries, which could include joint ventures where SAP may hold a majority position and one or more of our competitors may hold minority positions.

SAP could assert control over us in a manner which could impede our growth or our ability to enter new markets or otherwise adversely affect our business. Further, SAP could utilize its control over us to cause us to take or refrain from taking certain actions, including entering into relationships with channel, technology, and other marketing partners, enforcing our intellectual property rights or pursuing corporate opportunities or product development initiatives that could adversely affect our competitive position, including our competitive position relative to that of SAP in markets where we compete with them. In addition, SAP maintains relationships with certain of our competitors, which SAP or those competitors could use in ways that could adversely affect our competitive position. If any of these scenarios were to materialize, our market share could be reduced, which could have an adverse impact on our results of operations.

SAP's competition in certain markets may affect our ability to build and maintain relationships with partners, suppliers, and customers.

Our existing and potential relationships with partners, suppliers, and customers may be affected by our relationship with SAP. We partner with, purchase from, and sell to a number of companies that compete with SAP. SAP's majority ownership in us might affect our ability to develop and maintain relationships with these companies, including because SAP may require us to limit our relationships with them or not work with them at all. Likewise, these companies may be less willing or unwilling to develop and maintain relationships with us, and may favor our competitors or may view us as competitors, because of our relationship with SAP.

SAP competes with certain of our significant channel, technology, and other marketing partners as well as certain of our customers and suppliers. Pursuant to our amended and restated certificate of incorporation and certain agreements that we have entered into with SAP, SAP may have the ability to impact our relationship with these companies, which could have a material adverse effect on our results of operations or our ability to pursue opportunities which may otherwise be available to us.

Our historical financial information as a business segment of SAP may not be representative of our results as an independent public company.

The historical financial information we have included in this Annual Report on Form 10-K does not necessarily reflect what our financial position, results of operations, or cash flows would have been had we been an independent entity during the historical periods presented. The historical costs and expenses reflected in our consolidated financial statements include an allocation for certain corporate functions historically provided by SAP, including tax, accounting, treasury, legal, human resources, compliance, insurance, sales, and marketing services. The historical financial information is not necessarily indicative of what our results of operations, financial position, cash flows, or costs and expenses will be in the future. We have not made pro forma adjustments to reflect many significant changes that will occur in our cost structure, funding and operations as a result of our transition to becoming a public company, including changes in our employee base, potential increased costs associated with reduced economies of scale and increased costs associated with being a publicly traded, standalone company. For additional information, see "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical consolidated financial statements and notes thereto.

We are a smaller company relative to SAP, which could result in increased costs because of a decrease in our purchasing power and difficulty maintaining existing customer relationships and obtaining new customers.

Prior to our initial public offering, we were able to take advantage of SAP's size and purchasing power in procuring goods, technology and services, including insurance, employee benefit support, and audit and other professional services. While this may continue in some ways with SAP as a majority shareholder, we are a smaller company than SAP, and we cannot assure you that we will have access to financial and other resources comparable to those available to us prior to our initial public offering. As a standalone company, we may be unable to obtain office space, goods, technology, and services at prices or on terms as favorable as those available to us prior to our initial public offering, which could increase our costs and reduce our profitability. Likewise, we may find it more difficult to attract and retain high quality employees as a smaller company than it was as a wholly-owned subsidiary of SAP, which could impact our results of operations. Our future success also depends on our ability to develop and maintain relationships with customers. Our reduced relationship with SAP and our smaller relative size may make it more difficult to develop and maintain relationships with customers, which could adversely affect our prospects.

Our relationship with SAP may prevent us from pursuing opportunities to raise capital, to effectuate acquisitions or to provide equity incentives to our employees, which could hurt our ability to grow.

Under our amended and restated certificate of incorporation and the stockholders' agreement, until such time as SAP ceases to own at least 20% or more of the outstanding shares of our common stock, we must obtain the consent of SAP as the holder of our Class B common stock to issue stock or other equity securities except to our subsidiaries or to our employee benefit plans. This could cause us to forgo capital raising or acquisition opportunities that would otherwise be available to us. As a result, we may be precluded from pursuing certain growth initiatives.

We will be required to indemnify SAP for any taxes imposed on SAP related to our status as a "controlled foreign corporation" or "passive foreign investment company" for German tax purposes that are attributable to SAP's ownership of us, which may prevent us from pursuing certain strategic, internal restructuring or financing transactions or taking other actions, that would otherwise be beneficial to us.

We (including certain of our subsidiaries) are treated as a "controlled foreign corporation" with respect to SAP for German tax purposes. Further, in the event that we cease to be treated as such a controlled foreign corporation, we (including certain of our subsidiaries) may be treated as a "passive foreign investment company" with respect to SAP for German tax purposes. As a result, SAP may be subject to German taxation, which we refer to as CFC/PFIC Taxes, on certain of our income regardless of whether such income is received by SAP. The tax sharing agreement with SAP provides that we will be required to indemnify SAP for any CFC/PFIC Taxes imposed on SAP that are attributable to SAP's ownership of us. Prior to entering into any agreement or engaging in any transaction, we intend to evaluate whether, and to what extent, such agreement or transaction would subject SAP to CFC/PFIC Taxes for which we would be responsible under the tax sharing agreement. We may be discouraged from taking any such action that could reasonably be expected to subject SAP to CFC/PFIC Taxes. Further, we cannot predict any future changes to the German tax rules governing controlled foreign corporations or passive foreign investment companies. As a result, this indemnification obligation could cause us to forgo certain strategic, internal restructuring or financing transactions or other actions, that would otherwise be beneficial to us.

Third parties may seek to hold us responsible for liabilities of SAP, which could result in a decrease in our income.

Third parties may seek to hold us responsible for SAP's liabilities. Likewise, our relationship with SAP, as a much larger company and our majority shareholder, may make us more of a target for litigation than we otherwise would be on our own. Under our master transaction agreement with SAP, we agreed to indemnify SAP for claims and losses relating to liabilities related to our business and not related to SAP's business, and SAP will indemnify us for claims and losses relating to liabilities related to SAP's business and not related to our business. However, if those liabilities are significant and we are ultimately held liable for them, we cannot assure you that we will be able to recover the full amount of our losses from SAP.

Although we have entered into a tax sharing agreement with SAP under which our tax liabilities generally will be determined as if we were not part of any consolidated, combined or unitary tax group that includes SAP and/or any of its subsidiaries, we nonetheless could be held liable for the tax liabilities of other members of these groups.

Because of the SAP Acquisition, we had been included in SAP America's consolidated group for U.S. federal income tax purposes, which we refer to as a U.S. Consolidated Group, as well as in certain other consolidated, combined or unitary groups that include SAP SE or SAP America and/or certain of their subsidiaries, any such group being referred to as an SAP Tax Group. In October 2021, SAP America's ownership dropped below 80% and we deconsolidated from the SAP Tax Group for federal tax purposes. We continue to be a member of the SAP Tax Group for certain state filings. Pursuant to the tax sharing agreement with SAP, SAP will file with the relevant tax authority with respect to an SAP Tax Group, and, for taxable periods beginning after December 31, 2020, we will make tax sharing payments to SAP. The amount of our tax sharing payments with respect to SAP America's U.S. Consolidated Group will be determined, subject to certain adjustments (including with respect to the use of tax attribute carryforwards), as if we and each of our subsidiaries included in SAP America's U.S. Consolidated Group filed our own U.S. federal consolidated income tax return for the relevant taxable period. The amount of a tax sharing payment with respect to SAP Tax Groups relating to U.S. state or local income taxes will be calculated using certain simplifying conventions.

We were included in SAP America's U.S. Consolidated Group for as long as SAP America owned at least 80% of the total voting power and value of our outstanding stock. Each member of a U.S. Consolidated Group during any part of a consolidated return year is jointly and severally liable for tax on the consolidated return of such year and for any subsequently determined deficiency thereon. Similarly, in some jurisdictions, each member of a consolidated, combined or unitary group for state, local or non-U.S. income tax purposes is jointly and severally liable for the state, local or non-U.S. income tax liability of each other member of the consolidated, combined or unitary group. Accordingly, for any period in which we are included in an SAP Tax Group, we could be liable in the event that any income tax liability was incurred, but not discharged, by any other member of any such group. As noted above, we are deconsolidated from SAP America's U.S. Consolidated Group as of October 2021.

We have entered into a tax sharing agreement with SAP under which we are required to pay SAP upon recognition of certain tax deductions that were anticipated at the time of our initial public offering; the change in the fair market value of these anticipated deductions could impact our reported net income (loss) before income taxes.

We have entered into a tax sharing agreement with SAP, which provides that, among other things, we must pay SAP for the cash tax benefits we receive on a separately filed tax return after deconsolidation from SAP America's U.S. Consolidated Group related to equity awards granted on or before our initial public offering. The estimated fair market value of this liability as of October 1, 2021, the date of deconsolidation, was recorded as a distribution from additional paid-in capital. Subsequent changes in the fair market value of this liability will be recorded in *Other non-operating income (expense), net*. Factors such as changes to our share price, our actual and expected future taxable earnings, future tax law and tax rate changes, and changes to our cost of capital will impact the fair market value of this liability. These factors are largely outside of our direct control and are subject to estimation uncertainty. These payment obligations to SAP may be significant and may materially and adversely affect our results of operations and our financial condition.

Our inability to maintain a strong relationship with SAP, or to resolve favorably any disputes that may arise between us and SAP, could result in a significant reduction of our revenue.

Maintaining a strong relationship with SAP and its management team will be important to our success for at least as long as SAP remains a majority shareholder. Disputes may arise between SAP and us in a number of areas relating to our ongoing relationship, including:

- our strategy, direction, and objectives as a business;
- labor, tax, employee benefit, indemnification, and other matters arising from our separation from SAP;
- employee retention and recruiting;

- business combinations involving us;
- our ability to engage in activities with certain customers, suppliers, and partners;
- sales or dispositions by SAP of all or any portion of its ownership interest in us;
- the nature, quality, and pricing of services SAP has agreed to provide us;
- business opportunities that may be attractive to both SAP and us; and
- product or technology development or marketing activities which may require the consent of SAP.

We may not be able to resolve any potential conflicts between us and SAP. Assuming we are able to resolve such a potential conflict, we intend for such resolution to be comparable to the resolution that we would reach with an unaffiliated party. However, the resolution that we actually reach may be less favorable than if we were dealing with an unaffiliated party.

The agreements we have entered into with SAP may be amended upon agreement between the parties. While we are controlled by SAP, we may not have the leverage to negotiate agreements or amendments to these agreements, if required, on terms as favorable to us as those we would negotiate with an unaffiliated third party.

The arrangement we made with SAP in connection with our initial public offering may not be adequate and could harm our operation and performance.

We are the first and only subsidiary of SAP to conduct an initial public offering. We have made various transition arrangements with SAP. However, given the rare structure of the transaction and lack of precedents, we cannot be certain that such arrangements will fully and adequately encompass all of our needs as a standalone company. If the arrangements we have made with SAP are not comprehensive enough to meet our needs as a standalone company, our operation and financial performance may be adversely impacted.

The agreements we have put in place with SAP were entered into while we are a majority-owned subsidiary of SAP with relatively little negotiating power. The agreements were not negotiated at arm’s length and contain terms that we would not have agreed to with an independent third party. For example, we are providing SAP an irrevocable, royalty-free license to all of our patents and certain other intellectual property that will remain in place perpetually, even after SAP is no longer a majority shareholder. As another example, SAP does not give us the ability to control the investigation, negotiation, and settlement of certain government investigations but requires us to pay for all expenses associated therewith. These and other terms of our agreements with SAP may put us at a disadvantage relative to our competitors and peer companies and could adversely impact our operations and financial performance.

We cannot know how the market will react over time to our unique arrangements with SAP or how those arrangements may change. We are making careful preparation for the separation from SAP, but due to the unique structure we are employing, there may be many foreseeable and unforeseeable adverse effects on us if the expected benefits of our arrangements with SAP do not realize.

Some of our directors own cash-settled restricted stock units that fluctuate in accordance with the value of SAP's share price or hold management positions with SAP, which could cause conflicts of interest that could result in us not acting on opportunities we otherwise may have.

Some of our directors own cash-settled restricted stock units that fluctuate in accordance with the value of SAP's share price. In addition, some of our directors are executive officers and/or directors of SAP. Ownership of cash-settled restricted stock units that fluctuate in accordance with the value of SAP's share price by our directors and the presence of executive officers or directors of SAP on our board of directors could create, or appear to create, conflicts of interest with respect to matters involving both us and SAP that could have different implications for SAP than they do for us. Provisions of our amended and restated certificate of incorporation and the stockholders' agreement address corporate opportunities that are presented to our directors or officers that are also directors or officers of SAP. We cannot assure you that the provisions in our amended and restated certificate of incorporation will adequately address potential conflicts of interest, that potential conflicts of interest will be resolved in our favor or that we will be able to take advantage of corporate opportunities presented to individuals who are officers or directors of both us and SAP. As a result, we may be precluded from pursuing certain growth initiatives, which could adversely affect our business.

SAP's ability to control our board of directors and company may make it difficult for us to recruit high-quality independent directors and employees.

So long as SAP beneficially owns shares of our common stock representing at least a majority of the votes entitled to be cast by the holders of outstanding voting stock, SAP can effectively control and direct our board of directors and our company generally. Further, the interests of SAP and our other stockholders may diverge. Under these circumstances, persons who might otherwise accept our invitation to join our board of directors or become our employees may decline.

We are a "controlled company" within the meaning of the corporate governance rules of Nasdaq and, as a result, rely on exemptions from certain corporate governance requirements that provide protection to stockholders of other companies.

SAP owns more than 50% of the total voting power of our common shares and we are a "controlled company" within the meaning of the corporate governance rules of Nasdaq. As a controlled company, certain exemptions under the Nasdaq standards free us from the obligation to comply with certain Nasdaq corporate governance requirements, including the requirements:

- that a majority of our board of directors consists of independent directors;
- that we have a corporate governance and nominating committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;
- that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and
- for an annual performance evaluation of the nominating and governance committee and compensation committee.

As a result of our use of the "controlled company" exemptions, holders of our Class A common stock do not have the same protection afforded to stockholders of companies that are subject to all of the corporate governance rules of Nasdaq.

Risks Related to Ownership of Our Class A Common Stock

Our stock price may fluctuate significantly.

The market price of our Class A common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our results of operations;
- the financial projections we may provide to the public, any changes in these projections, or our failure to meet these projections;
- failure of securities analysts to initiate or maintain coverage of our company, changes in financial estimates or ratings changes by any securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- media reports and coverage of our operations, industry, employees, and company;
- announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures, or capital commitments;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- price and volume fluctuations in the overall stock market;
- trends and factors in the economy generally, both in the U.S. and globally;
- changes in accounting standards, policies, guidelines, interpretations, or principles;
- actual or anticipated developments in our business or our competitors' businesses or the competitive landscape generally;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- developments or disputes concerning our intellectual property or our solutions, or third-party proprietary rights;
- new laws or regulations, new interpretations of existing laws, or the new application of existing regulations to our business;
- any major change in our board of directors or management;
- any actions or conduct by our employees, directors, or management that could impact our reputation;
- additional Class A common stock being sold into the market by us or our existing stockholders or the anticipation of such sales;
- changes in operating performance and stock market valuations of technology companies in our industry;
- lawsuits threatened or filed against us; and
- other events or factors, including those resulting from war, incidents of terrorism, disease, global pandemics such as COVID-19, or responses to these events.

In addition, the stock markets, and in particular the market on which our Class A common stock is listed, have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from operating our business, and harm our business, results of operations, and financial condition.

If securities or industry analysts do not publish research or reports about our business, or if they downgrade our common stock, the price of our Class A common stock could decline.

The trading market for our Class A common stock depends, in part, 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 downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. In addition, if our results of operations fail to meet the forecast of analysts, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our Class A common stock could decrease, which might cause our stock price and trading volume to decline.

Substantial future sales of our Class A common stock could cause the market price of our Class A common stock to decline.

The market price of our Class A common stock could decline as a result of substantial sales of our Class A common stock, particularly sales by our directors, executive officers, and significant stockholders, a large number of our Class A common stock becoming available for sale or the perception in the market that holders of a large number of shares intend to sell their shares. As of February 16, 2023, we had a total of 179,285,701 shares outstanding of Class A common stock and 423,170,610 shares outstanding of Class B common stock. All outstanding shares of Class B common stock are owned by SAP. Shares of Class A common stock issued to Q II, LLC, or Q II, and Silver Lake Technology Management, LLC, or Silver Lake, are deemed “restricted securities” as defined in Rule 144 under the Securities Act and, pursuant to Silver Lake’s Class A common stock purchase agreement, they were subject to lock-up restrictions that ended on January 28, 2023. The outstanding shares of our Class A and all of our Class B common stock will be deemed “restricted securities” as defined in Rule 144. These restricted securities, and the shares of Class A common stock into which the outstanding shares of our Class B common stock are convertible, may be sold in the public market only if they are registered or if they qualify for an exemption from registration under the Securities Act.

Sales of our Class A common stock as these restrictions end may make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. These sales also could cause the market price of our Class A common stock to fall and make it more difficult for you to sell our Class A common stock.

We are party to a stockholders’ agreement with SAP, Q II and Silver Lake which, among other things, provides for specified registration rights relating to the shares of our Class A common stock and Class B common stock owned by SAP, Q II and Silver Lake. Registration of those shares under the Securities Act would permit SAP, Q II, Silver Lake and their permitted transferees registration rights agreement to sell their respective shares into the public market.

We will continue to incur increased costs and demands upon management as a result of complying with the laws and regulations affecting public companies, which could adversely affect our business, financial condition, and results of operations.

As a public company, we will continue to incur greater legal, accounting, and other expenses than we incurred as a private company. We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, and the rules and regulations of Nasdaq. These requirements have increased and will continue to increase our legal, accounting, and financial compliance costs and have made, and will continue to make, some activities more time-consuming and costly. For example, we expect these rules and regulations to make it more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to maintain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as our executive officers. We will continue to incur significant expenses and devote substantial management effort toward ensuring compliance with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. In that regard, we will need to continue to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge.

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

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

- authorize our board of directors to issue, without further action by the stockholders, shares of undesignated preferred stock with terms, rights, and preferences determined by our board of directors that may be senior to our common stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent, if such action occurs after SAP ceases to be the beneficial owner of a majority of votes entitled to be cast by the holders of Class A common stock and the holders of Class B common stock, voting together as a single class, such date being referred to as the Written Consent Threshold Date;
- until the Written Consent Threshold Date, allow our stockholders to act by written consent, without a meeting and without prior notice;
- specify that special meetings of our stockholders may only be called by (1) SAP, until the Written Consent Threshold Date, (2) our Executive Chair or Chief Executive Officer or (3) a majority of directors then in office. No business other than that stated in the notice of a special meeting may be transacted at such special meetings;
- provide for a dual-class common stock structure in which holders of our Class B common stock have the ability to control the outcome of certain matters requiring stockholder approval, even if they own significantly less than a majority of the aggregate outstanding shares of our common stock, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;
- prohibit cumulative voting;
- provide that any vacancy on the board of directors that results from an increase in the number of directors may be filled only by a majority of the board of directors then in office, provided that a quorum is present, and any other vacancy occurring in the board of directors may be filled only by a majority of directors then in office, even if less than a quorum, or by a sole remaining director. However, until the Written Consent Threshold Date, any vacancy caused by the removal of a director by our stockholders may be filled only by our stockholders;
- require that certain provisions of our amended and restated certificate of incorporation, including those relating to (i) corporate opportunities and conflicts of interest between us and SAP, (ii) the consent of SAP as the holder of our Class B common stock, (iii) our amended and restated bylaws, (iv) our board of directors and (v) the indemnification of our directors and officers, may be amended by the affirmative vote of at least 80% of the votes entitled to be cast thereon subject to the rights of holders of our Class B common stock to withhold their consent to the amendment, of the provisions of our amended and restated certificate of incorporation relating to corporate opportunities and conflicts of interest between our company and SAP. All other provisions of our amended and restated certificate of incorporation may be amended by the affirmative vote of a majority of the votes entitled to be cast thereon; and

- allow our board of directors to amend, supplement or repeal our amended and restated bylaws upon the vote of a majority of the board of directors. Our amended and restated certificate of incorporation will provide that, after the Written Consent Threshold Date, the sections of our amended and restated bylaws related to the removal of directors and the required advance notice related to stockholder proposals and nomination of directors by stockholders may only be amended by the affirmative vote of shares representing at least 80% of the votes entitled to be cast by the outstanding common stock, voting as a single class, subject to any voting rights granted to any holders of any preferred stock.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, or the DGCL, which imposes certain restrictions on mergers, business combinations, and other transactions between us and holders of 15% or more of our outstanding common stock. Any provision of our amended and restated certificate of incorporation, amended and restated bylaws or Delaware law that has the effect of delaying, preventing or deterring a change in control or changes in our management could limit the opportunity for our stockholders to receive a premium for their shares of our common stock and could also affect the price that some investors are willing to pay for our Class A common stock.

Our amended and restated bylaws designate a state or federal court located within the State of Delaware as the 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, or other employees.

Our amended and restated bylaws provide that, unless we consent in writing to the selection of an alternative forum, 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, or other employees or our stockholders to us or our stockholders, (iii) any action asserting a claim arising pursuant to any provisions of the DGCL, our amended and restated certificate of incorporation or our amended and restated bylaws or as to which the DGCL confers jurisdiction on the Court of Chancery of the State of Delaware, or (iv) any action asserting a claim governed by the internal affairs doctrine shall be, to the fullest extent permitted by law, the Court of Chancery of the State of Delaware. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock shall be deemed to have notice of and consented to this provision. Our amended and restated bylaws also provide that the federal district courts of the United States of America will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act; provided, however, that our stockholders cannot and will not be deemed to have waived our compliance with the U.S. federal securities laws and the rules and regulations thereunder. This provision would not apply to suits brought to enforce a duty or liability created by the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction.

Furthermore, Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all such Securities Act actions. Accordingly, both state and federal courts have jurisdiction to entertain such claims. To prevent having to litigate claims in multiple jurisdictions and the threat of inconsistent or contrary rulings by different courts, among other considerations, our amended and restated bylaws provide that the federal district courts of the United States of America will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act. While the Delaware courts have determined that such choice of forum provisions are facially valid, a stockholder may nevertheless seek to bring a claim in a venue other than those designated in the exclusive forum provisions. In such instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provisions of our amended and restated bylaws. This may require significant additional costs associated with resolving such action in other jurisdictions and there can be no assurance that the provisions will be enforced by a court in those other jurisdictions.

These choice of forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage such lawsuits. Alternatively, if a court were to find the choice of forum provision in our amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, results of operations, and financial condition.

We do not expect to declare dividends in the foreseeable future.

We currently anticipate that we will retain future earnings for the development, operation, and expansion of our business, and do not anticipate declaring or paying any cash dividends for the foreseeable future, except for certain distributions from additional paid-in capital to SAP under our tax sharing agreement. Any return to stockholders will therefore be limited to the increase, if any, of our share price, which may never occur.

Our controlling stockholder SAP has announced the exploration of a sale of its stake in Qualtrics. There can be no assurance as to the outcome of this sale process.

On January 26, 2023, SAP, the controlling stockholder of Qualtrics, announced that it had decided to explore a sale of its stake in the Company. There can be no assurance as to the outcome of SAP's sale process or any discussions with any prospective buyers, the potential for such sale process to result in a whole-company sale of Qualtrics and the extent to which any transaction, if pursued, will be consummated. Qualtrics assumes no obligation to disclose developments with respect to this sale process, except as required by law. This sale process will, at times, require the attention and resources of management and the Company, which may be disruptive to our business operations.

Risks Related to Our Organizational Structure

Our principal asset is our interest in Qualtrics, LLC, and we are, and expect to continue to be, dependent upon the results of operations and cash flows of Qualtrics, LLC and its consolidated subsidiaries and distributions we receive from Qualtrics, LLC.

Qualtrics International Inc. is, and we expect to continue to be, a holding company with no material assets other than our ownership of the capital stock of Qualtrics, LLC and other subsidiaries, which we control. As such, Qualtrics International Inc. has no independent means of generating revenue or cash flow, and our ability to pay our taxes and operating expenses or declare and pay dividends in the future, if any, will be dependent upon the results of operations and cash flows of Qualtrics, LLC and other subsidiaries, and distributions we receive therefrom. There can be no assurance that our direct and indirect subsidiaries will generate sufficient cash flow to distribute funds to us or that applicable state law and contractual restrictions, including negative covenants in any future debt instruments, will permit such distributions. In addition, in the event that the board of directors and stockholders of Qualtrics International Inc. were to approve a sale of all of our direct and indirect interests in Qualtrics, LLC and other subsidiaries, the equity interest of the holders of our common stock would be in a holding company with no material assets other than those assets and other consideration received in such transaction.

General Risk Factors

We rely on the performance of highly skilled personnel, including our management and other key employees, and the loss of one or more of such personnel, or of a significant number of our team members, could harm our business.

Our success and future growth depend upon the continued services of our management team and other key employees. In particular, Ryan Smith, our Founder, Executive Chair and Director, and Zig Serafin, our Chief Executive Officer, are both critical to our vision, strategic direction, culture, and offerings. From time to time, there may be changes in our management team, including those resulting from the hiring or departure of executives and key employees, which could disrupt our business. We also are dependent on the continued service of our existing employees, in part because of the complexity of our solutions. Our senior management and key employees are employed on an at-will basis. In general, we may terminate our employees' employment at any time, and any employee may resign at any time, with or without cause. The loss of one or more of our senior management or other key employees could harm our business, and we may not be able to find adequate replacements. We cannot ensure that we will be able to retain the services of any members of our senior management or other key employees. In particular, recruiting and hiring senior product engineering personnel has been, and we expect to continue to be, challenging given the intense competition in the software industry for skilled product engineering talent. In December 2022, we announced a transition from a hybrid working model to require most employees to work four days per week in the office. This change may cause us to lose important and talented personnel who prefer more of a hybrid or remote working environment. If we are unable to hire or retain talented personnel, we may be unable to scale our operations or release new products in a timely fashion and, as a result, customer satisfaction with our products may decline. Additionally, many of our employees and members of our management team may receive significant proceeds from sales of our equity in the public markets, which may reduce their motivation to continue to work for us.

Our quarterly and annual results of operations may vary and may be difficult to predict. If we fail to meet the expectations of investors or securities analysts, our stock price and the value of your investment could decline.

Our quarterly and annual billings, revenue, and results of operations have fluctuated in the past and may vary in the future due to a variety of factors, many of which are outside of our control. Our financial results in any one quarter should not be relied upon as indicative of future performance. We may not be able to accurately predict our future billings, revenue, or results of operations. Factors that may cause fluctuations in our quarterly results of operations include, but are not limited to, those listed below:

- fluctuations in the demand for our XM Platform, and the timing of sales;
- our ability to attract new customers or retain existing customers;
- the budgeting cycles and internal purchasing priorities of our customers;
- the payment terms and subscription term length associated with our XM Platform sales and their effect on our billings and free cash flow;
- our ability to anticipate or respond to changes in the competitive landscape, including consolidation among competitors;
- the timing of expenses and recognition of revenue;
- the timing of our recognition of equity and cash settled stock-based compensation expense for our equity awards, particularly in cases where awards covering a large number of our shares are tied to a specific date;
- the amount and timing of operating expenses related to the maintenance and expansion of our business, operations, and infrastructure;
- the timing and success of new product features and solutions by us or our competitors;

- actual or perceived security breaches;
- increases or decreases in the inflation rate;
- changes in laws and regulations that impact our business;
- macroeconomic conditions and the economic impact of the COVID-19 pandemic and the ongoing conflict between Russia and Ukraine; and
- general economic, industry, and market conditions, including inflation and interest rate fluctuations.

If our billings, revenue, or results of operations fall below the expectations of investors or securities analysts in a particular quarter, or below any guidance that we may provide, the price of our Class A common stock could decline. Our quarterly and annual financial results may fluctuate due to these or other factors, and we do not believe that our financial results in any one quarter or any other period should be relied upon by investors as indicative of our future financial performance.

We are subject to tax examinations of our tax returns by the Internal Revenue Service, or IRS, and other tax authorities. An adverse outcome of any such audit or examination by the IRS or other tax authority could have a material adverse effect on our results of operations, financial condition, and liquidity.

We are, and expect to continue to be, subject to regular review and audit by the IRS and other tax authorities in various jurisdictions. As a result, we have received, and may in the future receive, assessments in multiple jurisdictions on various tax-related assertions. Taxing authorities may in the future challenge our tax positions and methodologies on various matters, including our positions regarding the collection of sales and use taxes and the jurisdictions in which we are subject to taxes, which could expose us to additional taxes. We regularly assess the likelihood of adverse outcomes resulting from ongoing tax examinations to determine the adequacy of our provision for income taxes. These assessments can require considerable estimates and judgments. The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a variety of jurisdictions. There can be no assurance that our tax positions and methodologies or calculation of our tax liabilities are accurate or that the outcomes from ongoing and future tax examinations will not have an adverse effect on our operating results and financial condition. A difference in the ultimate resolution of tax uncertainties from what is currently estimated could have an adverse effect on our operating results and financial condition.

Catastrophic events may disrupt our business.

Natural disasters or other catastrophic events may cause damage or disruption to our operations, international commerce, and the global economy, and thus could harm our business. In the event of a major earthquake, hurricane, fire, cyberattack, war, terrorist attack, disease, such as the COVID-19 pandemic, power loss, telecommunications failure, or other catastrophic events, we may be unable to continue our operations, in part or in whole, and may endure reputational harm, delays in developing our XM Platform and solutions, breaches of data security and loss of critical data, all of which could harm our business, results of operations and financial condition.

Additionally, we rely on our network and third-party infrastructure and applications, internal technology systems, and our websites for our development, marketing, operational support, hosted services, and sales activities. If these systems were to fail or be negatively impacted as a result of a natural disaster or other event, our ability to deliver solutions to our customers would be impaired.

As we grow our business, the need for business continuity planning and disaster recovery plans will grow in significance. If we are unable to develop adequate plans to ensure that our business functions continue to operate during and after a disaster, and successfully execute on those plans in the event of a disaster or emergency, our business and reputation would be harmed.

Uncertainty in the global economy, financial markets, and social and political instability caused by state-based conflicts, terrorist attacks, civil unrest, war, or international hostilities could lead to disruptions in our business.

As a global company, we are influenced by multiple external factors that are difficult to predict and beyond our influence and control. Any of these factors could have a significant adverse effect on the global economy as well as on our business.

We are subject to risks and associated consequences in the following areas, among others:

- General economic, political, social, environmental, public health, and market developments, and general unrest;
- Prolonged deterioration of global economic conditions or budgetary constraints of national governments;
- Diplomatic confrontations, frictions, trade or tariff conflicts, with potential global implications as indicated by a prolonged and widespread economic slowdown;
- Financial market volatility episodes, global economic crises and chronic fiscal imbalances, slowing economic conditions, or disruptions in emerging markets;
- Higher credit barriers for customers, reducing their ability to finance software purchases;
- Increased number of foreclosures and bankruptcies among customers, business partners, and key suppliers;
- The ongoing conflict between Russia and Ukraine, including impacts of government sanctions and other trade controls;
- Terrorist attacks or other acts of violence, civil unrest, global pandemics such as COVID-19, or natural disasters, impacting our business; and
- Regional conflicts, which may affect data centers as critical infrastructure assets.

Any of these events could limit our ability to reach our targets, as they could have a material adverse effect on our operating results and financial position.

Adverse economic conditions could negatively impact our business.

Our results of operations may vary based on the impact of changes in our industry or the global economy on us or our customers. Our business depends on demand for business software applications generally and for experience management software solutions in particular. In addition, the market adoption of our solutions and our revenue is dependent on the number of users of our solutions. To the extent that weak economic conditions reduce the number of personnel overseeing customer experience, employee experience, or other experience matters or that limit the available budgets within organizations for software solutions, demand for our solutions may be harmed. If economic conditions deteriorate, our customers and prospective customers may elect to decrease their information technology budgets, which would limit our ability to grow our business and harm our results of operations.

Recent volatility in capital markets and lower market prices for our securities may affect our ability to access new capital through sales of shares of our common stock or issuance of indebtedness, which may materially harm our liquidity, limit our ability to grow our business, pursue acquisitions or improve our operating infrastructure and restrict our ability to compete in our markets.

We intend to continue to make significant investments to support our business growth, respond to business challenges or opportunities, develop new solutions, improve our existing solutions, enhance our operating infrastructure, and potentially acquire complementary businesses and technologies. Our future capital requirements may be significantly different from our current estimates and will depend on many factors, including the need to:

- finance unanticipated working capital requirements;

- develop or enhance our technological infrastructure and our existing solutions;
- pursue acquisitions or other strategic relationships; and
- respond to competitive pressures.

Accordingly, we may need to pursue equity or debt financings to meet our capital needs. With uncertainty in the capital markets and other factors, such financing may not be available on terms favorable to us or at all. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences, and privileges superior to those of holders of our common stock. Any debt financing secured by us in the future could involve additional restrictive covenants relating to our capital-raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. If we are unable to obtain adequate financing or financing on terms satisfactory to us, we could face significant limitations on our ability to invest in our operations and otherwise suffer harm to our business.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We have co-headquarters in Provo, Utah, and Seattle, Washington consisting of approximately 165,000 square feet of space owned by the Company and approximately 275,000 square feet of space pursuant to a lease that expires in 2034, respectively. We maintain additional offices in multiple locations in the United States and internationally in Australia, Belgium, France, Germany, Hong Kong, India, Ireland, Italy, Japan, the Netherlands, Poland, Singapore, Serbia, South Korea, Spain, Sweden, the United Arab Emirates, and the United Kingdom. We lease all of our facilities, except that we own two office buildings in Provo, Utah consisting of an aggregate of approximately 207,000 square feet. In a few instances, we occupy space in SAP's offices - notably but not exclusively in New York City and Toronto. We believe our facilities are adequate and suitable for our current needs and that, should it be needed, suitable additional or alternative space will be available to accommodate our operations.

Item 3. Legal Proceedings

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business. We are not presently a party to any legal proceedings that, if determined adversely to us, would individually or taken together have a material adverse effect on our business, results of operations, financial condition, or cash flows. We have received, and may in the future continue to receive, claims from third parties asserting, among other things, infringement of their intellectual property rights. Future litigation may be necessary to defend ourselves, our partners, and our customers by determining the scope, enforceability, and validity of third-party proprietary rights, or to establish our proprietary rights. The results of any current or future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

For information on legal proceedings, refer to Note 10. Commitments and Contingencies—Legal Matters in our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

Item 4. Mine Safety Disclosure

Not applicable.

Part II.

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

Market Information for Our Class A Common Stock

Our Class A common stock began trading on Nasdaq under the symbol "XM" on January 28, 2021. Prior to that, there was no public trading market for our Class A common stock. Our Class B common stock is not listed or traded on any stock exchange.

Holders of Record

As of February 16, 2023, there were 126 registered stockholders of record of our Class A common stock, and 1 holder of record of our Class B common stock. Because many of our shares of Class A common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Dividend Policy

In connection with our initial public offering, we declared a $2,392 million dividend on our common stock. The dividend was payable to holders of our common stock as of January 28, 2021, the date of effectiveness of the initial public offering, (which did not include investors purchasing shares of our Class A common stock in the initial public offering). SAP America received the dividend in the form of two promissory notes, which we refer to as "Promissory Note 1" and "Promissory Note 2." Q II waived its right to receive the dividend.

Except for certain distributions to SAP under our tax sharing agreement with SAP, we do not intend to pay cash dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to applicable laws and the consent of the holders of our Class B common stock pursuant to our amended and restated certificate of incorporation, and will depend on a number of factors, including our financial condition, results of operations, capital requirements, contractual restrictions, general business conditions, and other factors that our board of directors may deem relevant. Holders of our Class A common stock and our Class B common stock will share equally on a per share basis in any dividend declared on our common stock by our board of directors.

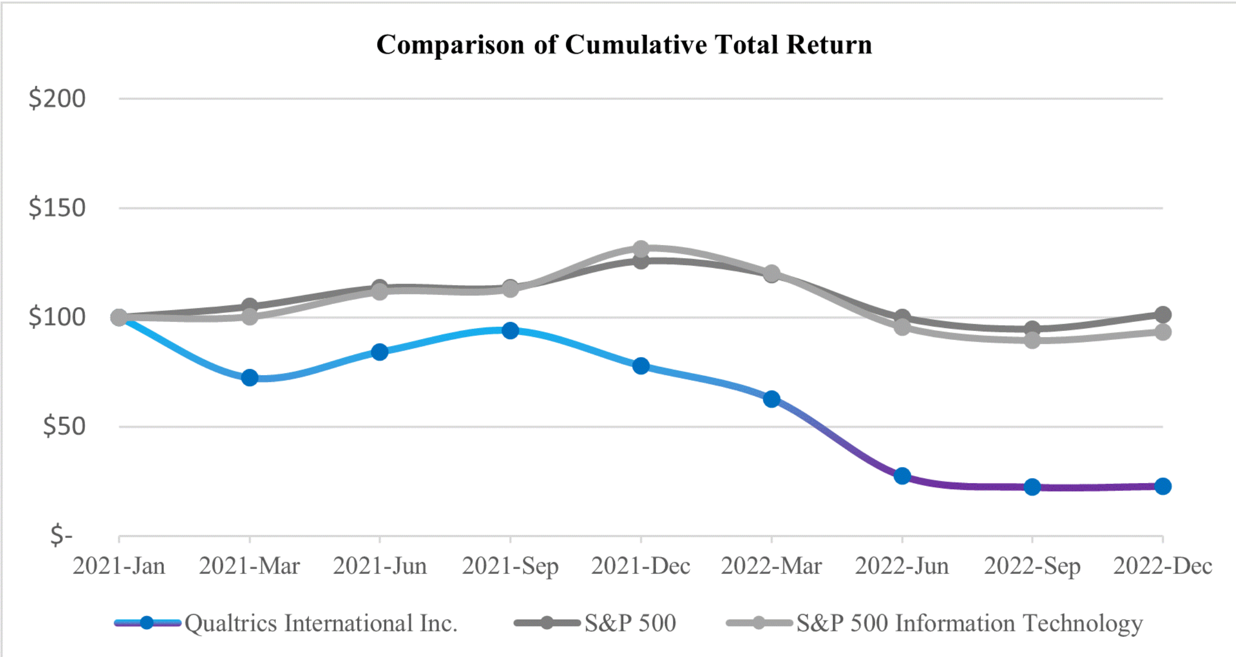
Securities Authorized for Issuance under Equity Compensation Plans

The information required by this item with respect to our equity compensation plans is incorporated by reference in our 2023 Proxy Statement to be filed with the SEC within 120 days of the year ended December 31, 2022.

Stock Performance Graph

This performance graph shall not be deemed "soliciting material" or to be "filed" with the SEC for purposes of Section 18 of the Exchange Act or subject to Regulation 14A or 14C, other than as provided by this Item 5, or to the liabilities of Section 18 of the Exchange Act, and shall not be deemed to be incorporated by reference into any of our filings under the Securities Act.

The following graph compares the cumulative total stockholder return on our Class A common stock from January 28, 2021 (the date our Class A common stock commenced trading on Nasdaq) through December 31, 2022 with the cumulative total return of the Standard & Poor's 500 Index and Standard & Poor's Information Technology Index over the same period. All values assume a $100 initial investment and data for the Standard & Poor's 500 Index and Standard & Poor's 500 Information Technology Index assume reinvestment of dividends. The graph uses the closing market price on January 28, 2021 of $45.50 per share as the initial value of our Class A common stock. The comparisons are based on historical data and are not indicative of, nor intended to forecast, the future performance of our Class A common stock.



Recent Sales of Unregistered Securities and Use of Proceeds

Recent Sales of Unregistered Securities

On December 8, 2020, Q II, an entity controlled by Ryan Smith, agreed to purchase 6,000,000 shares of our Class A common stock, at $20.00 per share for an aggregate purchase price of $120 million. This transaction, which we refer to as the Q II investment, was completed on December 21, 2020.

On December 23, 2020, funds affiliated with Silver Lake Technology Management, L.L.C., or Silver Lake, agreed to purchase $550 million of shares of our Class A common stock, comprising (a) 15,018,484 shares at $21.64 per share and (b) $225 million of shares at the initial public offering price, in a concurrent private placement transaction, which we refer to as the Silver Lake investment. This transaction was completed on January 28, 2021.

On October 1, 2021, we acquired Clarabridge, Inc., or Clarabridge, a customer experience management software company, by way of a merger pursuant to which the consideration payable by us included 25,038,955 shares of our Class A common stock (of which 896,890 shares are subject to vesting conditions), or the Acquisition Shares. All of the Acquisition Shares were issued to former stockholders of Clarabridge. On October 1, 2021, we registered 24,142,065 of the Acquisition Shares for resale pursuant to a registration statement on Form S-1 (File No. 333-259975), as amended, which was declared effective on October 12, 2021.

Unless otherwise stated, the sales of the above securities were deemed to be exempt from registration under the Securities Act in reliance on Section 4(a)(2) of the Securities Act as transactions by an issuer not involving any public offering. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed on the share certificates issued in these transactions.

Issuer Purchases of Equity Securities

None.

Item 6. [Reserved]

Not applicable.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. You should review the sections titled "Special Note Regarding Forward-Looking Statements" and "Risk Factors" for a discussion of forward-looking statements and important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

We created the first experience management platform to design and manage customer, employee, product, and brand experiences. Our platform serves as a business operating system for experience management. The Qualtrics Experience Management Platform, or XM Platform, is a system of action that helps companies design and improve the experiences they provide to their many constituents across these four core experiences.

We have more than 18,750 customers, including over 90% of the Fortune 100 as of December 31, 2022. Our revenue was $1,458.6 million, $1,075.7 million, and $763.5 million for the years ended December 31, 2022, 2021, and 2020, respectively, representing year-over-year growth of 36% and 41%, respectively. For the years ended December 31, 2022, 2021, and 2020, our net loss was $1,061.5 million, $1,059.1 million, and $272.5 million, respectively. The results of our operations for the years ended December 31, 2022, 2021, and 2020 were impacted by equity and cash settled stock-based compensation expense. Additionally, the results of our operations for the year ended December 31, 2021 was impacted by advisory and legal costs related to acquisitions.

We generate revenue by selling subscriptions to our XM Platform and integrated solutions, as well as professional services. Over 97% of our contracts have a subscription period of one year or longer, and we primarily bill annually in advance. Subscription revenue comprised approximately 84% of our total revenue for the year ended December 31, 2022. We have a diversified customer base consisting of organizations of various sizes across virtually all industries. Our largest customer accounted for less than 2% of revenue in 2022, and our largest industries by annual recurring revenue, or ARR, as of December 31, 2022 were professional and business services, technology, financial services, healthcare and life sciences, education, and government. ARR is calculated by annualizing subscription revenue in the last month of a period.

We price and package our software subscriptions solutions based on the capacity, use case, and functionality needs of our customers. This pricing and packaging includes volume of expected responses, number of users accessing our platform, number of employees, and level of functionality provided, such as dashboards, iQ functionality, and integrations. We have also recently begun to offer use case pricing that simplifies pricing for customers seeking to address specific needs. Our customers often expand their subscriptions as they increase volume of responses, add solutions and integrations, grow users and employees, and increase features and workflows within each solution.

Our professional services consist primarily of research services, through our DesignXM offering, which allows customers to gain market intelligence by procuring a curated group of respondents and returning actionable results, while conforming to best-practice design and methodology, as well as implementations, configurations, and integration and engineering services to help customers deploy our XM Platform. Other professional services revenue consists of consulting and training fees.

As of December 31, 2022, we had over 5,600 employees.

Acquisition of Clarabridge

On October 1, 2021, we completed our previously announced acquisition of Clarabridge, Inc., or Clarabridge, a customer experience management software company headquartered in Reston, Virginia, or the Clarabridge Acquisition, pursuant to an Agreement and Plan of Reorganization and Merger, or the Merger Agreement.

We expect to continue to acquire or invest in businesses, people, or technologies that we believe could complement, expand, or enhance our XM Platform or otherwise offer growth opportunities.

Key Factors Affecting Our Performance

We believe that the growth and future success of our business depends on many factors. While each of these factors presents significant opportunities for our business, they also pose important challenges that we must successfully address in order to sustain our growth and improve our results of operations.

Customer Acquisition and Expansion

We are focused on continuing to acquire new customers to support our long-term growth. We have invested, and expect to continue to invest, heavily in our sales and marketing efforts to drive customer acquisition. As of December 31, 2022, we had more than 18,750 customers, including 90% of the Fortune 100. Our customers include businesses of all sizes, academic institutions, and government organizations. We define the number of customers at the end of any particular period as the number of parties or individual legal entities that have entered into a separate subscription contract with us. For avoidance of doubt, international subsidiaries of parent entities are not separately counted, but business units, brands, and academic institutions are counted if they are distinct legal entities. A single organization or customer may have multiple paid business accounts.

Our business model relies on rapidly and efficiently landing new customers and expanding our relationship with them over time. We have a history of attracting new customers, driving expanded use through upselling our XM Platform across the enterprise, and cross-selling through the subsequent deployment of additional solutions throughout the enterprise. Our relationship with SAP has resulted in greater access to enterprise customers and increased cross-sell opportunities through SAP’s customer base.

We continue to increase the number of customers who have entered into larger subscriptions with us. We had 2,262 customers with ARR of $100,000 or more as of December 31, 2022, increased from 1,940 and 1,338 as of December 31, 2021 and 2020, respectively. Further, as of December 31, 2022, we had 189 customers with ARR of $1 million or more, up from 143 and 74 as of December 31, 2021 and 2020, respectively. The number of customers with ARR of $100,000 or more indicates the strategic importance of our platform for enterprise customers and our ability to both initially land significant accounts and grow them over time.

Investing for Growth

Our investment for growth encompasses multiple critical areas, including international growth, enterprise sales, and product expansion.

Our revenue outside of the United States represented 30%, 29%, and 28% of our total revenue in the years ended December 31, 2022, 2021, and 2020, respectively. We initially started our expansion outside of the United States in English-speaking countries, such as Ireland, the United Kingdom, Canada, and Australia, as we were able to leverage our core technologies and go-to-market motion. Since opening our first international office in Dublin, Ireland in 2013, we now have over 25 sales offices in countries around the globe.

We continue to evolve our technology to ensure that we are best serving our customers’ needs. We believe this will lead to continued strong retention and positive customer referrals that will continue to generate expansion within current customer organizations and business from new customers. Since 2015, we have established offices in Seattle and Poland to expand our engineering headcount. We continue to invest in research and development to drive product innovation and development.

Strategic Partnerships

In 2018, we announced the launch of the Qualtrics Partner Network, or "QPN". Since then, we have built out our partner network to include over 400 global member companies partnering with us on our platform to help drive breakthrough business outcomes for joint customers. Since the SAP Acquisition in 2019, we have also developed joint go-to-market and product integrations with SAP. We expect our partnerships to continue to extend our sales reach and provide implementation leverage both domestically and internationally, as well as product and technology integrations that will accelerate our product roadmap.

Key Business Metrics

We review a number of operating and financial metrics, including the following key metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans, and make strategic decisions.

Large Customers

We define our large customers as those spending more than $100,000 in ARR on our XM Platform. We believe that our ability to increase the number of large customers is an indicator of our market penetration, strategic demand for our platform, the growth of our business, and our potential future business opportunities. Increasing awareness of our XM Platform and its broad range of capabilities, coupled with the mainstream adoption of cloud-based technology, has expanded the diversity of our large customer base to include organizations of different sizes across virtually all industries.

	December 31,			Growth Rate December 31,		
	2022	2021	2020	2022	2021	2020
Large customers	2,262	1,940	1,338	17 %	45 %	30 %

Net Retention Rate

We calculate our dollar-based net retention rate to measure our ability to retain and expand subscription revenue from our existing customers and is an indicator of the value our platform delivers to customers and our future business opportunities. Our net retention rate compares our subscription revenue from the same set of customers across comparable periods and reflects customer renewals, expansion, contraction and churn.

We calculate our net retention rate on a trailing four-quarter basis. As of December 31, 2022, our net retention rate was 120%. Our net retention rate was 128% as of December 31, 2021.

To calculate our net retention rate, we first calculate the subscription revenue in one quarter from a cohort of customers that were customers at the beginning of the same quarter in the prior fiscal year, or cohort customers. We repeat this calculation for each quarter in the trailing four-quarter period. The numerator for net retention rate is the sum of subscription revenue from cohort customers for the four most recent quarters, or numerator period, and the denominator is the sum of subscription revenue from cohort customers for the four quarters preceding the numerator period.

SAP Acquisition

Since the SAP Acquisition in January 2019 and until the sale of 6,000,000 shares of our Class A common stock to Q II in December 2020, we have operated as a wholly-owned subsidiary of SAP. The results of our operations include all revenue and costs directly attributable and/or allocable to the Company, including costs for facilities, functions, and services used by Qualtrics. Our results also include expenses of SAP directly charged to Qualtrics for certain functions provided by SAP, including, but not limited to, sales organization costs, insurance, employee benefits, human resources, and usage of data centers. We expect this revenue and these cross charges between us and SAP to continue in the near future. These amounts may fluctuate from period to period based on the nature and extent of the indirect benefits received and provided. See Note 16 "Related Party Transactions" for further details in our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

On January 28, 2021, we completed a voluntary exchange offer pursuant to which 5.4 million cash-settled Qualtrics Rights and 1.3 million cash-settled SAP RSU awards were exchanged into 12.8 million equity-settled Qualtrics RSU awards, representing 93% of the outstanding Qualtrics Rights and SAP RSU awards. On September 13, 2021, we completed an additional voluntary exchange offer for certain employees in Australia who were not eligible for the January 28, 2021 exchange, pursuant to which less than 0.1 million cash-settled Qualtrics Rights and SAP RSU awards were exchanged and modified into equity-settled Qualtrics RSU awards. During the year ended December 31, 2022, 2021, and 2020, we recorded $1,034.2 million, $1,057.1 million, and $224.0 million, respectively, in equity and cash settled stock-based compensation expense. The change in stock-based compensation expense in 2022 and 2021 was primarily due to the issuance of RSU awards in connection with our initial public offering. During the year ended December 31, 2022, 2021, and 2020 we settled $5.3 million, $79.4 million, and $388.6 million, respectively, of liability-classified awards.

Increases and decreases in equity and cash settled stock-based compensation, directly correlate with increases and decreases in our cost of revenue, research and development, sales and marketing, and general and administrative costs in absolute dollars and as a percentage of revenue. These changes are described in additional detail within our results of operations.

SAP Segment Reporting

Since the SAP Acquisition, certain of our financial results have been presented as an operating segment within SAP's publicly reported financial results. These Euro currency reported financial results are prepared and presented under International Financial Reporting Standards, or IFRS. The SAP segment results differ from our standalone financial results primarily due to differences in reporting currency, differences between IFRS and GAAP, differences in the reporting of certain related party transactions between Qualtrics and SAP, SAP's reporting of expenses related to certain corporate overhead functions, and differences in the reporting related to the SAP Acquisition.

Exploration of Strategic Alternatives

On January 26, 2023, SAP, the controlling stockholder of Qualtrics, announced that it had decided to explore a sale of its stake in Qualtrics. There can be no assurance as to the outcome of SAP's sale process or any discussions with any prospective buyers, the potential for such sale process to result in a whole-company sale of Qualtrics and the extent to which any such transaction, if pursued, will be consummated. Qualtrics assumes no obligation to disclose developments with respect to this sale process, except as required by law.

Response to COVID-19

In response to the COVID-19 pandemic, we implemented a variety of measures, including a COVID-19 task force, a temporary work from home policy, new operating guidelines for our offices based on local conditions, restrictions on work-related travel, and additional wellness benefits for employees, all of which had the potential to result in disruptions to how we operate our business. We have now discontinued or relaxed most of these measures, including the implementation of a hybrid work policy, but a few of them are ongoing. Our employees' health and safety is our top priority, and we continue to monitor the status of the pandemic globally. The conditions caused by the pandemic have adversely affected or may in the future adversely affect, among other things, demand, spending by new customers, renewal and retention rates of existing customers, the length of our sales cycles, sales productivity, the value and duration of subscriptions, supply of goods and services provided by third parties, collections of accounts receivable, our IT and other expenses, our ability to focus time and attention on our core business, our ability to recruit, and the ability of our employees to travel, all of which could adversely affect our business, results of operations, and financial condition.

We have also experienced, and may continue to experience, certain positive impacts on other aspects of our business, including an increase in sales of our platform to state, local, and federal governments and non-profit organizations to help them navigate through the pandemic as well as sales of vaccine and testing verification solutions on our XM Platform. Moreover, we have seen a reduction in certain operating expenses due to reduced business travel, reduced office use, deferred hiring for some positions, and the virtualization or cancellation of customer and employee events. As the world emerges from the COVID-19 pandemic, however, we have experienced, and may continue to experience, difficulties in renewing licenses for pandemic-related solutions and increased operating costs.

While the adverse effects and disruptions related to the COVID-19 pandemic on our business have decreased in recent months, the global impact of COVID-19 continues to evolve, including as a result of the emergence of new variants of the virus, vaccination efforts and the changing legal landscape, and we will continue to monitor the situation and the effects on our business and operations closely. Although we believe our business is well-suited to navigate the current environment, the ultimate duration and extent of the COVID-19 pandemic cannot be accurately predicted at this time. In particular, due to our subscription-based business model, the effect of the COVID-19 pandemic may not be fully reflected in our revenue until future periods. Given the uncertainty, we cannot reasonably estimate the direct or indirect impact on our future business, results of operations, cash flows, and financial condition. For additional details, see "Risk Factors."

Components of Our Results of Operations

Revenue

We generate revenue from sales of subscriptions to our XM Platform and related professional services.

Subscription revenue is recognized ratably over the related contractual term, generally beginning on the date that our XM Platform is made available to our customer. Our subscription agreements generally have annual contractual terms, with a growing number having multi-year contractual terms. Our agreements generally cannot be canceled for a refund. We primarily bill in advance for our annual contracts and annually in advance for our multi-year contracts. Amounts that have been billed are initially recorded as deferred revenue until the revenue is recognized. Subscription revenue as a percentage of total revenue may fluctuate period to period.

Professional services and other revenue consists primarily of research services, implementation services, and engineering services. Research services revenue is recognized upon completion of the project. Our research services agreements generally cannot be canceled for a refund. We typically bill in advance for research services projects, with a number of customers purchasing annual retainers to fund future projects. Amounts that have been billed are initially recorded as deferred revenue until the revenue is recognized. Implementation services and engineering services include fees associated with new and expanding customers requesting implementation, integration, customization, consulting, and other services. We price these services on a fixed fee basis. Our implementation services and engineering services agreements generally cannot be canceled for a refund. We typically bill in advance for professional services and other revenue. Amounts that have been billed are initially recorded as deferred revenue until the revenue is recognized. We continue to increase deployment of partners to fulfill certain of these services, especially implementation services, and we generally expect professional services and other revenue to decrease as a percentage of total revenue in the long term, although this percentage may fluctuate from period to period.

Cost of revenue and gross margin

Cost of revenue. Our cost of subscription revenue includes expenses related to operating our XM Platform in data centers, depreciation of our data center equipment, and the amortization of our capitalized internal-use software and acquired technology. Subscription cost of revenue also includes employee-related costs associated with our customer support and XM Platform operations organizations. Our cost of professional services and other revenue includes vendor costs and employee-related costs associated with the delivery of these services. Additionally, we make allocations of certain overhead costs, primarily based on headcount, to each of these costs of revenue. Allocated overhead includes costs such as facilities, including lease expense, utilities, depreciation on leasehold improvements, and shared information technology costs. We expect our cost of revenue will increase in absolute dollars in future periods as we continue to invest in our business.

Gross margin. Gross margin is gross profit expressed as a percentage of revenue. Our gross margin may fluctuate from period to period based on the timing of capital expenditures and the related depreciation expense, or other changes in equity and cash settled stock-based compensation, employee-related costs, infrastructure costs, revenue mix, timing of completion of professional services projects, as well as revenue fluctuations. Excluding the impact of equity and cash settled stock-based compensation expense, we generally expect our gross margin to remain relatively consistent in the near term and to increase modestly in the long term, although our gross margin may fluctuate from period to period depending on the interplay of all of these factors.

Operating expenses

Research and development. Our research and development expenses consist primarily of employee-related costs for our engineering, product, and design teams, and allocated overhead.

We plan to continue to hire employees for our engineering, product, and design teams to support our efforts to enhance the functionality and improve the reliability, availability, and scalability of our XM Platform. Excluding the impact of equity and cash settled stock-based compensation expense, we expect our research and development expenses to increase in absolute dollars in future periods, and to decrease as a percentage of our revenue over the long term, although our research and development expenses may fluctuate as a percentage of our revenue from period to period due to the timing and extent of these expenses.

Sales and marketing. Our sales and marketing expenses relate to both inside and outbound sales activities, as well as expansion efforts with our current customers. The expenses consist primarily of employee-related costs, marketing programs and events, lead generation fees, indirect benefits received from SAP net of indirect benefits we provide to SAP, and allocated overhead. Sales commissions earned by our sales team and the related payroll taxes, that we consider to be incremental and recoverable costs of obtaining a contract with an organization, are deferred and amortized over an estimated period of benefit of five years.

We plan to continue to invest in sales and marketing to grow our customer base and increase our brand awareness, including bringing back our in-person X4 Summit event planned for March 2023. The trend and timing of sales and marketing expenses will depend in part on the timing of marketing campaigns. Excluding the impact of equity and cash settled stock-based compensation expense, we expect that sales and marketing expenses will increase in absolute dollars in future periods; however, we expect our sales and marketing expenses to decrease as a percentage of our revenue over the long term, although our sales and marketing expenses may fluctuate as a percentage of our revenue from period to period due to the timing and extent of these expenses.

General and administrative. Our general and administrative expenses consist primarily of employee-related costs for our finance, legal, people operations, and other administrative teams, as well as certain executives. In addition, general and administrative expenses include allocated overhead, outside legal, accounting and other professional fees, and non-income-based taxes.

We expect to incur additional general and administrative expenses to support our growth as well as our transition to being a publicly traded company. Excluding the impact of equity and cash settled stock-based compensation expense, we expect that general and administrative expenses will increase in absolute dollars in future periods. Our general and administrative expenses may fluctuate as a percentage of our revenue from period to period due to the timing and extent of these expenses.

Other non-operating income (expense), net

Other non-operating income (expense), net consists of other non-operating gains or losses, including those related to changes in the fair value of our distribution liability related to our tax sharing agreement with SAP, interest income, interest expense, and foreign currency transaction gains and losses.

Provision for income taxes

Provision for income taxes consists primarily of income taxes related to the U.S. and other foreign jurisdictions in which we conduct business. We maintain a full valuation allowance against our deferred tax assets in certain entities as we have concluded that it is not more likely than not that the deferred tax assets will be realized. Other entities do not have a valuation allowance, as they are, and are expected to be, taxable in the future. Our effective tax rate is affected by tax rates in both U.S. and foreign jurisdictions and the relative amounts of income we earn in those jurisdictions, as well as non-deductible expenses, such as share-based compensation, and changes in our valuation allowance.

Income taxes as presented in our consolidated financial statements attribute current and deferred income taxes of SAP to our standalone financial statements in a manner that is systematic, rational and consistent with the asset and liability method prescribed by FASB ASC Topic 740: Income Taxes, or ASC 740. Accordingly, our income tax provision was prepared following the separate return method prior to deconsolidation in October 2021 for U.S. federal income tax purposes, and the separate return method continues to apply for other jurisdictions where we file returns as part of an SAP Tax Group. The separate return method applies ASC 740 to the standalone financial statements of each member of the consolidated group as if the group members were a separate taxpayer and a standalone enterprise. As a result of deconsolidation for U.S. federal income tax purposes, we have updated our reported tax attributes in certain jurisdictions to reflect the tax attributes available for future use by the Qualtrics tax reporting entity that files returns separate from an SAP Tax Group.

Results of Operations

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

	Years Ended December 31, 2022	2021	2020
		(In thousands)	
Revenue:			
Subscription	$ 1,223,725	$ 870,705	$ 575,397
Professional services and other	234,903	204,959	188,125
Total revenue	1,458,628	1,075,664	763,522
Cost of revenue[(1)(2)]:			
Subscription	196,871	105,836	62,671
Professional services and other	233,079	179,436	135,816
Total cost of revenue	429,950	285,272	198,487
Gross profit	1,028,678	790,392	565,035
Operating expenses[(1)(2)]:			
Research and development	427,179	324,158	212,795
Sales and marketing	892,022	643,333	431,794
General and administrative	758,452	876,734	175,499
Total operating expenses	2,077,653	1,844,225	820,088
Operating loss	(1,048,975)	(1,053,833)	(255,053)
Other non-operating income (expense), net	8,398	6,652	(972)
Loss before income taxes	(1,040,577)	(1,047,181)	(256,025)
Provision for income taxes	20,901	11,965	16,477
Net loss	$ (1,061,478)	$ (1,059,146)	$ (272,502)

(1) Includes equity and cash settled stock-based compensation expense as follows:

	Years Ended December 31, 2022	2021	2020
		(In thousands)	
Cost of subscription revenue	$ 18,798	$ 12,148	$ 4,632
Cost of professional services and other revenue	34,022	25,299	6,737
Research and development	154,972	128,779	68,355
Sales and marketing	208,958	136,532	37,877
General and administrative	617,424	754,382	106,412

(2) Includes amortization of acquired intangible assets as follows:

	Years Ended December 31, 2022	2021	2020
		(In thousands)	
Cost of revenue	$ 29,914	$ 8,243	$ 1,062
Sales and marketing	22,121	5,441	204
General and administrative	1,270	446	188

The following table sets forth our results of operations for the periods presented as a percentage of our total revenue for those periods:

	Years Ended December 31,		
	2022	2021	2020
		(as a % of revenue)	
Revenue:			
Subscription	84 %	81 %	75 %
Professional services and other	16	19	25
Total revenue	100	100	100
Cost of revenue:			
Subscription	13	10	8
Professional services and other	16	17	18
Total cost of revenue	29	27	26
Gross profit	71	73	74
Operating expenses:			
Research and development	29	30	28
Sales and marketing	61	60	57
General and administrative	52	82	23
Total operating expenses	142	172	108
Operating loss	(71)	(99)	(34)
Other non-operating income (expense), net	1	1	—
Loss before income taxes	(70)	(98)	(34)
Provision for income taxes	1	1	2
Net loss	(71)%	(99)%	(36)%

Comparison of the years ended December 31, 2022 and 2021

Revenue

	Years Ended December 31,			
	2022	2021	$ Change	% Change
	(In thousands)			
Subscription	$ 1,223,725	$ 870,705	$ 353,020	41 %
Professional services and other	234,903	204,959	29,944	15
Total revenue	$ 1,458,628	$ 1,075,664	$ 382,964	36 %

Subscription revenue increased by $353.0 million, or 41%, for the year ended December 31, 2022 as compared to the year ended December 31, 2021. This increase was due to increased demand for our solutions from new and existing customers. Of the increase in subscription revenue for the year ended December 31, 2022, as compared to the year ended December 31, 2021, approximately $260.2 million was attributable to existing customers and approximately $92.8 million was attributable to new customers, part of which were related to our business acquisitions. The increase in revenue from existing customers was driven by upgrades of current subscription solutions and the purchase of additional solutions within our XM Platform. Pricing changes were not material to the increase in revenue. Professional services and other revenue increased $29.9 million, or 15%, for the year ended December 31, 2022, as compared to the year ended December 31, 2021. This increase was primarily due to an increase in revenue from larger customers, who generally require more services.

Cost of revenue, gross profit, and gross margin

	Years Ended December 31, 2022	2021	$ Change	% Change
		(In thousands)		
Cost of subscription revenue	$ 196,871	$ 105,836	$ 91,035	86 %
Cost of professional services and other revenue	233,079	179,436	53,643	30
Total cost of revenue	429,950	285,272	144,678	51
Subscription gross profit	1,026,854	764,869	261,985	34
Professional services and other gross profit	1,824	25,523	(23,699)	(93)
Total gross profit	$ 1,028,678	$ 790,392	$ 238,286	30 %
Subscription gross margin	84 %	88 %		
Professional services and other gross margin	1	12		
Total gross margin	71 %	73 %		

Cost of subscription revenue increased $91.0 million, or 86%, for the year ended December 31, 2022, as compared to the year ended December 31, 2021. This increase was driven by a $31.6 million increase in employee-related costs from headcount growth related to our recent acquisitions and hiring, a $24.9 million increase in server costs, a $21.7 million increase in amortization of acquired intangible assets, a $6.7 million increase in stock-based compensation expense, and a $5.9 million increase in amortization of internal-use software. Cost of professional services and other revenue increased $53.6 million, or 30%, for the year ended December 31, 2022, as compared to the year ended December 31, 2021. This increase was driven by a $23.9 million increase in employee-related costs from headcount growth related to our recent acquisitions and hiring, a $20.3 million increase in professional services vendor costs, and an $8.7 million increase in stock-based compensation expense.

Our gross margins decreased from 73% during the year ended December 31, 2021 to 71% during the year ended December 31, 2022, due primarily to a decrease in subscription gross margins driven by an increase in amortization expense and other expenses discussed above and a decrease in professional services and other gross margins based on the changes discussed above. Our professional services and other gross margins reflect our investment in certain of our professional services and our partner ecosystem, which facilitate the adoption of our subscription offerings and help us to secure subscription revenue contracts and ensure our customers' success.

Operating Expenses

Research and development

	Years Ended December 31, 2022	2021	$ Change	% Change
		(In thousands)		
Research and development	$ 427,179	$ 324,158	$ 103,021	32 %

Research and development expenses increased $103.0 million, or 32%, for the year ended December 31, 2022, as compared to the year ended December 31, 2021. This increase was driven by a $69.1 million increase in employee-related costs from headcount growth related to our recent acquisitions and hiring as we continue to add to and enhance our products, a $26.2 million increase in stock-based compensation expense, a $4.6 million increase in employer payroll tax on employee stock transactions, and a $3.1 million increase in outside vendor costs.

Sales and marketing

	Years Ended December 31,			
	2022	2021	$ Change	% Change
	(In thousands)			
Sales and marketing	$ 892,022	$ 643,333	$ 248,689	39 %

Sales and marketing expenses increased $248.7 million, or 39%, for the year ended December 31, 2022, as compared to the year ended December 31, 2021. The increase in sales and marketing was driven by a $149.3 million increase in employee-related costs from headcount growth related to our recent acquisitions and hiring, a $72.4 million increase in stock-based compensation expense, a $16.7 million increase in amortization of acquired intangible assets, a $13.4 million increase in travel-related expenses, a $4.7 million increase in employer payroll tax on employee stock transactions, partially offset by a $7.9 million decrease in marketing spend.

General and administrative

	Years Ended December 31,			
	2022	2021	$ Change	% Change
	(In thousands)			
General and administrative	$ 758,452	$ 876,734	$ (118,282)	(13)%

General and administrative expenses decreased $118.3 million, or 13%, for the year ended December 31, 2022, as compared to the year ended December 31, 2021. The decrease in general and administrative expenses was primarily driven by a $137.0 million decrease in stock-based compensation expense, a $13.6 million decrease in acquisition-related costs, partially offset by a $23.6 million increase in employee-related costs from headcount growth related to our recent acquisitions and hiring, and a $7.8 million increase in employer payroll tax on employee stock transactions.

Other non-operating income (expense), net

Other non-operating income (expense), net increased $1.7 million for the year ended December 31, 2022, as compared to the year ended December 31, 2021. This increase was driven by a $9.2 million increase in interest income and a $5.3 million decrease in interest expense, offset by a $7.0 million decrease in non-operating income from the change in the fair value of our distribution liability related to our tax sharing agreement with SAP, and a $5.8 million decrease in net foreign currency transaction losses.

Provision for income taxes

Provision for income taxes increased $8.9 million for the year ended December 31, 2022, as compared to the year ended December 31, 2021, primarily due to increased foreign taxes resulting from increases in our foreign operations, partially offset by the impact of state tax rate changes on our deferred taxes and other deferred tax adjustments in entities that do not have a valuation allowance against their deferred taxes.

Our effective tax rate was (2.0)% for the year ended December 31, 2022, as compared to (1.1)% for the year ended December 31, 2021. The change was primarily driven by differences in our effective tax rate for the respective years, as described below.

Our effective tax rate for the year ended December 31, 2022 was (2.0)%. The difference between the U.S. statutory rate of 21% and our effective tax rate, on a loss before income taxes, is primarily driven by foreign and state taxes, non-deductible stock-based compensation, tax credits, changes in tax rates, and the impact of valuation allowances recorded against current year losses in the United States.

Our effective tax rate for the year ended December 31, 2021 was (1.1)%. The difference between the U.S. statutory rate of 21% and our effective tax rate, on a loss before income taxes, is primarily driven by foreign and state taxes, non-deductible stock-based compensation, and the impact of valuation allowances recorded against current year losses in the United States.

Comparison of the years ended December 31, 2021 and 2020

For a discussion of the year ended December 31, 2021 compared to the year ended December 31, 2020, please refer to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2021.

Liquidity and Capital Resources

As of December 31, 2022, we had cash and cash equivalents of $719.9 million. Our cash and cash equivalents consist primarily of cash and money market funds. As of December 31, 2022, we had $41.8 million of our cash and cash equivalents held by our foreign subsidiaries.

We have financed our operations primarily through cash generated from our operations, equity issuances, and proceeds from capital contributions received from SAP in conjunction with the SAP Acquisition and funding of cash settled stock-based compensation expense. Our principal uses of cash in recent periods have been funding our operations, making capital expenditures, settling liability-classified stock-based awards, settling tax obligations related to stock-based awards, and settling our dividend related notes payable with SAP.

We believe our existing cash and cash equivalents, together with cash provided by operations, will be sufficient to meet our needs for at least the next 12 months. Our future capital requirements will depend on many factors, including our revenue growth rate, subscription renewal activity, the timing and extent of spending to support further infrastructure development and research and development efforts, the timing and extent of additional capital expenditures to invest in existing and new office spaces, the satisfaction of tax withholding obligations for the settlement of future share-based awards, the expansion of sales and marketing and international operation activities, the introduction of new product capabilities and enhancement of our XM Platform, and the continuing market acceptance of our platform. We may in the future enter into arrangements to acquire or invest in complementary businesses, services, and technologies, including intellectual property rights. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, results of operations, and financial condition would be materially and adversely affected.

Our cash flow activities were as follows for the periods presented:

	Years Ended December 31,		
	2022	2021	2020
		(In thousands)	
Net cash flows provided by (used in) operating activities	$ 17,903	$ 2,801	$ (410,722)
Net cash used in investing activities	(51,200)	(245,615)	(89,518)
Net cash flows provided by (used in) financing activities	(258,901)	1,053,643	660,000
Effect of exchange rate changes on cash and cash equivalents	(2,421)	(209)	1,664
Net increase (decrease) in cash and cash equivalents	$ (294,619)	$ 810,620	$ 161,424

Operating activities

Our largest source of operating cash is cash collections from our customers for subscriptions to our XM Platform. Our primary uses of cash from operating activities are for employee-related costs, infrastructure-related expenditures, and marketing expenses. Net cash flows provided by (used in) operating activities is impacted by our net loss adjusted for certain non-cash items, including depreciation and amortization expenses and equity and cash settled stock-based compensation, as well as the effect of changes in operating assets and liabilities.

For the year ended December 31, 2022, net cash provided by operating activities was $17.9 million, which resulted from net loss of $1,061.5 million, adjusted for $1,034.2 million in stock-based compensation expense, including cash settled of $5.3 million, additional non-cash charges of $174.2 million and net cash outflow of $123.7 million from changes in operating assets and liabilities. Additional non-cash charges primarily consisted of $97.5 million for depreciation and amortization expense, $71.6 million of amortization of deferred contract acquisition costs, $29.3 million related to the reduction of right-of-use assets from operating leases, offset by $18.5 million in deferred income taxes, and $6.5 million in changes in the fair value of our distribution liabilities payable to SAP related to our tax sharing agreement. The outflow from operating assets and liabilities was primarily due $133.2 million increase in deferred contract acquisition costs as our sales commission payments increased due to addition of new customers and expansion of our existing customer subscriptions, $77.2 million increase in accounts receivable due to billings growth and timing of collections, $45.0 million decrease in other liabilities primarily related to a portion of our distribution liabilities payable to SAP related to our tax sharing agreement becoming payable within the next year, $7.5 million increase in prepaid and other assets, partially offset by $121.6 million increase in deferred revenue from advance invoicing in accordance with our customer contracts, a $40.2 million aggregate increase in accrued liabilities and accounts payable, and $22.5 million decrease in lease liabilities.

For the year ended December 31, 2021, net cash provided by operating activities was $2.8 million, which resulted from net loss of $1,059.1 million, adjusted for $1,057.1 million in stock-based compensation expense, including cash settled of $79.4 million, additional non-cash charges of $95.5 million and net cash inflow of $11.3 million from changes in operating assets and liabilities. Additional non-cash charges primarily consisted of $50.0 million of amortization of deferred contract acquisition costs, $46.0 million for depreciation and amortization expense, $23.1 million related to the reduction of right-of-use assets from operating leases, offset by $13.5 million in changes in the fair value of our distribution liabilities payable to SAP related to our tax sharing agreement, and $11.7 million in deferred income taxes. The outflow from operating assets and liabilities was primarily due $147.0 million increase in accounts receivable due to billings growth and timing of collections, $99.9 million increase in deferred contract acquisition costs as our sales commission payments increased due to addition of new customers and expansion of our existing customer subscriptions, $39.3 million increase in prepaid and other assets, partially offset by $215.4 million increase in deferred revenue from advance invoicing in accordance with our customer contracts, and $15.5 million decrease in lease liabilities, and $79.6 million aggregate increase in accrued liabilities and accounts payable.

For the year ended December 31, 2020, net cash used in operating activities was $410.7 million, which resulted from net loss of $272.5 million, adjusted for $224.0 million in stock-based compensation expense, including cash settled of $388.6 million, additional non-cash charges of $89.0 million and net cash inflow of $62.6 million from changes in operating assets and liabilities. Additional non-cash charges primarily consisted of $26.5 million for depreciation and amortization expense, $32.1 million of amortization of deferred contract acquisition costs and $17.2 million related to the reduction of right-of-use assets from operating leases. The outflow from operating assets and liabilities was primarily due $103.7 million increase in accounts receivable due to billings growth and timing of collections, $111.7 million increase in deferred contract acquisition costs as our sales commission payments increased due to addition of new customers and expansion of our existing customer subscriptions, and $18.4 million increase in prepaid and other assets, partially offset by an increase of $114.3 million in deferred revenue from advance invoicing in accordance with our customer contracts, $22.3 million aggregate increase in accrued liabilities and accounts payable, and a $24.7 million increase in lease liabilities.

Investing activities

Net cash used in investing activities is primarily impacted by purchases of property and equipment, particularly for capital expenditures for our data centers, capitalized software, improvements to existing and new office spaces, and business combinations.

Net cash used in investing activities during the year ended December 31, 2022, 2021 and 2020 of $51.2 million, $245.6 million and $89.5 million, respectively, resulted primarily from capital expenditures of $51.2 million, $103.8 million and $89.5 million for our XM Platform and office build-outs in 2022, 2021 and 2020, respectively, and $141.8 million in cash paid for business combinations in 2021.

Financing activities

Net cash used in financing activities of $258.9 million during the year ended December 31, 2022 was due to $293.1 million in payment of payroll withholding taxes to net settle equity awards, offset by $34.2 million in proceeds from the issuance of Class A stock under our employee stock purchase plan and exercise of stock options.

On February 1, 2021, Qualtrics closed its initial public offering, in which it issued and sold 59,449,903 shares of Class A common stock at $30.00 per share for aggregate net proceeds of $1,688 million, after deducting underwriters' discounts and offering expenses payable by the Company. On February 1, 2021, we closed a private placement transaction in which Silver Lake Partners VI DE (AIV), L.P. purchased $550 million of shares of Class A common stock, comprising (a) 15,018,484 shares at $21.64 per share and (b) $225 million of shares at the initial public offering price of $30.00 per share.

On November 9, 2021, we completed a public offering, in which we issued and sold 27,380,952 shares of our Class A common stock at a public offering price of $42.00 per share, for an aggregate offering price of $1,114.6 million, net of underwriting discounts and commissions. We used a portion of the proceeds to repay approximately $505.3 million of principal and interest outstanding on Promissory note 2 payable to SAP America, Inc. and intend to use the remaining proceeds for working capital and other general corporate purposes.

Net cash provided by financing activities of $1,053.6 million during the year ended December 31, 2021 was due to $3,359.8 million in proceeds from the sale of Class A common stock, $115.0 million in capital contribution from SAP, and $22.2 million in proceeds from the issuance of Class A stock under our employee stock purchase plan and exercise of stock options, offset by $2,392.3 million in payments on promissory notes paid to SAP, $47.8 million in payment of payroll withholding taxes to net settle equity awards, and $3.4 million in payments of costs related to the sale of our Class A common stock.

Net cash provided by financing activities of $660.0 million during the year ended December 31, 2020 was due to $540.0 million in proceeds from a capital contribution from SAP and $120.0 million and proceeds from the stock purchase agreement with Q II.

Remaining Performance Obligations

Remaining performance obligations represent the amount of contracted future revenue that has not yet been recognized, including both deferred revenue and non-cancelable contracted amounts that will be invoiced and recognized as revenue in future periods. The aggregate transaction price of remaining performance obligations is expected to be recognized as revenue as follows:

	As of December 31,		
	2022	2021	2020
		(In thousands)	
Next 12 Months	$ 1,202,260	$ 1,011,768	$ 645,416
Thereafter	972,378	721,069	498,950
Total	$ 2,174,638	$ 1,732,837	$ 1,144,366

The amount of transaction price allocated to the remaining performance obligations, and changes in this amount over time, are impacted by currency fluctuations, the contract period of our cloud contracts remaining at the balance sheet date, and the timing of contract renewals, among others. These amounts include contracts with certain government entities and affiliates that may be subject to laws or enact laws that give the contracting entity a right to terminate the contract based on governmental statutes. No government entity or affiliate has exercised such termination rights.

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2022:

	Payments Due by Period				
	Total	2023	2024-2025	2026-2027	Thereafter
			(In thousands)		
Operating lease commitments	$ 327,625	$ 22,755	$ 63,572	$ 62,768	$ 178,530
Non-cancelable purchase obligations	237,864	97,968	116,568	23,328	—
Tax sharing liability	91,044	71,959	16,823	2,262	—
Total	$ 656,533	$ 192,682	$ 196,963	$ 88,358	$ 178,530

The contractual commitment amounts in the table above are associated with agreements that are enforceable and legally binding and include operating lease commitments that are reported in our lease liability balances. Obligations under contracts that we can cancel without a significant penalty are not included in the table above. Purchase orders issued in the ordinary course of business are not included in the table above, as our purchase orders represent authorizations to purchase, rather than binding agreements. Estimating the tax sharing liability balance requires estimates and assumptions which are inherently uncertain and therefore, actual results could differ from those estimates. Tax contingencies are not included in the table above as the period in which payment is due cannot be determined.

As of December 31, 2022, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States, or GAAP, requires us to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the balance sheet date, as well as reported amounts of revenue and expenses during the reporting period. 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 base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. Critical accounting policies and estimates are those that we consider critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management's judgments and estimates.

Our significant accounting policies and estimates are more fully described in Note 2 in the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

Revenue recognition

We generate revenue primarily from sales of subscriptions to access our XM Platform, together with related support services to our customers. We also provide other services including research services and other professional services. Consideration related to subscription revenue is generally recognized on a straight-line basis over the contract term, beginning on the date that the service is made available to the customer. Revenue from professional services and other revenue related to research services and other services is generally recognized upon delivery of the results or as the services are performed.

Some contracts with customers contain multiple performance obligations. For these contracts, we account for individual performance obligations separately, if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. Where standalone selling prices for an offering are observable and reasonably consistent across customers (that is, not highly variable), our standalone selling price estimates are derived from our respective pricing history. We have established thresholds of pricing variability to determine whether the historical pricing of our goods and services is highly variable across customers. For renewable offerings with highly variable pricing across customers, our estimate considers the individual contract's expected renewal price as far as this price is substantive based on our renewal history. Typically, our subscription offerings follow this approach. For our professional and other services, these estimations typically follow a cost-plus-margin approach.

Stock-based compensation

We record stock-based compensation based on the grant date fair value of the awards. Related to restricted stock awards that do not contain a performance condition, we recognize the fair value of those awards as expense using the straight-line method over the requisite service period of the award. For restricted stock units that contain performance conditions, we recognize expense using the accelerated attribution method based on the probability that the performance conditions will be met. We estimate the grant date fair value of RSUs based on the closing stock price of our publicly traded Class A common stock on the grant date. We estimate the grant date fair value of purchase rights issued under our Employee Stock Purchase Plan, or ESPP, based on the Black-Scholes option-pricing model using the estimated number of awards as of the beginning of the offering periods. We estimated the fair value of the converted Clarabridge options based on the intrinsic value of the awards on the acquisition date. We account for forfeitures as they occur; therefore, equity and cash settled stock-based compensation expense for the years ended December 31, 2022, 2021, and 2020 has been calculated based on actual forfeitures in our consolidated statements of comprehensive loss.

Business combinations

Accounting for business combinations requires us to make significant estimates and assumptions, especially at the acquisition date with respect to tangible and intangible assets acquired and liabilities assumed. We use our best estimates and assumptions to accurately assign fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date as well as the useful lives of those acquired intangible assets.

Critical estimates in valuing certain of the intangible assets and goodwill we have acquired include future expected cash flows, including projected revenue, from subscription and professional services contracts and from acquired developed technologies, estimated technology obsolescence rates, discount rates, tax balances and tax-related valuation allowances assumed, and fair value of assumed equity awards.

Estimating the fair value of the acquired intangible assets requires significant estimates and assumptions which often rely on forecasts and other assumptions that are inherently uncertain. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates, or actual results.

Tax sharing liability

Because of the SAP Acquisition, we had been included in SAP America's consolidated group for U.S. federal income tax purposes. In October 2021, we deconsolidated from the SAP Tax Group for federal tax purposes. We continue to be a member of the SAP Tax Group for certain state filings. Pursuant to the tax sharing agreement with SAP, for taxable periods beginning after December 31, 2020, we will make tax sharing payments to SAP related to certain share based payment awards that existed prior to or were granted at the time of the IPO (the "Pre-IPO Awards").

The tax sharing agreement liability is estimated based on the estimated future tax benefits associated with the Pre-IPO Awards. The liability is based on the discounted estimated future cash flows of the liability. The primary assumptions used in the valuation include the value of the estimated future tax deductions related to the Pre-IPO Awards, the Company's estimated future taxable income or loss excluding the Pre-IPO Awards, including the ability and timing of when the Company will be able to utilize the tax deductions from the Pre-IPO Awards using a hypothetical with and without tax calculation, and the estimated discount rate, which is based on current market rates for unsecured liabilities with similar maturities and credit quality. Estimating the tax sharing liability balance requires estimates and assumptions including forecasts which are inherently uncertain and therefore actual results could differ from the estimates.

Recent Accounting Pronouncements

Refer to Note 2 in our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for more information about other recent accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

We have operations in the United States and internationally, and we are exposed to market risk in the ordinary course of our business.

Interest rate risk

We had cash and cash equivalents of $719.9 million as of December 31, 2022. We hold our cash and cash equivalents for working capital purposes. Our cash and cash equivalents are held in cash deposits and money market funds. The primary objectives of our investment activities are the preservation of capital, the fulfillment of liquidity needs, and the control of cash and investments. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these instruments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Decreases in interest rates, however, would reduce future interest income.

We do not have any long-term debt or financial liabilities with floating interest rates that would subject us to interest rate fluctuations.

A hypothetical 10% change in interest rates during any of the periods presented would not have had a material impact on our financial statements.

Foreign currency exchange risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates relative to U.S. dollars, our reporting currency. Our revenue is primarily generated in U.S. dollars, Euros, Australian dollars, British pounds sterling, Canadian dollars, New Zealand dollars, Japanese yen, and Singapore dollars. A portion of our operating expenses are incurred outside the United States, denominated in foreign currencies and subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Euro, British pound sterling, and Australian dollar. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our consolidated statements of operations. As the impact of foreign currency exchange rates has not been material to our historical operating results, we have not entered into derivative or hedging transactions, but we may do so in the future if our exposure to foreign currency becomes more significant.

We recorded $7.7 million in net foreign currency transaction losses in the year ended December 31, 2022, $1.9 million in net foreign currency transaction losses in the year ended December 31, 2021, and $0.6 million in net foreign currency transaction losses in the year ended December 31, 2020. A hypothetical 10% change in foreign currency rates would not have resulted in material gains or losses for the years ended December 31, 2022, 2021, and 2020.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Qualtrics International Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Qualtrics International Inc. and subsidiaries (the Company) as of December 31, 2022 and 2021, the related consolidated statements of comprehensive loss, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2022, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

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, 2022, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 24, 2023 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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 consolidated 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 consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

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

Sufficiency of audit evidence over subscription revenue

As discussed in Note 2 to the consolidated financial statements, the Company generates revenue primarily from sales of subscriptions to access its XM Platform, together with related support services. The Company recorded $1,458,628 thousand of revenue for the year ended December 31, 2022, of which $1,223,725 thousand is subscription revenue.

We identified the evaluation of sufficiency of audit evidence over subscription revenue as a critical audit matter. The Company's revenue recognition process is highly automated and is reliant upon a number of information technology (IT) systems which required us to evaluate multiple data sets. Auditor judgment was required to determine the nature and extent of procedures performed and to evaluate the results of those procedures.

The following are the primary procedures we performed to address this critical audit matter. We applied auditor judgment to determine the nature and extent of procedures to be performed over subscription revenue. For a sample of transactions, we compared the total transaction price for consistency with underlying source documentation, including contracts with customers and cash receipts. For the same sample of transactions, we recalculated revenue for system-generated sales transactions during the year based on the terms of the arrangement and the satisfaction of the underlying performance obligation using a software audit tool. We evaluated the sufficiency of audit evidence obtained over subscription revenue by assessing the results of procedures performed, including the appropriateness of the nature and extent of audit effort.

/s/ KPMG LLP

We have served as the Company's auditor since 2019.

Salt Lake City, Utah
February 24, 2023

Qualtrics International Inc.
Consolidated Balance Sheets
(In thousands, except number of shares and par value)

	As of December 31,	
	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	$ 719,892	$ 1,014,511
Accounts receivable, net of allowances (1)	537,037	461,830
Deferred contract acquisition costs, net	81,130	60,455
Prepaid expenses and other current assets	68,224	68,887
Total current assets	1,406,283	1,605,683
Non-current assets:		
Property and equipment, net	215,645	192,327
Right-of-use assets from operating leases	216,514	227,320
Goodwill	1,117,915	1,118,768
Other intangible assets, net	210,415	264,500
Deferred contract acquisition costs, net of current portion	183,741	145,952
Deferred tax assets	9,625	96
Other assets	35,713	27,577
Total assets	$ 3,395,851	$ 3,582,223
Liabilities and equity		
Current liabilities:		
Lease liabilities	$ 17,081	$ 18,898
Accounts payable (1)	142,293	84,053
Accrued liabilities	155,291	167,402
Liability-classified, stock-based awards	1,053	4,519
Deferred revenue	858,186	748,145
Total current liabilities	1,173,904	1,023,017
Non-current liabilities:		
Lease liabilities, net of current portion	261,097	263,307
Deferred revenue, net of current portion	16,717	6,698
Deferred tax liabilities	12,447	23,653
Other liabilities (1)	27,666	78,848
Total liabilities	$ 1,491,831	$ 1,395,523
Commitments and contingencies		
Equity		
Preferred stock, par value $0.0001 per share; authorized 100,000,000 shares; no shares outstanding	$ —	$ —
Class A common stock, par value $0.0001 per share; authorized 2,000,000,000 shares; issued and outstanding 170,687,065 and 147,309,254 shares as of December 31, 2022 and 2021	17	15
Class B common stock, par value $0.0001 per share; authorized 1,000,000,000 shares; issued and outstanding 423,170,610 as of both December 31, 2022 and 2021	42	42
Additional paid-in capital	5,428,297	4,645,800
Accumulated other comprehensive loss	(4,945)	(1,244)
Accumulated deficit	(3,519,391)	(2,457,913)
Total equity	1,904,020	2,186,700
Total liabilities and equity	$ 3,395,851	$ 3,582,223

(1) Includes amounts from related parties. See Note 16 for further details.

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

Qualtrics International Inc.
Consolidated Statements of Comprehensive Loss
(In thousands, except share data)

	Year Ended December 31,		
	2022	**2021**	**2020**
Revenue:			
Subscription	$ 1,223,725	$ 870,705	$ 575,397
Professional services and other	234,903	204,959	188,125
Total revenue	1,458,628	1,075,664	763,522
Cost of revenue:			
Subscription	196,871	105,836	62,671
Professional services and other	233,079	179,436	135,816
Total cost of revenue	429,950	285,272	198,487
Gross profit	1,028,678	790,392	565,035
Operating expenses:			
Research and development	427,179	324,158	212,795
Sales and marketing	892,022	643,333	431,794
General and administrative	758,452	876,734	175,499
Total operating expenses	2,077,653	1,844,225	820,088
Operating loss	(1,048,975)	(1,053,833)	(255,053)
Other non-operating income (expense), net	8,398	6,652	(972)
Loss before income taxes	(1,040,577)	(1,047,181)	(256,025)
Provision for income taxes	20,901	11,965	16,477
Net loss	$ (1,061,478)	$ (1,059,146)	$ (272,502)
Net loss per share attributable to common stockholder, basic and diluted	$ (1.82)	$ (2.05)	$ (0.64)
Weighted-average Class A and Class B shares used in computing net loss per share attributable to common stockholder, basic and diluted	584,285,678	516,869,588	423,334,994
Other comprehensive income (loss):			
Foreign currency translation gains (losses)	(3,701)	(4,435)	4,119
Comprehensive loss	$ (1,065,179)	$ (1,063,581)	$ (268,383)

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

Qualtrics International Inc.
Consolidated Statements of Stockholders' Equity (Deficit)
(In thousands, except share amounts)

	Class A common stock		Class B common stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Total equity (deficit)
	Shares	Amount	Shares	Amount				
Balance, January 1, 2020	—	$ —	423,170,610	$ 42	$ 586,631	$ (928)	$ (1,126,265)	$ (540,520)
Capital contribution from SAP	—	—	—	—	540,000	—	—	540,000
Sales of class A common stock (1)	6,000,000	1						1
Net loss	—	—	—	—	—	—	(272,502)	(272,502)
Foreign currency translation adjustment	—	—	—	—	—	4,119	—	4,119
Balance, December 31, 2020	6,000,000	$ 1	423,170,610	$ 42	$ 1,126,631	$ 3,191	$ (1,398,767)	$ (268,902)
Stock-based compensation	—	—	—	—	1,056,337	—	—	1,056,337
Issuance of common stock upon settlement of restricted stock units (RSUs)	5,005,742	—	—	—	—	—	—	—
Issuance of common stock upon exercise of stock options	1,343,537	—	—	—	5,649	—	—	5,649
Issuance of common stock for employee stock purchase plan	571,681	—	—	—	16,586	—	—	16,586
Common stock withheld related to net share settlement of equity awards	—	—	—	—	(47,783)	—	—	(47,783)
Modification of cash-settled awards into equity settled awards	—	—	—	—	206,669	—	—	206,669
Capital contribution from SAP	—	—	—	—	115,000	—	—	115,000
Sales of class A common stock, net of issuance costs (1)	109,349,339	11	—	—	3,353,158	—	—	3,353,169
Expiration of redemption option on proceeds from issuance of class A common stock (1)	—	—	—	—	119,999	—	—	119,999
Issuance of common stock related to business combinations	25,038,955	3	—	—	1,187,809	—	—	1,187,812
Distribution declared to SAP for tax sharing agreement	—	—	—	—	(101,975)	—	—	(101,975)
Dividend declared (2)	—	—	—	—	(2,392,280)	—	—	(2,392,280)
Net loss	—	—	—	—	—	—	(1,059,146)	(1,059,146)
Foreign currency translation adjustment	—	—	—	—	—	(4,435)	—	(4,435)
Balance, December 31, 2021	147,309,254	$ 15	423,170,610	$ 42	$ 4,645,800	$ (1,244)	$ (2,457,913)	$ 2,186,700
Stock-based compensation	—	—	—	—	1,044,119	—	—	1,044,119
Issuance of common stock upon settlement of restricted stock units (RSUs)	21,172,481	2	—	—	(2)	—	—	—
Issuance of common stock upon exercise of stock options	352,687	—	—	—	1,701	—	—	1,701
Issuance of common stock for employee stock purchase plan	1,852,643	—	—	—	32,521	—	—	32,521
Common stock withheld related to net share settlement of equity awards	—	—	—	—	(293,123)	—	—	(293,123)
Distribution declared to SAP for tax sharing agreement	—	—	—	—	(2,719)	—	—	(2,719)
Net loss	—	—	—	—	—	—	(1,061,478)	(1,061,478)
Foreign currency translation adjustment	—	—	—	—	—	(3,701)	—	(3,701)
Balance, December 31, 2022	170,687,065	$ 17	423,170,610	$ 42	$ 5,428,297	$ (4,945)	$ (3,519,391)	$ 1,904,020

(1) See Note 12 "Sale of Class A Common Stock" for further detail
(2) See Note 11 "Promissory Notes" for further detail

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

Qualtrics International Inc.
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2022	2021	2020
Cash flows from operating activities			
Net loss	$ (1,061,478)	$ (1,059,146)	$ (272,502)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities			
Depreciation and amortization	97,540	46,009	26,457
Loss on disposal of property and equipment	787	1,498	—
Change in fair value of distribution liability for tax sharing agreement	(6,500)	(13,500)	—
Reduction of right-of-use assets from operating leases	29,280	23,078	17,202
Stock-based compensation expense, including cash settled	1,034,174	1,057,140	224,013
Amortization of deferred contract acquisition costs	71,623	50,038	32,098
Deferred income taxes	(18,482)	(11,654)	13,200
Changes in assets and liabilities, excluding the effect of business combinations:			
Accounts receivable, net of allowances	(77,247)	(146,966)	(103,692)
Prepaid expenses and other current assets	(554)	(20,975)	(10,773)
Deferred contract acquisitions costs	(133,234)	(99,869)	(111,686)
Other assets	(6,941)	(18,308)	(7,592)
Lease liabilities	(22,516)	(15,528)	24,741
Accounts payable	50,182	24,333	(282)
Accrued liabilities	(10,031)	55,316	22,546
Deferred revenue	121,647	215,444	114,331
Other liabilities	(45,003)	(4,712)	9,826
Settlement of stock-based payments liabilities	(5,344)	(79,397)	(388,609)
Net cash flows provided by (used in) operating activities	17,903	2,801	(410,722)
Cash flows from investing activities			
Cash paid for business combinations, net of cash acquired	—	(141,792)	—
Purchases of property and equipment	(51,200)	(103,823)	(89,518)
Net cash flows used in investing activities	(51,200)	(245,615)	(89,518)
Cash flows from financing activities			
Proceeds from capital contributions from SAP	—	115,000	540,000
Proceeds from issuance of class A common stock, net of underwriting discounts and commissions	—	3,359,822	120,000
Repayment of promissory note	—	(2,392,280)	—
Payment of costs related to issuance of class A common stock	—	(3,351)	—
Payments for taxes related to net share settlement of equity awards	(293,123)	(47,783)	—
Issuance of Common Stock of Employee Stock Purchase Plan	32,521	16,586	—
Proceeds from exercise of stock options	1,701	5,649	—
Net cash flows provided by (used in) financing activities	(258,901)	1,053,643	660,000
Effect of changes in exchange rates on cash and cash equivalents	(2,421)	(209)	1,664
Net increase (decrease) in cash and cash equivalents	(294,619)	810,620	161,424
Cash and cash equivalents as at 1 January	1,014,511	203,891	42,467
Cash and cash equivalents as at 31 December	$ 719,892	$ 1,014,511	$ 203,891

Supplemented cash flow disclosures						
Cash paid for income taxes, net of tax refunds	$	38,292	$	12,213	$	11,356
Cash paid for operating leases, net of incentives received	$	25,148	$	13,396	$	18,579
Modifications of liability based awards to equity awards	$	—	$	206,669	$	—
Non-cash investing and financing activities						
Capital expenditures incurred but not yet paid	$	5,754	$	545	$	741
Right-of-use assets obtained in exchange for lease obligations	$	17,774	$	75,382	$	26,494
Stock-based compensation capitalized as internal-use software	$	12,192	$	3,226	$	—
Expiration of contingency associated with Class A common stock option exercised	$	—	$	119,999	$	—
Fair value of common stock issued and stock options assumed as consideration for a business combinations	$	—	$	1,187,812	$	—
Distribution declared to SAP for tax sharing agreement	$	2,719	$	101,975	$	—

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

Qualtrics International Inc.

Notes to Consolidated Financial Statements

1. DESCRIPTION OF THE BUSINESS

Qualtrics International Inc. ("Qualtrics" or "the Company") was incorporated in the state of Delaware in September 2014. Qualtrics pioneered a new category of software, experience management, or XM, that enables organizations to find and fix broken experiences and drive operational improvements to improve customer loyalty, increase employee retention, and become a brand that people love.

The Company's technology helps organizations find and keep customers, retain and engage employees, and improve their competitive position in their product categories and talent markets. The XM Platform helps organizations listen to their employees and customers, understand their feedback, and then take action in response. The Company sells subscriptions to its XM Platform and provides professional services primarily consisting of research services, implementation services and engineering services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Principles of Consolidation

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). All intercompany balances and transactions have been eliminated in consolidation. The Company's fiscal year ends on December 31.

2020 Stock Split and Capital Reorganization

On December 21, 2020, the Company amended its restated certificate of incorporation to create new classes of preferred stock, Class A and Class B common stock. The Company's previously 423,170,610 outstanding shares of common stock issued on January 23, 2019 upon the completion of the SAP SE ("SAP") Acquisition of the Company, were converted into shares of Class B common stock. SAP holds all of the shares of the new Class B common stock. The ownership rights of Class A and Class B common stockholders are the same except with respect to voting, the election of directors, conversion, and certain actions that require the consent of holders of Class B and other protective provisions. See Note 12 for further details related to the terms and conditions of the new equity of the Company. The amended and restated certificate of incorporation effectuated a 4,231,706.1-for-one stock split of the new Class B common stock. The capitalization of the Company, including all share and per share data has been retroactively adjusted back to January 23, 2019, the date of the SAP Acquisition, to reflect the recapitalization.

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles ("GAAP") requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the balance sheet date, as well as reported amounts of revenue and expenses during the reporting period. The Company's most significant estimates and judgments involve revenue recognition with respect to the determination of the standalone selling prices for the Company's services, valuation of certain intangible assets that were acquired as part of business combinations, valuation of the distribution liability related to the tax sharing agreement with SAP, and valuation of deferred income tax assets. Actual results could differ from those estimates.

Segments

Operating segments are defined as components of an entity for which separate financial information is available and that is regularly reviewed by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources to an individual segment and in assessing performance. The Company's Chief Executive Officer is the CODM. The Company's CODM reviews financial information presented on a consolidated basis for purposes of making operating decisions, allocating resources, and evaluating financial performance. As such, the Company has determined that it operates in one operating and one reportable segment.

Foreign Currency Transactions

The functional currencies of the Company's foreign subsidiaries are the respective local currencies. All assets and liabilities of the Company's foreign subsidiaries are translated from their respective functional currencies into U.S. dollars at the exchange rates in effect at the balance sheet date. Revenue and expenses are translated at the average exchange rate for the period, and equity balances are translated using historical exchange rates. The cumulative effect of translation adjustments arising from the use of differing exchange rates from period to period is included in accumulated other comprehensive loss within the consolidated balance sheets. Changes in the foreign currency translation adjustment are reported in the consolidated statements of stockholders' equity and the consolidated statements of comprehensive loss. Transactions denominated in currencies other than the functional currency are remeasured at the end of the period and when the related receivable or payable is settled, which may result in transaction gains or losses. Foreign currency transaction gains and losses, whether realized or unrealized, are included in other non-operating income (expense), net in the consolidated statements of comprehensive loss.

Revenue Recognition

The Company recognizes revenue from its service/product lines when control is transferred to its customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for the services. Sales and other taxes collected from customers to be remitted to government authorities are excluded from revenue. The Company accounts for revenue contracts with customers by applying the requirements of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606 – Revenue from Contracts with Customers (Topic 606), which includes the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in a contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, performance obligations are satisfied

Classes of Revenue

The Company derives revenue from two service/product lines:

<u>Subscription Revenue</u>

The Company generates revenue primarily from sales of subscriptions to access its XM Platform, together with related support services to its customers. Arrangements with customers do not provide the customer with the right to take possession of the software operating the XM Platform at any time. Instead, customers are granted continuous access to the XM Platform over the contractual period.

The Company's subscription contracts generally have annual contractual terms while some have multi-year contractual terms. The Company generally bills annually in advance with net 30 payment terms. The Company's agreements generally cannot be canceled for a refund.

Professional Services and Other Revenue

Professional services and other revenue mainly includes two types of services: research services and professional services. Research services is a solution provided to existing subscription customers with arrangements which are distinct from subscription revenue services. In addition, the Company provides professional services associated with new and expanding customers requesting implementation, integration services, and other ancillary services. These services are distinct from subscription revenue services.

Identification of a Contract

For accounting purposes, the Company treats multiple contracts entered into with the same customer as a single contract if they are entered into at or near the same time and are economically interrelated. The Company does not combine contracts with closing days more than three months apart because they are not considered entered into near the same time. The Company evaluates whether various contracts are interrelated, which includes considerations as to whether they were negotiated as a package with a single commercial objective, whether the amount of consideration on one contract is dependent on the performance of the other contract or if some or all goods in the contracts are a single performance obligation.

New arrangements with existing customers can be either a new contract or the modification of prior contracts with the customer. The Company considers whether there is a connection between the new arrangement and the pre-existing contracts, whether the goods and services under the new arrangement are highly interrelated with the goods and services sold under prior contracts, and how the goods and services under the new arrangement are priced. In determining whether a change in transaction price represents a contract modification or a change in variable consideration, the change in price is examined to determine whether it results from new or changes in existing enforceable rights and obligations or from applying unchanged existing contract provisions.

Identification of Performance Obligations

Some contracts with customers contain multiple performance obligations. For these contracts, the Company accounts for individual performance obligations separately, if they are distinct. Typically, the products and services outlined in the Classes of Revenue section qualify as separate performance obligations and the portion of the contractual fee allocated to them is recognized separately. In particular for Qualtrics' professional services and implementation activities, the Company evaluates whether such services significantly integrate, customize, or modify the subscription service to which they relate. In this context, the nature of the services and their volume are considered relative to the volume of the subscription service to which they relate. In general, the implementation services for the Company's subscription services go beyond pure setup activities and qualify as separate performance obligations. Non-distinct goods and services are combined into one distinct bundle of goods and services (combined performance obligation).

Determination of Transaction Price

The Company applies judgment in determining the amount to which Qualtrics expects to be entitled in exchange for transferring promised goods or services to a customer. Prices are generally fixed at contract inception; therefore, the Company's contracts do not contain a significant amount of variable consideration, however, the Company considers whether and to what extent subsequent concessions or payments may be granted to customers and whether the customer is expected to pay the contractual fees. In this assessment, Qualtrics' history is considered both with the respective customer and more broadly.

Allocation of Transaction Price

The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. The Company determines standalone selling prices considering market conditions and based on overall pricing objectives, such as observable standalone selling prices and other factors.

Where standalone selling prices for an offering are observable and reasonably consistent across customers (that is, not highly variable), Qualtrics' standalone selling price estimates are derived from the Company's respective pricing history. The Company has established thresholds of pricing variability to determine whether the historical pricing of goods and services is highly variable across customers.

Where sales prices for an offering are not directly observable or highly variable across customers, judgment is required to estimate standalone selling prices. For renewable offerings with highly variable pricing across customers, the Company's estimate considers the individual contract's expected renewal price as far as this price is substantive based on renewal history. Typically, the Company's subscription offerings follow this approach. For Qualtrics' professional and other services, these estimations typically follow a cost-plus-margin approach.

The Company reviews the standalone selling prices periodically, or whenever facts and circumstances change, to ensure the most objective input parameters available are used.

Recognition of Revenue

Access to the Company's XM Platform represents a series of distinct services as the Company continually provides access to and fulfills its obligation to the end customer over the subscription term. The series of distinct services represents a single performance obligation that is satisfied over time. Accordingly, the fixed consideration related to subscription revenue is generally recognized on a straight-line basis over the contract term, beginning on the date that the service is made available to the customer.

Revenue from professional services and other revenue related to research services is recognized upon completion because completion and delivery of the results is considered a performance obligation satisfied at a point in time. Revenue from professional services and other revenue related to customized software coding is recognized upon completion, because the customer consumes the intended benefit and assumes control upon final completion of the custom coding. Revenue from professional services and other revenue related to implementation and other ancillary services is recognized as the services are performed, because the customer consumes the benefit as the services are provided.

For performance obligations satisfied over time, the Company recognizes revenue using the method that best reflects the timing of transfer of control to the customer and satisfaction of the Company's performance obligation.

Contract Balances

The Company bills in advance for annual contracts, and at times enters into non-cancelable multi-year deals. Non-cancelable multi-year deals typically include price escalations each year. The Company recognizes revenue on a straight-line basis over the non-cancelable term and accounts for the difference between straight-line revenue and invoiced amounts as a contract asset. The current and noncurrent portion of contract assets included in prepaid and other current assets and other assets as of December 31, 2022 were $22.3 million and $19.9 million, respectively. The current and noncurrent portion of contract assets included in prepaid and other current assets and other assets as of December 31, 2021 were $18.1 million and $14.0 million, respectively. The increase in contract assets is due to a higher number of multi-year deals in 2022 compared to 2021.

The Company records contract liabilities to deferred revenue when cash payments are received or due in advance of performance. Deferred revenue primarily relates to the advance consideration received from the customer prior to the related performance obligation being fulfilled. In certain circumstances, the Company receives consideration from customers in advance of a specific service being identified. Total consideration received in advance of a specific service being identified totaled $31.3 million and $33.0 million as of December 31, 2022 and 2021, respectively and is included in deferred revenue. The following table shows the amount of revenue included in prior period deferred revenue and revenue generated from same period billings for each of the Company's revenue generating solutions:

	Year Ended December 31,		
in thousands	**2022**	**2021**	**2020**
Subscription revenue:			
Revenue included in prior period deferred revenue	$ 655,448	$ 463,609	$ 337,299
Revenue generated from same period billings	568,277	407,096	238,098
Total subscription revenue	$ 1,223,725	$ 870,705	$ 575,397
Professional services and other revenue:			
Revenue included in prior period deferred revenue	$ 70,786	$ 57,866	$ 39,253
Revenue generated from same period billings	164,117	147,093	148,872
Total professional services and other revenue	$ 234,903	$ 204,959	$ 188,125

Remaining Performance Obligations

Remaining performance obligations represent the amount of contracted future revenue that has not yet been recognized, including both deferred revenue and non-cancelable contracted amounts that will be invoiced and recognized as revenue in future periods. Amounts of a customer contract's transaction price that are allocated to the remaining performance obligations represent contracted revenue that has not yet been recognized. They include amounts recognized as contract liabilities and amounts that are contracted but not yet due. The expected future revenue related to unsatisfied performance obligations as of December 31, 2022 was $2,174.6 million, of which approximately $1,202.3 million is expected to be recognized as revenue over the next twelve months. The expected future revenue related to unsatisfied performance obligations as of December 31, 2021 and December 31, 2020 was $1,732.8 million and $1,144.4 million, respectively. The amount of transaction price allocated to the remaining performance obligations and changes in this amount over time, are impacted by, among others, currency fluctuations and the contract period of the Company's cloud contracts remaining at the balance sheet date and thus, by the timing of contract renewals.

Disaggregation of Revenue

The following table summarizes revenue by region based on the address of customers who have contracted to use the Company's cloud platform:

	Year Ended December 31,		
in thousands	**2022**	**2021**	**2020**
United States	$ 1,020,670	$ 758,997	$ 552,221
International	437,958	316,667	211,301
Total revenue	$ 1,458,628	$ 1,075,664	$ 763,522

No single country outside the United States accounted for 10% or more of revenue during the years ended December 31, 2022, 2021, and 2020.

Stock-Based Compensation, including cash settled

Equity Awards

The Company records stock-based compensation based on the grant date fair value of the awards. The Company recognizes the fair value of restricted stock awards that do not contain a performance condition as expense using the straight-line method over the requisite service period of the award. For restricted stock units that contain performance conditions, the Company recognizes expense using the accelerated attribution method based on the probability that the performance conditions will be met.

The Company estimates the grant date fair value of RSUs based on the closing stock price of the Company's publicly traded Class A common stock on the grant date. The Company estimates the grant date fair value of purchase rights issued under the Qualtrics Employee Stock Purchase Plan, or ESPP, based on the Black-Scholes option-pricing model using the estimated number of awards as of the beginning of the offering periods. The Company estimated the fair value of the converted Clarabridge options based on the intrinsic value of the awards on the acquisition date.

Cash Awards

The Company measures and recognizes compensation expense for stock-based payment cash awards based on the fair value of the awards each quarter until settlement. The fair value of the awards are estimated based on the fair value of the underlying stock price of SAP SE or some are valued at $35.00. The fair value of stock-based compensation cash awards that vest solely on a service-based condition is recognized on a straight-line basis over the period during which services are provided in exchange for the award. Awards which contain both service-based and performance conditions are recognized using the accelerated attribution method once the performance condition is probable of occurring. All awards that were not exchanged into Qualtrics RSUs are paid out in cash upon vesting. The fair value of cash awards is recognized as a liability on the balance sheet, with changes to fair value each period being recognized through the income statement.

The Company accounts for forfeitures as they occur; therefore, stock-based compensation expense has been calculated based on actual forfeitures in the Company's consolidated statements of comprehensive loss.

Net Loss per Share Attributable to Common Stockholders

Basic net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period. Since the Company was in a net loss position for all periods presented, the inclusion of potentially dilutive shares would have been antidilutive. Accordingly, basic net loss per share and diluted net loss per share are the same. For purposes of calculating net loss per share, the Company uses the two-class method. Because both classes of common stock share the same rights in dividends, basic and diluted net loss per share was the same for both common stock classes.

Cost of Revenue

Cost of revenue includes expenses related to operating the Company's cloud platform in data centers, depreciation of the Company's data center equipment, the amortization of the Company's capitalized internal-use software and acquired technology, and third-party vendor costs to fulfill contracts with customers. Cost of revenue also includes employee-related costs, including salaries, bonuses, equity and cash settled stock-based compensation expense, and employee benefit costs associated with the Company's customer support, cloud operations, and delivery of professional services. Additionally, the Company makes allocations of certain overhead costs, primarily based on headcount.

Advertising and Promotional Expense

Advertising and promotional expenses are expensed as incurred. Advertising and promotional expenses for the years ended December 31, 2022, 2021, and 2020 were $5.0 million, $5.7 million, and $4.6 million, respectively.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments with original maturities of three months or less from the date of purchase. The Company maintains cash and cash equivalents at financial institutions, which at times may not be federally insured or may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on such accounts. Cash and cash equivalents are recorded at fair value.

Accounts Receivable and Allowances

Accounts receivable are recorded at the invoiced amount, net of allowances. Accounts receivable are typically due within 30 days from the date of invoice. Customer balances outstanding longer than the contractual payment terms are considered past due.

The Company establishes allowances for bad debt and cancellations based on historical collection data and customer specific circumstances. The allowance for bad debt, as needed, is established with a charge to bad debt expense in the consolidated statements of comprehensive loss. The Company's allowance for bad debt was $8.6 million and $1.5 million as of December 31, 2022 and 2021, respectively. Bad debt expense was $7.7 million, $1.4 million during the years ended December 31, 2022 and 2021 and not material during the year ended 2020. The Company's allowance for cancellations was $28.8 million and $17.5 million as of December 31, 2022 and 2021, respectively. During the years ended December 31, 2022, 2021, and 2020, $3.2 million, $(2.4) million and $3.0 million of net additions (reductions) were charged to revenue, respectively, and $8.1 million, $(10.3) million, and $15.2 million of net additions (reductions) were charged to deferred revenue, respectively. The allowance for cancellations is established with a reduction to revenue and deferred revenue. In the event of lack of payment due to a bankruptcy or other credit-related issues of a customer, the Company writes off the related accounts receivable with a reduction to the allowance for bad debt. In the event of lack of payment from a customer for issues unrelated to credit risk, the Company cancels the customer's subscription access or service and writes off the corresponding accounts receivable with reductions to the allowance for cancellations.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents, and accounts receivable. The Company performs credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. No customer accounted for more than 10% of accounts receivable at December 31, 2022 and 2021. No single customer accounted for 10% or more of total revenue during the years ended December 31, 2022, 2021, and 2020.

Deferred Contract Acquisition Costs, net

Deferred contract acquisition costs, net is stated at gross deferred contract acquisition costs less accumulated amortization. Sales commissions and related payroll taxes for initial software-as-a-service (SaaS) subscription contracts earned by the Company's sales force are considered to be incremental and recoverable costs of obtaining a contract with a customer. As a result, these amounts have been capitalized as deferred contract acquisition costs on the consolidated balance sheets. The Company capitalized additional deferred contract acquisition costs of $133.2 million and $99.9 million during the years ended December 31, 2022 and 2021, respectively.

Sales commissions for renewal contracts are not considered commensurate with the commissions paid for the acquisition of an initial SaaS subscription contract, given the substantive difference in commission rates in proportion to their respective contract values. After the conclusion of the initial contract period, commissions paid on subsequent renewals are commensurate year after year. As such, the Company expenses renewal commissions as incurred.

Deferred contract acquisition costs are amortized over an estimated period of benefit of five years. The period of benefit was estimated by considering factors such as estimated average customer life, the rate of technological change in the subscription service, and the impact of competition in its industry. As the Company's average customer life significantly exceeded the rate of change in its technology, the Company concluded that the rate of change in the technology underlying the Company's subscription service was the most significant factor in determining the period of benefit for which the asset relates. In evaluating the rate of change in the technology, the Company considered the competition in the industry, its commitment to continuous innovation, and the frequency of product, platform, and technology updates. The Company determined that the impact of competition in the industry is reflected in the period of benefit through the rate of technological change.

Amortization of deferred contract acquisition costs were $71.6 million, $50.0 million, and $32.1 million for the years ended December 31, 2022, 2021, and 2020, respectively. Amortization of deferred contract acquisition costs are included in sales and marketing expense in the accompanying consolidated statements of comprehensive loss.

The carrying amount of the deferred contract acquisition costs is periodically reviewed for impairment. In performing this review, the Company considers whether the carrying amount of the deferred contract acquisitions cost will be recovered. In estimating the amount of consideration Qualtrics expects to receive in the future related to deferred contract acquisition costs, the Company considers factors such as attrition rates, economic factors, and industry developments, among other factors. If it is determined that deferred contract acquisition costs are impaired, an impairment loss is recognized for the amount by which the carrying amount and the anticipated costs that relate directly to providing the future services exceed the consideration that has been received and that is expected to be received in the future. There was no impairment loss in relation to the deferred costs for any period presented.

Property and Equipment, net

Property and equipment, net is stated at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated asset lives. Routine maintenance and repairs are charged to expense when incurred. Expenditures that materially increase values, change capacities, or extend the useful lives of the respective assets are capitalized. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in operations. The estimated useful lives by asset classification are generally as follows:

Computer equipment	3-5 years
Furniture and fixtures	5-10 years
Server equipment	5 years
Vehicles	3 years
Internal-use software	2 years
Buildings	25 years
Leasehold improvements	Lesser of useful life or remaining lease term

Property and equipment subject to depreciation is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If indicators of impairment exist, recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to the estimated undiscounted future cash flows expected to be generated by the asset.

If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. There was no impairment of property and equipment during the years ended December 31, 2022, and 2021, and 2020.

The following table sets forth property and equipment by geographic area:

	As of December 31,	
in thousands	2022	2021
United States	$ 183,892	$ 168,145
International	31,753	24,182
Total property and equipment, net	$ 215,645	$ 192,327

No single country outside the United States had a property and equipment balance greater than 10% of total property and equipment, net, as of December 31, 2022 and 2021.

Leases

The Company determines if an arrangement is a lease at inception, and leases are classified at commencement as either operating or finance leases. As of December 31, 2022 and 2021, the Company had no finance leases. Right-of-use ("ROU") assets and lease liabilities are recognized at commencement based on the present value of the minimum lease payments over the lease term. The Company utilizes certain practical expedients and policy elections available under Topic 842. Leases with a one-year term or less are not recognized on the consolidated balance sheets. Additionally, the Company has elected to combine non-lease components with lease components for the purposes of calculating the ROU asset and liabilities, to the extent they are fixed. Non-lease components that are not fixed are expensed as incurred as variable lease costs. The Company uses the incremental borrowing rate based on information available at the commencement date in determining the present value of future lease payments. The rate is an estimate of the collateralized borrowing rate the Company would incur on future lease payments over a similar term.

The Company leases facilities under non-cancelable operating lease agreements. Certain of the operating lease agreements contain rent concessions and rent escalations which are included in the present value calculation of minimum lease payments. Topic 842 requires that operating leases recognize expense on a straight-line basis over the lease term. The lease term begins on the date the Company has the right to use the leased property. Lease terms may include options to extend or terminate the lease. These options are included in the ROU asset and lease liability when it is reasonably certain that the option will be exercised. The Company's lease agreements do not contain residual value guarantees or covenants.

Internal-use Software

The Company capitalizes certain development costs incurred in connection with its internal-use software. These capitalized costs are primarily related to the software platforms that are hosted by the Company and accessed by its customers on a subscription basis. Costs incurred in the preliminary stages of development are expensed as incurred as research and development costs. Once an application has reached the development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. The Company also capitalizes costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional functionality. Capitalized costs are recorded as part of property and equipment. Maintenance and training costs are expensed as incurred. Internal-use software is amortized on a straight-line basis over its estimated useful life of 24 months. The Company recognized amortization expenses of $19.4 million, $13.5 million, and $12.5 million related to capitalized internal-use software for the years ended December 31, 2022, 2021, and 2020, respectively, within cost of subscription revenue.

Business Combinations

The Company applies the acquisition method of accounting for those transactions that qualify as a business acquisition, resulting in recording assets and liabilities acquired at their respective fair values. Goodwill is determined based on the difference between the fair value of consideration paid and the fair value of the assets acquired and liabilities assumed. The Company uses its best estimates and assumptions to assign fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date. The Company's estimates are inherently uncertain. For fair values that are preliminary due to the Company still being in the process of obtaining additional information, during the measurement periods, which may be up to one year from the acquisition date, the Company may record adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed, with the corresponding offset to goodwill. In addition, uncertain tax positions and tax-related valuation allowances are initially recorded in connection with a business combination as of the acquisition date. The Company continues to collect information and reevaluates these estimates and assumptions quarterly and records any adjustments to the Company's preliminary estimates to goodwill provided that the Company is within the measurement period, which is not more than one year from the acquisition date. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company's consolidated statements of comprehensive loss.

Goodwill and Other Intangible Assets

The Company records goodwill when consideration paid in a business acquisition exceeds the fair value of the net tangible assets and the identified intangible assets acquired. Goodwill is not amortized, but rather is tested for impairment annually or more frequently if facts and circumstances warrant a review. The Company has determined that there is a single reporting unit for the purpose of goodwill impairment tests, which are performed annually on October 1st or more frequently if certain indicators are present. In performing the goodwill impairment test, the Company first performs a qualitative assessment, which requires that the Company considers events or circumstances including macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, changes in management or key personnel, changes in strategy, changes in customers, changes in the composition or carrying amount of a reporting unit's net assets and changes in the Qualtrics stock price. If, after assessing the totality of events or circumstances, the Company determines that it is more likely than not that the fair value of the Qualtrics reporting unit is greater than the carrying amount, then the quantitative goodwill impairment test is not performed. If the Company determines that the carrying value of the reporting unit exceeds its fair value, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds its fair value. There was no impairment of goodwill for the years ended December 31, 2022, 2021, and 2020.

Other intangible assets, consisting of developed technology, customer relationships, tradenames, purchased license agreements, developed content, certifications and purchased patents, are stated at cost less accumulated amortization. All intangible assets have been determined to have definite lives and are amortized on a straight-line basis over their estimated remaining economic lives. The Company recognized amortization expense over the estimated useful lives related to its acquired intangible asset as follows with the related weighted-average remaining amortization period as of December 31, 2022:

	Estimated Useful Lives	**Weighted-Average Amortization Period**
Cost of revenue		
Developed technology	1 to 6 years	4.4 years
Licenses and certifications	5 years	3.9 years
Purchased license agreements	4 years	0 years
Developed content	4 years	0 years
Sales and marketing		
Customer relationships	1 to 9 years	3.8 years
General and administrative		
Tradenames	1 to 5 years	0.1 years
Purchased patents	9 to 16 years	5.8 years

Income Taxes

Income taxes as presented in the consolidated financial statements of Qualtrics attribute current and deferred income taxes of SAP to the Company's standalone financial statements in a manner that is systematic, rational and consistent with the asset and liability method prescribed by FASB ASC Topic 740: Income Taxes ("ASC 740"). Historically, the Company's income tax provision was prepared following the separate return method prior to deconsolidation in October 2021 for U.S. federal income tax purposes, and the separate return method continues to apply for other jurisdictions where Qualtrics files returns as part of an SAP Tax Group. The separate return method applies ASC 740 to the standalone financial statements of each member of the consolidated group as if the group members were a separate taxpayer and a standalone enterprise. As a result of deconsolidation for U.S. federal income tax purposes, the Company has updated the Qualtrics reported tax attributes in certain jurisdictions to reflect the tax attributes available for future use by the Qualtrics tax reporting entity that files returns separate from an SAP Tax Group.

Certain operations of Qualtrics have historically been included in a consolidated return with other SAP entities. Current obligations for taxes in certain jurisdictions where the Company files a consolidated tax return with SAP, are deemed settled with SAP for purposes of these consolidated financial statements. Current obligations for tax in jurisdictions where the Company does not file a consolidated return with SAP, including certain foreign and domestic jurisdictions, are recorded as accrued liabilities.

Deferred income tax balances reflect the effects of temporary differences between the financial reporting and tax bases of the Company's assets and liabilities using enacted tax rates expected to apply when taxes are actually paid or recovered. In addition, deferred tax assets are recorded for net operating loss ("NOL") and credit carryforwards for Qualtrics.

A valuation allowance is provided against deferred tax assets unless it is more likely than not that they will be realized based on all available positive and negative evidence. Such evidence includes, but is not limited to, recent cumulative earnings or losses, expectations of future taxable income by taxing jurisdiction, and the carry-forward periods available for the utilization of deferred tax assets.

The Company uses a two-step approach to recognizing and measuring uncertain income tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit. The second step is to measure the tax benefit as the largest amount, which is more than 50% likely of being realized upon ultimate settlement. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of pre-tax book income or loss. Judgment is required to evaluate uncertain tax positions.

Although the Company believes that it has adequately reserved for its uncertain tax positions, it can provide no assurance that the final tax outcome of these matters will not be materially different. The Company evaluates its uncertain tax positions on a regular basis and evaluations are based on a number of factors, including changes in facts and circumstances, changes in tax law, correspondence with tax authorities during the course of an audit, and effective settlement of audit issues.

To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made and could have a material impact on the Company's financial condition and results of operations.

Fair Value Measurement

The Company applies fair value accounting for all financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value measurements for assets and liabilities, the Company considers the principal or most advantageous market in which it would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions, and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 — Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Warranty and Indemnification

The Company includes service level commitments to its customers warranting certain levels of uptime reliability and performance and permitting those customers to receive credits in the event that the Company fails to meet those levels. To date, the Company has not incurred any material costs related to such commitments.

The Company's contracts include provisions indemnifying customers against liabilities if its products infringe a third-party's intellectual property rights. The Company has not incurred any costs as a result of such indemnification and has not accrued any liabilities related to such obligations in the accompanying consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In October 2021, the FASB issued ASU 2021-08, Business Combinations: Accounting for Contract Assets and Contract Liabilities from Contracts with Customers. The new standard requires that entities recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASC 606, which creates an exception to the general recognition and measurement principles of ASC 805. The standard will result in companies recognizing contract assets and liabilities at amounts consistent with those recorded by the acquiree immediately before the acquisition date. The standard is effective for public companies for fiscal years beginning after December 15, 2022 and interim periods within those fiscal years with early adoption permitted. The Company has not early adopted the standard and the impact will be dependent upon the occurrence and magnitude of any future acquisitions.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consisted of the following:

	As of December 31,	
in thousands	**2022**	**2021**
Cash	$ 589,948	$ 123,906
Money market mutual funds	129,944	890,605
Total cash and cash equivalents	$ 719,892	$ 1,014,511

4. FAIR VALUE MEASUREMENTS

See Note 2, "Summary of Significant Accounting Policies", for additional details related to fair value measurements.

Cash and cash equivalents

The Company's cash equivalents with regards to money market mutual funds are classified within Level 1 of the fair value hierarchy and are reported at their fair value on the balance sheet as of December 31, 2022 and 2021.

Tax sharing liability

From the date of the SAP Acquisition, Qualtrics was included in SAP America's consolidated group for U.S. federal income tax purposes. In October 2021, the Company deconsolidated from the SAP Tax Group for U.S. federal income tax purposes. The Company continues to be a member of the SAP Tax Group for certain state filings. Pursuant to the tax sharing agreement with SAP, for taxable periods beginning after December 31, 2020, Qualtrics will make tax sharing payments to SAP related to certain share based payment awards that existed prior to or were granted at the time of the IPO, the Pre-IPO Awards. Upon deconsolidation from the SAP Tax Group, the initial tax sharing liability was recorded as a distribution payable to SAP in accounts payable (current portion) and other liabilities (non-current portion) and as a reduction to additional paid-in capital. Changes in the fair value of the tax sharing liability are recorded through other non-operating income (expense), net. As of December 31, 2022 and 2021, the Company's distribution liability for the tax sharing agreement with SAP based on an estimated fair value totaled $65.0 million and $71.5 million, respectively.

The tax sharing agreement liability is estimated based on the estimated future tax benefits associated with the Pre-IPO Awards. The liability is classified within Level 3 of the fair value hierarchy and is based on the discounted estimated future cash flows of the liability. The primary assumptions used in the valuation include the amount of the estimated future tax deductions related to the Pre-IPO Awards, the Company's estimated future taxable income or loss excluding the Pre-IPO Awards, including the ability and timing of when the Company will be able to utilize the tax deductions from the Pre-IPO Awards using a hypothetical with and without tax calculation, and the estimated discount rate, which is based on current market rates for unsecured liabilities with similar maturities and credit quality. Estimating the tax sharing liability balance requires significant estimates and assumptions, which are inherently uncertain and therefore actual results could differ from those estimates. The changes in the fair value of the tax sharing liability were as follows:

in thousands	
Balance as of October 1, 2021	$ (85,000)
Change in the fair value reported in other non-operating income (expense), net	13,500
Balance as of December 31, 2021	(71,500)
Change in the fair value reported in other non-operating income (expense), net	6,500
Balance as of December 31, 2022	$ (65,000)

During the years ended December 31, 2022 and 2021, the Company had no transfers in or out of Level 3 fair value measurements.

5. PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following:

	As of December 31,	
in thousands	**2022**	**2021**
Internal-use software	$ 50,488	$ 29,047
Server equipment	19,192	28,176
Leasehold improvements	88,254	80,301
Computer equipment	25,999	21,470
Land	13,383	13,383
Buildings	61,345	61,346
Furniture and fixtures	3,158	2,857
Software	3,034	3,252
Construction in progress	27,533	10,717
Total property and equipment	$ 292,386	$ 250,549
Accumulated depreciation and amortization	(76,741)	(58,222)
Property and equipment, net	$ 215,645	$ 192,327

The Company recognized depreciation and amortization expense related to its property and equipment as follows:

	Year Ended December 31,		
in thousands	2022	2021	2020
Cost of revenue	$ 27,865	$ 20,946	$ 18,588
Research and development	5,969	3,456	2,010
Sales and marketing	8,552	6,105	3,667
General and administrative	1,849	1,372	738
Total depreciation and amortization expense	$ 44,235	$ 31,879	$ 25,003

6. LEASES

The Company has operating leases for corporate offices under non-cancelable operating leases with various expiration dates. There are no finance leases. The leases have remaining terms of less than 1 to 13 years. Options to extend for up to 10 years have not been included because they are not reasonably certain to be exercised.

The components of lease expense were as follows:

	As of December 31,		
in thousands	2022	2021	2020
Operating lease cost	$ 29,280	$ 23,078	$ 24,420
Variable and short-term lease cost	$ 10,274	$ 7,280	$ 6,171

Other information related to leases was as follows:

	As of December 31,	
	2022	2021
Weighted average remaining lease term	10.7 years	11.9 years
Weighted average discount rate	2.08 %	2.07 %

As of December 31, 2022, the maturities of lease liabilities under non-cancelable operating leases, net of lease incentives, were as follows:

in thousands	As of December 31, 2022
2023	$ 12,068
2024	29,363
2025	31,521
2026	32,168
2027	29,427
Thereafter	177,875
Total minimum lease payments	$ 312,422
Less: imputed interest	(34,244)
Total	$ 278,178

7. BUSINESS COMBINATIONS

Clarabridge, Inc.

On October 1, 2021, the Company acquired all outstanding stock of Clarabridge, Inc. (“Clarabridge”), a customer experience management software company headquartered in Reston, Virginia, pursuant to an Agreement and Plan of Reorganization and Merger (“Merger Agreement”). The acquisition was completed to strengthen the Company’s omnichannel conversational analytics and experience management platform.

Pursuant to the terms of the Merger Agreement, the Company registered the Acquisition Shares for resale on a registration statement which was declared effective on October 12, 2021 and agreed to maintain effectiveness for 12 months from closing, or such earlier time as all of the Acquisition Shares have been sold or are no longer outstanding.

In addition, pursuant to the terms of the Merger Agreement, (i) the Clarabridge stock plans have been assumed, amended and restated by the Company, (ii) the options to purchase shares of Clarabridge stock outstanding under the Clarabridge stock plans have been assumed by the Company and converted into corresponding Qualtrics options to purchase, in the aggregate, 3,203,885 shares of Class A Common Stock, and (iii) the Company granted equity incentive awards to certain continuing employees of Clarabridge and its subsidiaries under the 2021 Qualtrics Employee Omnibus Equity Plan. The value of the assumed options was allocated to purchase consideration and stock compensation expense based on the pre and post service conditions.

Pursuant to the terms of the Merger Agreement, all outstanding shares of Clarabridge capital stock were cancelled in exchange for consideration in the form of shares of Class A common stock of the Company and cash, as provided by the Merger Agreement. The number of shares of Class A common stock issued to the sellers was fixed at 24,142,065 shares (“Acquisition Shares”) valued at $43.88 per share (the Company’s stock price on the acquisition date). The acquisition date fair value of the consideration transferred for Clarabridge consisted of the following:

in thousands		
Cash, net of cash acquired	$	81,189
Fair value of shares issued		1,059,354
Fair value of stock options assumed		127,139
Total	$	1,267,682

Adjustments in purchase price allocations during the year ended December 31, 2022 related to tax adjustments on pre-acquisition net operating losses, which decreased deferred tax liabilities by $1.3 million with a corresponding decrease to goodwill. Below is the final allocation of the purchase price:

in thousands	Clarabridge
Accounts receivable	$ 18,538
Prepaid expenses and other assets	2,888
Property and equipment	6,414
Customer relationships	101,160
Developed technology	151,530
Tradenames	1,240
Goodwill	1,064,002
Total assets acquired	1,345,772
Accounts payable	(2,724)
Accrued liabilities	(9,455)
Deferred revenue	(36,421)
Deferred tax liabilities	(25,133)
Other liabilities	(4,357)
Total assets acquired, net	$ 1,267,682

Customer relationships represent the fair value of the underlying relationships with Clarabridge customers. Developed technology represents the fair value of Clarabridge's experience management technologies. The estimated fair value of the intangible assets acquired was determined by the Company. The Company engaged a third-party expert to assist with the valuation analysis. The Company used a with and without method to estimate the fair value of the customer relationships asset and a multi-period excess earnings method to estimate the fair value of the developed technology asset. Critical estimates in valuing the intangible assets include:

- future expected cash flows, including projected revenue, from subscription and professional services contracts and from acquired developed technologies;
- estimated technology obsolescence rates;
- assumptions about the period of time acquired tradenames will continue to be used in the Company's offerings;
- discount rates;
- tax balances and tax-related valuation allowances assumed; and
- fair value of assumed equity awards.

Estimating the fair value of the acquired intangible assets requires significant estimates and assumptions which are inherently uncertain and therefore actual results could differ from those estimates. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results.

Most of the net tangible assets were valued at their respective carrying amounts as of the acquisition date, as the Company believes that these amounts approximate their fair values, with the exception of deferred revenue, which was reduced to its fair value as of the acquisition date.

The goodwill arising from the acquisition consists largely of the synergies the Company is expected to achieve from combining the acquired assets and operations with its existing operations. Goodwill related to Clarabridge is not deductible for tax purposes. Acquisition-related costs totaled $13.3 million and were expensed as incurred and included in general and administrative expenses.

Pro forma information

The following unaudited pro forma operating results give effect to the Clarabridge acquisition, as if it had been completed as of January 1, 2020. These pro forma amounts are not necessarily indicative of the operating results that would have occurred if the acquisition had occurred on such date. The pro forma adjustments are based on certain assumptions that the Company believes are reasonable including adjustments to revenue related to the fair value of deferred revenue, adjustments related to the amortization of acquired intangible assets, adjustments for stock-based compensation expense related the assumed and revested awards and awards issued in conjunction with the acquisition, and the tax impact of such adjustments.

	Year Ended December 31,	
in thousands	**2021**	**2020**
Revenue	$ 1,160,641	$ 835,147
Net loss	$ (1,112,339)	$ (362,274)

Other acquisitions

On July 20, 2021, the Company acquired all of the outstanding stock of Usermind, Inc. ("Usermind") in exchange for cash, net of cash acquired. The acquisition was completed to strengthen the Company's experience orchestration and management platform. The assets, liabilities, and operating results of Usermind are reflected in the Company's consolidated financial statements from the date of acquisition.

On December 3, 2021, the Company acquired all of the outstanding stock of SurveyVitals, Inc. ("SurveyVitals"), in exchange for primarily cash, net of cash acquired. The acquisition was completed to strengthen the Company's healthcare experience offerings. The assets, liabilities, and operating results of SurveyVitals are reflected in the Company's consolidated financial statements from the date of acquisition.

The aggregate purchase price of these two acquisitions was $61.9 million, net of cash acquired. Adjustments in purchase price allocations during the year ended December 31, 2022 related to adjustments to the intangible asset valuation models and decreased intangible assets by $0.8 million, tax adjustments from pre-acquisition research and development tax credits and decreased other assets, net by $0.1 million, and tax adjustments from a change in the pre-acquisition tax balances and decreased other liabilities, net by $0.4 million, with a corresponding total increase to goodwill of $0.5 million. The final allocation of the purchase price for the Usermind and SurveyVitals acquisitions is as follows:

in thousands	**Usermind and SurveyVitals**
Developed technology	$ 5,070
Customer relationships	8,440
Licenses and certifications	6,350
Tradenames	100
Goodwill	47,204
Other assets, net	947
Total assets acquired	68,111
Other liabilities, net	(6,168)
Total assets acquired, net	$ 61,943

The goodwill arising from the acquisitions consists largely of the synergies the Company is expected to achieve from combining the acquired assets and operations with its existing operations. Goodwill related to the acquisitions is not deductible for tax purposes. Acquisition-related costs for Usermind and SurveyVitals totaled $2.1 million and were expensed as incurred and included in general and administrative expenses. The contribution of Usermind and SurveyVitals to the revenue and earnings for the year ended December 31, 2021 is not material.

8. GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill

Goodwill represents the excess of the purchase price of a business combination over the fair value of net assets acquired. The changes in the carrying amount of goodwill were as follows (in thousands):

Balance as of December 31, 2020	$	6,709
Acquisition of Clarabridge, Inc.		1,065,335
Acquisitions of Usermind and SurveyVitals		46,724
Balance as of December 31, 2021	$	1,118,768
Adjustments in purchase price allocations		(853)
Balance as of December 31, 2022	$	1,117,915

The measurement periods for the valuation of assets acquired and liabilities assumed end as soon as information on the facts and circumstances that existed as of the acquisition dates becomes available but do not exceed 12 months. The adjustments in 2022 represent measurement period adjustments for business combinations from the prior year.

Other intangible assets, net

Other intangible assets, net consisted of the following:

	As of December 31,	
in thousands	2022	2021
Patents	$ 751	$ 751
Developed technology	159,670	159,665
Customer relationships	111,700	111,965
Developed content	400	400
Tradename	1,890	1,915
Licenses and certifications	6,350	6,845
License agreements	1,500	1,500
Total intangible assets	$ 282,261	$ 283,041
Accumulated amortization	(71,846)	(18,541)
Other intangible assets, net	$ 210,415	$ 264,500

The Company recognized amortization expense related to its acquired intangible assets as follows:

	Year Ended December 31,		
in thousands	2022	2021	2020
Cost of revenue	$ 29,914	$ 8,243	$ 1,062
Sales and marketing	22,121	5,441	204
General and administrative	1,270	446	188
Total amortization of acquired intangible assets	$ 53,305	$ 14,130	$ 1,454

Estimated amortization expense for intangible assets for the next five years and thereafter consists of the following:

in thousands	As of December 31, 2022
2023	$ 51,002
2024	50,885
2025	49,934
2026	41,366
2027	17,156
Thereafter	72
Total	$ 210,415

9. ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

in thousands	As of December 31, 2022	2021
Accrued wages, bonuses and commissions	$ 79,518	$ 93,021
Accrued payroll taxes	9,087	7,295
Other accrued expenses	32,590	25,855
Employee Stock Purchase Plan ("ESPP") liability	18,924	18,182
Accrued income taxes	15,172	23,049
Total accrued liabilities	$ 155,291	$ 167,402

10. COMMITMENTS AND CONTINGENCIES

Legal Matters

From time to time, the Company is a party to a variety of claims, lawsuits, and proceedings which arise in the ordinary course of business, including claims of alleged infringement of intellectual property rights. The Company records a liability when it believes that it is probable that a loss will be incurred, and the amount of loss or range of loss can be reasonably estimated. Given the unpredictable nature of legal proceedings, the Company bases its estimate on the most current information available. As additional information becomes available, the Company reassesses the potential liability and may revise the estimate. The Company is not presently a party to any litigation the outcome of which, it believes, if determined adversely to the Company, would individually or in the aggregate have a material adverse effect on its business, operating results, or financial condition.

11. PROMISSORY NOTES

In January 2021, and in connection with the initial public offering, the Company declared a $2,392 million dividend in the form of two promissory notes payable from Qualtrics International Inc. to SAP America.

Promissory Note 1 was issued with a principal amount of $1,892 million and interest rate of 0.14% compounded semiannually. The principal balance and accrued interest was due and paid in full on February 1, 2021, the date of the closing of the initial public offering.

Promissory Note 2 was issued with a principal amount of $500 million and interest rate of 1.35% compounded semiannually. The outstanding principal of $500 million and accrued interest of $5.3 million was paid in full on November 9, 2021.

12. COMMON STOCK

On December 21, 2020, the Company amended its restated certificate of incorporation to create new shares of preferred stock, Class A common stock, and Class B common stock. The following description summarizes certain important terms of Qualtrics capital stock and of Qualtrics amended and restated certificate of incorporation and amended and restated bylaws.

Class A Common Stock and Class B Common Stock

Dividend Rights

Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of Qualtrics Class A common stock and Class B common stock are entitled to receive dividends, out of assets legally available, sharing equally in all such dividends on a per share basis, at the times and in the amounts that the Company's board of directors may determine from time to time.

Voting Rights

Except that holders of Class A common stock are entitled to one vote per share while holders of Class B common stock are entitled to ten votes per share on all matters to be voted on by Qualtrics stockholders and except with respect to the conversion, certain corporate actions that require the consent of holders of Class B common stock and other protective provisions, the holders of Class A common stock and Class B common stock have identical rights. Subject to any rights of any series of preferred stock to elect directors, the holders of Qualtrics Class A common stock and the holders of Qualtrics Class B common stock, voting together as a single class, are entitled to elect all directors to the Company's board of directors. In the event that the rights of any series of preferred stock would preclude the holders of Qualtrics Class A common stock and the holders of Qualtrics Class B common stock, voting together as a single class, from electing at least one director, the board of directors will increase the number of directors prior to the issuance of that preferred stock to the extent necessary to allow these stockholders to elect at least one director.

Right to Receive Liquidation Distributions

Upon the Company's liquidation, dissolution or winding-up, the holders of Qualtrics Class A common stock and Class B common stock are entitled to share equally in all of the Company's assets remaining after payment of all liabilities and the liquidation preferences of any outstanding preferred stock.

Conversion

Prior to any distribution of Class B common stock by SAP to any party that is not beneficially owned by SAP (a "Distribution"), all shares of Class B common stock will automatically be converted into shares of Class A common stock upon the transfer of such shares of Class B common stock. If a Distribution has not occurred, each share of Class B common stock will also automatically convert into a share of Class A common stock at such time as the number of shares of common stock owned by SAP (and its affiliates) falls below 20% of the outstanding shares of Qualtrics common stock. All conversions will be effected on a share-for-share basis.

Preferred Stock

The Company's board of directors is authorized, subject to the approval of Qualtrics Class B stockholders and subject to limitations prescribed by Delaware law, to issue preferred stock in one or more series, to establish from time to time the number of shares to be included in each series and to fix the designation, powers, preferences and rights of the shares of each series and any of its qualifications, limitations or restrictions, in each case without further vote or action by Qualtrics stockholders. The Company has no current plan to issue any shares of preferred stock.

Sale of Class A Common Stock

In December 2020, Qualtrics entered into a stock purchase agreement with Q II, LLC ("Q II"), an entity controlled by Ryan Smith, the Company's founder and executive chair, pursuant to which Q II purchased 6,000,000 shares of Qualtrics Class A common stock at a price of $20.00 per share for an aggregate purchase price of $120 million. The shares are redeemable at the option of the Company for the 60-day period following June 30, 2021 unless the following conditions had been met: (i) the closing of the Company's underwritten public offering had occurred prior to that date and (ii) Ryan Smith remained employed by the Company on that date or his employment had been terminated prior to that date by the Company without cause or by him with good reason. Such conditions occurred as of June 30, 2021 and the shares are therefore not redeemable at the option of the Company. Based on the terms of purchase agreement, the funds received from the Q II purchase were reported within accrued liabilities until the redemption options expired on June 30, 2021, resulting in the $120 million purchase consideration being reclassified from accrued liabilities to additional paid in capital.

On December 23, 2020, Silver Lake Partners VI DE (AIV), L.P. ("Silver Lake") agreed to purchase $550 million of shares of Class A common stock, comprising (a) 15,018,484 shares at $21.64 per share and (b) $225 million of shares at the initial public offering price of $30.00 per share, in a concurrent private placement transaction (the "Silver Lake investment"). On February 1, 2021, the Company closed its private placement transaction with Silver Lake.

On February 1, 2021, the Company closed its initial public offering ("IPO"), in which it issued and sold 59,449,903 shares of Class A common stock at $30.00 per share for aggregate net proceeds of $1,688 million, after deducting underwriters' discounts and offering expenses payable by the Company.

On November 9, 2021, Qualtrics completed a public offering, in which the Company issued and sold 27,380,952 shares of Qualtrics Class A common stock at a public offering price of $42.00 per share, for an aggregate offering price of $1,114.6 million net of underwriting discounts and commissions. The Company used a portion of the proceeds to repay approximately $505.3 million of principal and interest outstanding on Promissory Note 2 payable to SAP America, Inc. and intend to use the remaining proceeds for working capital and other general corporate purposes.

13. STOCK-BASED COMPENSATION

Stock-based compensation expense, including cash settled, for the years ended December 31, 2022, 2021, and 2020 was recorded as follows:

	Year Ended December 31,		
in thousands	**2022**	**2021**	**2020**
Cost of subscription revenue	$ 18,798	$ 12,148	$ 4,632
Cost of professional services and other revenue	34,022	25,299	6,737
Research and development	154,972	128,779	68,355
Sales and marketing	208,958	136,532	37,877
General and administrative	617,424	754,382	106,412
Total stock-based compensation expense, including cash settled	$ 1,034,174	$ 1,057,140	$ 224,013

Cash Awards

In Conjunction with the SAP acquisition, previous unvested Restricted Share Awards ("RSAs"), Restricted Share Units ("RSUs") and options held by employees of Qualtrics were exchanged into stock-based cash awards (Qualtrics Rights). During 2019 and 2020, SAP granted to certain Qualtrics employees virtual shares representing a contingent right to receive a cash payment determined by the SAP share price and the number of share units that ultimately vest (Move SAP RSUs). During the years ended December 31, 2022, 2021, and 2020, less than 0.1 million, 1.9 million, and 8.1 million units of Qualtrics Rights and Move SAP RSUs vested and were settled for $5.3 million, $79.4 million, and $388.6 million in cash, respectively. No cash settled awards were granted during the years ended December 31, 2022 and 2021, respectively. There were 0.9 million shares granted during the year ended December 31, 2020. The carrying amount of the liability related to the Qualtrics Rights and Move SAP RSUs was $1.1 million and $4.6 million as of December 31, 2022 and 2021, respectively. The unrecognized expense related to Qualtrics Rights and Move SAP RSUs was $0.5 million as of December 31, 2022 and will be recognized over a remaining vesting period of less than one year.

Equity Awards

Qualtrics RSUs

In December 2020, the board of directors approved the 2021 Qualtrics International Inc. Employee Omnibus Equity Plan, pursuant to which the Company reserved shares of Class A common stock to be used for grants of equity awards to officers, employees, directors, and other key persons, including consultants. The plan provides that on January 1, 2022, and each January 1 thereafter, through and including January 1, 2031, the number of shares reserved and available for issuance under the plan is cumulatively increased by a number of shares of Class A common stock equal to up to 5% of the number of shares of Class A common stock and Class B common stock of issued and outstanding on the immediately preceding December 31, as approved by board, and further provides for increases to the number of shares of Class A common stock that may be granted thereunder based on shares underlying any awards that expire, are forfeited, or are otherwise terminated. In August 2021, the board of directors approved the 2021 Qualtrics International Inc. Inducement Equity Plan, pursuant to which the Company reserved shares of Class A common stock to be used for grants of equity-based awards to individuals who were not previously employees or directors of the Company. As of December 31, 2022, there were 10.1 million shares remaining to be issued under these two plans.

In January 2021, the Company completed a voluntary exchange offer pursuant to which 5.4 million cash-settled Qualtrics Rights and 1.3 million cash-settled SAP RSU awards were exchanged and modified into 12.8 million equity-settled Qualtrics RSU awards, representing 93% of the outstanding Qualtrics Rights and SAP RSU awards. In September 2021, the Company completed an additional voluntary exchange offer for certain employees in Australia that were not eligible for the January 2021 exchange, pursuant to which less than 0.1 million cash-settled Qualtrics Rights and SAP RSU awards were exchanged and modified into equity-settled Qualtrics RSU awards.

In January 2021, the board of directors authorized the issuance of new RSU awards representing approximately 61.4 million shares of Qualtrics Class A common stock. These awards were granted to eligible employees and the executive officers of the Company on January 28, 2021. Approximately 44.2 million of the RSU awards are subject to time-based vesting, with 25% vesting on February 1, 2022 and ratably thereafter for twelve quarters, such that this portion of the RSUs will be fully vested on the fourth anniversary of their vesting commencement date. The remaining 17.2 million RSU awards vest in four equal annual installments based on the achievement of certain performance conditions, as established by the Company's board of directors and measured annually, with vesting of 100% of each installment in the event that the performance targets are achieved and ratable downward adjustments in the event that the performance targets are partially achieved.

In January 2021, the board of directors approved a one-time optional salary adjustment program that provided eligible employees with the opportunity to reduce their annual cash base salary, effective as of February 1, 2021 and on an ongoing basis, in exchange for a one-time RSU grant valued at a multiple of the cash forgone as a result of an employee's participation in the program. RSUs granted pursuant to this program totaled 2.5 million and vest quarterly over four years, with a vesting commencement date of February 1, 2021.

In November 2021, the board of directors authorized the issuance of new RSU awards representing approximately 2,227,679 million shares of Qualtrics Class A common stock. These awards were granted to eligible employees of Clarabridge. The RSU awards are subject to time-based vesting, with 25% vesting on November 1, 2022 and ratably thereafter for twelve quarters, such that this portion of the RSUs will be fully vested on the fourth anniversary of their vesting commencement date.

The following table sets forth the outstanding Qualtrics RSUs and related activity for the years ended December 31, 2022 and 2021:

	Number of RSUs (in thousands)	Weighted-Average Grant Date Fair Value
Outstanding as of December 31, 2020	—	$ —
Exchanged from Qualtrics Rights and SAP RSU Awards	12,872	30.04
Granted	77,652	44.28
Vested	(6,124)	31.14
Forfeited/Canceled	(2,236)	41.28
Outstanding as of December 31, 2021	82,164	$ 43.11
Granted	35,490	20.69
Vested	(33,967)	41.53
Forfeited/Canceled	(7,014)	35.01
Outstanding as of December 31, 2022	76,673	$ 34.17

The total fair value of RSUs that vested during the year ended December 31, 2022 and 2021 was $770.7 million and $222.7 million. As of December 31, 2022, there was $1,986.4 million of unrecognized stock-based compensation expense related to outstanding Qualtrics RSUs, which is expected to be recognized over a weighted-average period of 2.4 years.

Qualtrics Options

On October 1, 2021, in connection with the acquisition of Clarabridge, Inc., the Company assumed the outstanding Clarabridge stock option plans and converted all outstanding stock options into Qualtrics options. The majority of the assumed options were either fully vested or partially vested as of the acquisition date and had a strike price well below the value of the awards at the conversion date. Certain awards to Clarabridge employees had their vesting periods extended for up to three years after the acquisition date. The conversion date fair value of the stock options was determined to be approximate to the intrinsic value of the awards. The value of the assumed options was allocated to purchase consideration and stock compensation expense based on the pre and post service conditions. See Note 7 "Business Combinations" for additional information. The following table sets forth the outstanding common stock options and related activity for the years ended December 31, 2022 and 2021:

	Number of Options (in thousands)	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding as of December 31, 2020	—	$ —		
Assumed awards from Clarabridge Acquisition	3,204	4.52		
Exercised	(1,344)	4.22		
Forfeited/Expired	(5)	7.08		
Outstanding as of December 31, 2021	1,855	$ 4.84	6.3	$ 56,684
Exercised	(353)	4.62		
Forfeited/Expired	(34)	6.06		
Outstanding as of December 31, 2022	1,468	$ 4.87	5.1	$ 8,091
Vested and exercisable at December 31, 2022	938	$ 4.62	5.0	$ 5,407

The aggregate intrinsic value of options exercised was $4.7 million and $51.2 million for the years ended December 31, 2022 and 2021. The intrinsic value represents the excess of the estimated fair value of the Company's common stock on the date of exercise over the exercise price of each option. The intrinsic value of options as of December 31, 2022 and 2021 are based on the market closing price of the Company's Class A common stock on those dates.

As of December 31, 2022, there was $9.9 million of unrecognized stock-based compensation expense related to outstanding stock options which is expected to be recognized over a weighted-average period of 1.6 years.

Own SAP Plan (Own)

Starting in July 2019 under Own, employees had the opportunity to purchase, on a monthly basis, SAP shares without any required holding period. The investment per each eligible employee is limited to a percentage of the respective employee's monthly base salary. The Company matched the employee investment by 40% and added a subsidy equivalent of €20 per month for non-executives. In connection with the completion of the Company's initial public offering employees are no longer able to participate in Own. No shares were purchased under this plan during the year ended December 31, 2022. The number of shares purchased under this plan was 17,440 and 185,709 during the years ended December 31, 2021 and 2020, respectively. No compensation expense was recognized associated with this plan during the year ended December 31, 2022. The Company recognized compensation expense associated with the match of $0.7 million and $7.2 million during the years ended December 31, 2021 and 2020, respectively.

Qualtrics Employee Stock Purchase Plan

In December 2020, the Company's board of directors approved the 2021 Qualtrics International Inc. Employee Stock Purchase Plan (ESPP), which became effective in January 2021. The ESPP initially reserved and authorized the issuance of up to a total of 12,000,000 shares of Class A common stock to participating employees. The ESPP provides that the number of shares reserved and available for issuance will automatically increase each January 1, beginning on January 1, 2022 and ending on (and including) January 1, 2030 by the lowest of: (i) 2% of the number of shares of Qualtrics Class A common stock reserved for issuance under the ESPP, (ii) 1% of the outstanding number of shares of Qualtrics Class B and Class A common stock on the immediately preceding December 31, and (iii) such lesser number of shares as determined by the Company’s compensation committee. The share reserve is subject to adjustment in the event of a stock split, stock dividend or other change in the Company’s capitalization. As of December 31, 2022, there were 9.8 million shares remaining to be issued under the ESPP.

Each employee who is a participant in the ESPP may purchase shares by authorizing contributions at a minimum of 1% up to a maximum of 20% of his or her compensation for each pay period. Accumulated contributions are used to purchase shares on the last business day of the offering period at a price equal to 85% of the fair market value of the shares on the first business day of the offering period or the last business day of the offering period, whichever is lower, provided that no more than the number of shares of Class A common stock determined by dividing $15,000 by the fair market value of the shares on the first business day of the offering period may be purchased by any one employee during each purchase period. An employee may also purchase no more than $25,000 worth of shares of Class A common stock for each calendar year in which a purchase right is outstanding. The Company recognized compensation expense associated with the ESPP of $26.3 million and $16.4 million during the years ended December 31, 2022 and 2021. As of December 31, 2022, there was $2.2 million of unrecognized stock-based compensation expense associated with the ESPP, which is expected to be recognized over a weighted-average period of 0.1 years.

Sale of Class A Common Stock

As discussed in Note 12, regarding the sale of Class A common stock to Q II, the 6,000,000 shares had certain vesting conditions including the completion of the Company’s IPO and the continued employment of Ryan Smith through June 30, 2021. Based on the terms of purchase agreement, the sale of Class A common stock to Q II is accounted for as an early exercise of a stock option award. The IPO is considered a performance condition that upon occurring in January 2021 results in a cumulative catch-up of recognizing expense of the fair value of the option for the pro-rata portion of the vesting period that had occurred and the remaining expense has been recorded over the remaining vesting period, which ended on June 30, 2021. The Company recognized compensation expense associated with the award of $20.9 million during the year ended December 31, 2021.

14. NET LOSS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS

The following table sets forth the calculation of basic net loss per share attributable to common stockholders during the periods presented:

in thousands (except share amount)	**Year Ended December 31,**		
	2022	**2021**	**2020**
Numerator:			
Net loss attributable to common shareholder	$ (1,061,478)	$ (1,059,146)	$ (272,502)
Denominator:			
Weighted-average Class A and Class B shares used in computing net loss per share attributable to common stockholders, basic and diluted	584,285,678	516,869,588	423,334,994
Net loss per share attributable to common stockholders, basic and diluted	$ (1.82)	$ (2.05)	$ (0.64)

The net loss per share amounts are the same for Class A and Class B common stock because the holders of each class are legally entitled to equal per share distributions, whether through dividends or in liquidation. Since the Company was in a loss position for all periods presented, basic net loss per share is the same as diluted net loss per share for all periods as the inclusion of all potential common shares outstanding would have been antidilutive. The following table discloses securities that could potentially dilute basic net loss per share in the future that were not included in the computation of diluted net loss per share because to do so would have been antidilutive for all periods presented:

	As of December 31,		
	2022	2021	2020
Qualtrics restricted stock units	76,672,908	82,163,894	—
Qualtrics options	1,467,828	1,854,965	—
Qualtrics employee stock purchase program	2,144,827	687,000	—

15. INCOME TAXES

For the years ended December 31, 2022, 2021, and 2020, the Company's loss before income taxes was as follows:

	Year Ended December 31,		
in thousands	**2022**	**2021**	**2020**
Domestic	$ (1,122,995)	$ (1,076,281)	$ (297,724)
Foreign	82,418	29,100	41,699
Loss before income taxes	$ (1,040,577)	$ (1,047,181)	$ (256,025)

The federal, state and foreign income tax provisions are summarized as follows:

	Year Ended December 31,		
in thousands	**2022**	**2021**	**2020**
Current taxes:			
Federal	$ 15,848	$ 19,886	$ —
State	1,008	515	166
Foreign	22,527	3,218	6,970
Total current taxes	$ 39,383	$ 23,619	$ 7,136
Deferred taxes:			
Federal	$ (11,253)	$ (12,582)	$ —
State	(10,008)	(1,829)	—
Foreign	2,779	2,757	9,341
Total deferred taxes	(18,482)	(11,654)	9,341
Total	$ 20,901	$ 11,965	$ 16,477

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

	Year Ended December 31,		
in %	2022	2021	2020
Tax at U.S. statutory rates	21.0 %	21.0 %	21.0 %
State tax, net of federal tax effect	0.9	(3.8)	3.4
Foreign taxes	(2.4)	(1.0)	(3.2)
Items not deductible for tax	0.2	(0.1)	(0.3)
Equity compensation	(16.9)	(13.4)	(0.3)
Tax credits	1.3	1.2	6.7
Changes in valuation allowance	(7.7)	(6.4)	(27.6)
Changes in tax reserves	0.1	1.6	(5.0)
Tax rate change	1.6	0.1	(0.6)
Other items, net	(0.1)	(0.3)	(0.5)
Effective income tax rate	(2.0)%	(1.1)%	(6.4)%

Significant components of the Company's deferred tax assets (liabilities) are as follows:

	As of December 31,	
in thousands	2022	2021
Deferred tax assets:		
Investment in partnership	$ —	$ 203,480
Tax credits	34,521	34,718
Reserves, accruals and other	18,712	8,304
Deferred revenue	206,457	—
Stock compensation	57,879	8,088
Net operating loss carryovers	78,684	74,127
Lease liability	79,023	32,414
R&D capitalization and amortization	57,377	—
Gross deferred tax assets	532,653	361,131
Valuation allowance	(339,912)	(262,919)
Net deferred tax assets	192,741	98,212
Deferred tax liabilities:		
Compensation accruals	(79,055)	(17,785)
Intangible assets	(41,095)	(71,125)
Leases - ROU asset	(62,497)	(31,312)
Other	(12,916)	(1,547)
Total net deferred tax liabilities	$ (2,822)	$ (23,557)

The Company had historically calculated the income taxes in its consolidated financial statements on a separate return basis. However, the Company was in actuality included in the consolidated, combined or unitary U.S. federal and state income tax returns with SAP America, Inc. and its affiliates. As a result of deconsolidation from SAP during 2021, net operating losses and credits were updated to reflect actual attributes available for use by the Company. Qualtrics is subject to a tax sharing agreement with SAP that requires the Company to reimburse SAP for the Company's taxable income, or be reimbursed by SAP in cases of taxable loss, which is included on the consolidated tax returns with SAP, subject to adjustments for hypothetical tax attributes and certain simplifying conventions.

The Company has conducted the majority of its operations through a limited liability company that is wholly owned within the consolidated group and has been treated as a partnership for U.S. income tax purposes. Accordingly, the outside basis difference in the limited liability company has been reflected as a deferred tax asset, shown as “investment in partnership.” During 2020, the Company effectuated an internal restructuring, which removed certain foreign entities from the limited liability company ownership structure. As a result, the deferred tax balances of those foreign entities were presented separately from the partnership deferred tax asset during 2020 and 2021. During 2022, the Company effectuated another internal restructuring and the wholly-owned limited liability company became a single-member limited liability company, disregarded from its parent company for U.S. income tax purposes. As such, the Company is reporting its deferred tax balances for 2022 based on the tax basis of each relevant item, rather than the outside basis difference of the investment in the partnership.

ASC 740, Income Taxes, provides for the recognition of deferred tax assets if realization of such assets is more likely than not. In assessing the need for a valuation allowance, the Company considered all available evidence, both positive and negative, including historical levels of income or loss, legislative developments, expectations, and risks associated with estimates of future taxable income, and prudent and feasible tax planning strategies. The Company has evaluated this evidence and determined that it is more likely than not that the net deferred tax assets for some of the Company’s U.S. entities will not be realized. Due to uncertainties surrounding the realization of the deferred tax assets, the Company maintains a full valuation allowance against its net U.S. deferred tax assets in these entities. The valuation allowance for deferred tax assets was $339.9 million and $262.9 million at December 31, 2022 and 2021, respectively. During 2022, the valuation allowance increased by $77.0 million primarily due to increases in deferred revenue and the new Sec. 174 R&D capitalization and amortization rules in the United States.

As of December 31, 2022, the Company had approximately $237.1 million of consolidated federal net operating loss carryforwards and $549.8 million of state net operating loss carryforwards available to offset future taxable income, respectively. If unused, federal net operating loss carryforwards of $93.0 million will expire between 2025 and 2036. $144.1 million of federal net operating loss carryforwards can be carried forward indefinitely. If unused, state net operating loss carryforwards of $316.4 million will expire between 2023 and 2042. $233.4 million of state net operating loss carryforwards can be carried forward indefinitely. The Company has $2.4 million of foreign jurisdiction net operating loss carryforwards that can be carried forward indefinitely. The Company has federal research tax credit carryforwards of $0.5 million and Utah research tax credit carryforwards of $4.1 million, which if not utilized, will expire between 2032 and 2042, and 2026 and 2036, respectively. The Company has foreign tax credit carryforwards of $15.1 million which will expire between 2023 and 2028, if not utilized.

Undistributed earnings of certain of the Company’s foreign subsidiaries amounted to approximately $142 million at December 31, 2022. Those earnings are considered to be indefinitely reinvested; accordingly, no provision for state, local and foreign withholding income taxes has been provided hereon. Upon repatriation of those earnings, in the form of dividends or otherwise, the Company could be subject to withholding taxes payable to the various foreign countries. Determination of the amount of unrecognized deferred income tax liability is not practicable due to the complexities associated with its hypothetical calculation.

ASC 740 requires the Company to recognize the financial statement effects of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. The following table summarizes the activity related to unrecognized tax benefits for the periods December 31, 2022 and 2021:

	As of December 31,	
in thousands	**2022**	**2021**
Beginning balance	$ 12,364	$ 28,130
Additions for tax positions related to current year	3,905	9,852
Additions for tax positions related to prior year	89	1,032
Reductions for tax positions related to prior year	(2,572)	(26,162)
Cumulative translation adjustment	(560)	(488)
Ending balance	$ 13,226	$ 12,364

The Company does not anticipate material changes within 12 months of the reporting date to its unrecognized tax benefits as of December 31, 2022. At December 31, 2022, the Company had $13.2 million of total unrecognized tax benefits, of which, if recognized, $11.7 million would impact the Company's effective tax rate. Of the $13.2 million of 2022 unrecognized tax benefits, $1.5 million is offset to deferred tax assets and the remaining $11.7 million is recorded as a long term liability. At December 31, 2021, the Company had $12.4 million of total unrecognized tax benefits, of which, if recognized, $10.0 million would impact the Company's effective tax rate. Of the $12.4 million of 2020 unrecognized tax benefits, $2.4 million is offset to deferred tax assets and the remaining $10.0 million is recorded as a long term liability.

The Company recognizes interest and penalties related to unrecognized tax benefits as part of pre-tax book income or expense, which totaled $0.1 million, $(1.1) million, and $1.5 million for 2022, 2021, and 2020, respectively. The Company's accrual for interest and penalties totaled $1.4 million and $0.2 million at December 31, 2022 and 2021, respectively.

The Company files federal, state, and foreign income tax returns in various jurisdictions such as Australia, Belgium, Ireland, the United Kingdom, and the United States, with varying statutes of limitations. The tax years from 2019 forward remain subject to examination for the Company and its U.S. subsidiaries. Tax filings for the Company's foreign subsidiaries remain subject to examination by local tax authorities from 2017 and onward.

The German Anti-Tax Avoidance Directive Implementation Law entered into force on July 1, 2021. This legislation is intended to combat hybrid mismatch arrangements and deny deduction of certain expenses accruing after December 31, 2019, and impacts the deductibility of expenses incurred in the Company's German subsidiary during tax year 2020. As a result of this legislation, the Company recorded a $6.5 million uncertain tax liability during the year ended December 31, 2021. In the current year, the Germany tax return for tax year 2020 was filed and a $1.6 million decrease to the uncertain tax liability was recorded to account for the impact of the true ups on the filed tax return.

The U.K. Finance Act 2021 was passed on June 10, 2021. This legislation refined and clarified the country's hybrid mismatch rules, which previously cast doubt on the deductibility of expenses incurred in the Company's U.K. subsidiary during tax years 2017-2020. As a result of the favorable new legislation, the Company reversed an $11.0 million uncertain tax liability during the year ended December 31, 2021. No further adjustments were made for the year ended December 31, 2022.

16. RELATED PARTY TRANSACTIONS

Since the SAP acquisition in 2019, SAP and its affiliates are related parties to the Company. The Company has entered into certain arrangements for services and products with SAP and its affiliates.

The consolidated statements of comprehensive loss include all revenue and costs directly attributable and/or allocable to the Company, including costs for facilities, functions, and services used by Qualtrics. The consolidated statements of comprehensive loss also includes expenses of SAP directly charged to Qualtrics for certain functions provided by SAP, including, but not limited to, sales organization costs, insurance, employee benefits, human resources and usage of data centers. The Company directly charges SAP for certain functions provided to SAP, including sales support. These charges were determined based on actual expenses incurred on Qualtrics' or SAP's behalf or by usage.

During the years ended December 31, 2022, 2021 and 2020, the Company recognized revenue of $40.8 million, $26.4 million, and $11.8 million, respectively, from SAP and its affiliates in exchange for services and products. Total costs charged from SAP and its affiliates to the Company were $48.9 million, $56.8 million, and $38.4 million respectively, during the years ended December 31, 2022, 2021 and 2020. Total costs charged from the Company to SAP and its affiliates were $15.5 million, $27.7 million, and $20.2 million respectively, for the years ended December 31, 2022, 2021, and 2020. As of December 31, 2022, the outstanding receivable and payable balance with SAP and its affiliates was $19.2 million and $15.2 million, respectively. As of December 31, 2021, the outstanding receivable and payable balance with SAP and its affiliates was $42.0 million and $13.3 million, respectively.

Because of the SAP Acquisition, Qualtrics had been included in SAP America's consolidated group for U.S. federal income tax purposes. In October 2021, the Company deconsolidated from the SAP Tax Group for federal tax purposes. The Company continues to be a member of the SAP Tax Group for certain state filings. Pursuant to the tax sharing agreement with SAP, for taxable periods beginning after December 31, 2020, the Company will make certain tax sharing payments to SAP. As of December 31, 2022, the Company's distribution liability for the tax sharing agreement with SAP totaled $84.7 million, consisting of $7.7 million based on 2021 actual tax return activity, $12.0 million based on the Company's 2022 tax provision and $65.0 million based on an estimated fair value. Of the $84.7 million, $72.0 million is recorded within accounts payable and the remaining $12.7 million is recorded within other liabilities on the balance sheet as of December 31, 2022. As of December 31, 2021, the Company's distribution liability for the tax sharing agreement with SAP totaled $88.5 million, consisting of $17.0 million based on the Company's 2021 tax provision and $71.5 million based on an estimated fair value. Of the $88.5 million, $21.5 million is recorded within accounts payable and the remaining $67.0 million is recorded within other liabilities on the balance sheet as of December 31, 2021.

In January 2021, and in connection with the initial public offering, the Company declared a $2,392 million dividend in the form of two promissory notes payable from Qualtrics International Inc. to SAP America. Promissory note 1 was issued with a principal amount of $1,892 million and paid in full on February 1, 2021. Promissory note 2 was issued with a principal amount of $500 million and interest rate of 1.35% compounded semiannually. The outstanding principal of $500 million and accrued interest of $5.3 million related to the Company's promissory note was paid in full on November 9, 2021. See Note 11, "Promissory Notes", for further details.

Certain Board members of the Company and certain Supervisory Board and Executive Board members of SAP SE currently hold, or held within the last year, positions of significant responsibility with other entities. The Company has relationships with certain of these entities in the ordinary course of business. During the years ended December 31, 2022 and 2021, revenue and charges from these related parties were immaterial.

In December 2020, Ryan Smith, the Company's Founder and Executive Chair, acquired a majority interest in the Utah Jazz basketball franchise, the associated venue, and certain related sports teams and operations and business interests. In 2019, the Company entered into multi-year agreements with the Utah Jazz related to ticket purchases, advertising, sponsorships, and the Utah Jazz Five for the Fight Campaign, under which the Company was billed $7.7 million and $5.1 million during the years ended December 31, 2022 and December 31, 2021, respectively.

17. DEFINED CONTRIBUTION PLAN

The Company offers a 401(k) plan covering all U.S. full-time or part-time employees. The 401(k) plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

From July 1, 2019 through September 30, 2021, the Company had a 401(k) plan administered by SAP, with employer contributions funded by the Company. Since October 1, 2021, the Company's 401(k) plan has been administered by Qualtrics. During this time, eligible employees were able to contribute up to 25% of their compensation to the 401(k) plan each pay period, and then the Company automatically made partial matching contributions of up to 4.5% of their compensation. The employer matching contributions partially vested after two years and fully vested after three years of employee service. Starting on January 1, 2022, employees are able to contribute up to 90% of their compensation to the 401(k) plan each period and the Company automatically makes full matching contributions of up to 5% of the employee's compensation, with immediate vesting in the employer contributions. The immediate vesting was also applied retroactively to 401(k) employer contributions prior to January 1, 2022. The maximum employer contributions per employee are $15,250 in 2022, $13,050 in 2021, and $12,825 in 2020. The Company's contributions to the 401(k) plans for the years ended December 31, 2022, 2021 and 2020 totaled $33.3 million, $21.3 million, and $16.7 million, respectively.

18. SUBSEQUENT EVENTS

In January 2023, the Company committed to a plan to eliminate approximately 270 roles across the Company globally that do not align with the Company's highest priorities for 2023. This represents less than 5% of the Company's workforce. These actions are expected to be substantially completed by the end of the first quarter of 2023. As a result of these actions, the Company expects to incur total pre-tax charges of approximately $5.8 million in connection with the headcount reductions, primarily consisting of severance payments, notice pay (where applicable), employee benefits contributions and related costs.

On January 26, 2023, SAP SE ("SAP"), the controlling stockholder of the Company, issued a press release indicating its intent to explore a sale of its stake in Qualtrics. No decision has been made and SAP is in the exploratory phase of the potential sale.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act), as of December 31, 2022. Based on such evaluation of our disclosure controls and procedures as of December 31, 2022, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were not effective as a result of a material weakness in our internal control over financial reporting as described below.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act). Our management, including our principal executive officer and our principal financial officer, assessed the effectiveness of our internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO, in Internal Control—2013 Integrated Framework. As of December 31, 2022, our management identified a material weakness related to management's risk assessment process over information technology general controls, including certain controls over logical access and change management, and process level controls including information used in the execution of those controls that impacted our financial reporting processes. As a result, management has concluded that, as of December 31, 2022, the Company's internal control over financial reporting was not effective.

The material weakness did not result in any material misstatements to our previously issued financial statements, nor in the financial statements included in this Form 10-K.

Our independent registered public accounting firm, KPMG LLP, who audited the consolidated financial statements included in this Annual Report on Form 10-K, issued an adverse opinion on the effectiveness of the Company's internal control over financial reporting. KPMG LLP's report appears below.

Management's Remediation Plan and Status

Our management is committed to maintaining a strong internal control environment. In response to the identified material weakness above, management has already taken steps to substantially remediate this material weakness and will continue to take further steps until such remediation is complete. Remediation efforts include: engaging a third party subject matter expert to assist in the review of our risk assessment process, ensuring that change management and user access controls are performed timely, and enhancing our controls around the identification of new reports and changes to key reports. While we have taken steps to substantially remediate the identified material weakness and will continue to complete the remediation process as quickly as possible, we cannot at this time estimate how long it will take to remediate this material weakness. The material weakness will not be considered remediated until the controls are designed, implemented, and operate for a sufficient period of time and management has concluded, through independent testing, that these controls are operating effectively. As management continues to evaluate and work to improve our disclosure controls and procedures and internal control over financial reporting, we may take additional measures to address these control deficiencies or modify certain remediation measures described above.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Inherent Limitations on Effectiveness of Disclosure Controls and Procedures

Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Due to inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors
Qualtrics International Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Qualtrics International Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, because of the effect of the material weakness, described below, on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2022 and 2021, the related consolidated statements of comprehensive loss, stockholders’ equity (deficit), and cash flows for each of the years in the three-year period ended December 31, 2022, and the related notes (collectively, the consolidated financial statements), and our report dated February 24, 2023 expressed an unqualified opinion on those consolidated financial statements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness related to risk assessment over information technology general controls, including certain controls over logical access and change management, and process level controls including information used in the execution of those controls that impacted the financial reporting processes has been identified and included in management’s assessment. The material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2022 consolidated financial statements, and this report does not affect our report on those consolidated 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 of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included 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/ KPMG LLP

Salt Lake City, Utah
February 24, 2023

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

Part III.

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated herein by reference to our definitive proxy statement for our 2023 annual meeting of stockholders (the "2023 Proxy Statement"). The 2023 Proxy Statement will be filed with the SEC not later than 120 days subsequent to December 31, 2022.

Our board of directors has adopted SAP's code of business conduct, which applies to all of our employees, officers, and directors, including our Chief Executive Officer, Chief Financial Officer, and other executive and senior financial officers. Our board of directors has also adopted a code of ethics that applies to all of our employees, officers, and directors, including our Chief Executive Officer, Chief Financial Officer, and other executive and senior financial officers. The full text of SAP's code of business conduct and our code of ethics is posted on the investor relations page on our website at www.qualtrics.com/investors, and is available free of charge in print to any shareholder who requests it. Requests for copies should be addressed to the Secretary at mailing address 333 West River Park Drive, Provo, Utah 84604. We intend to satisfy the disclosure requirement under Item 5.05 of Form 8-K regarding any amendments to, or waivers from, a provision of our code of ethics by posting such information on our website, at the location specified above, or disclosing such information in filings under the Exchange Act.

Item 11. Executive Compensation

The information required by this item is incorporated herein by reference to the 2023 Proxy Statement, which will be filed with the SEC not later than 120 days subsequent to December 31, 2022.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated herein by reference to the 2023 Proxy Statement, which will be filed with the SEC not later than 120 days subsequent to December 31, 2022.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by this item is incorporated herein by reference to the 2023 Proxy Statement, which will be filed with the SEC not later than 120 days subsequent to December 31, 2022.

Item 14. Principal Accounting Fees and Services

Our independent public accounting firm is KPMG LLP, Salt Lake City, Utah, Auditor Firm ID 185.

The information required by this item is incorporated herein by reference to the 2023 Proxy Statement, which will be filed with the SEC not later than 120 days subsequent to December 31, 2022.

Part IV.

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as a part of this Annual Report on Form 10-K:

(1) Consolidated Financial Statements.

Our Consolidated Financial Statements are listed in the "Index to Consolidated Financial Statements" under Part II, Item 8 of this Annual Report on Form 10-K.

(2) Consolidated Financial Statement Schedules.

Consolidated financial statement schedules have been omitted in this Annual Report on Form 10-K because they are not applicable, not required under the instructions, or the information requested is set forth in the consolidated financial statements or related notes thereto.

(3) Exhibits.

Exhibit Index

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference from Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 filed on December 28, 2020)
3.2	Amended and Restated Bylaws of the Registrant (incorporated by reference from Exhibit 3.2 to the Registrant's Registration Statement on Form S-1 filed on December 28, 2020)
4.1	Specimen Class A common stock certificate of the Registrant (incorporated by reference from Exhibit 4.1 to the Registrant's Registration Statement on Form S-1 filed on December 28, 2020)
4.2	Description of Securities (incorporated by reference from Exhibit 4.2 to the Registrant's Annual Report on Form 10-K filed on March 1, 2022)
10.1+	Master Transaction Agreement by and between the Registrant and SAP SE, dated February 1, 2021 (incorporated by reference from Exhibit 10.1 to the Registrant's Annual Report on Form 10-K filed on March 9, 2021)
10.2+	Administrative Services Agreement by and between the Registrant, SAP SE and SAP America, Inc., dated February 1, 2021 (incorporated by reference from Exhibit 10.2 to the Registrant's Annual Report on Form 10-K filed on March 9, 2021)
10.3+	Tax Sharing Agreement by and among the Registrant, Registrant's affiliates, SAP SE, SAP America, Inc. and their affiliates, dated February 1, 2021 (incorporated by reference from Exhibit 10.3 to the Registrant's Annual Report on Form 10-K filed on March 9, 2021)
10.4+	Employee Matters Agreement by and between the Registrant and SAP SE, dated February 1, 2021 (incorporated by reference from Exhibit 10.4 to the Registrant's Annual Report on Form 10-K filed on March 9, 2021)
10.5	Intellectual Property Matters Agreement by and between the Registrant and SAP SE, dated February 1, 2021 (incorporated by reference from Exhibit 10.5 to the Registrant's Annual Report on Form 10-K filed on March 9, 2021)
10.6+	Distribution Agreement by and between the Registrant and SAP SE, dated February 1, 2021 (incorporated by reference from Exhibit 10.6 to the Registrant's Annual Report on Form 10-K filed on March 9, 2021)
10.7+	Insurance Matters Agreement by and between the Registrant and SAP SE, dated February 1, 2021 (incorporated by reference from Exhibit 10.7 to the Registrant's Annual Report on Form 10-K filed on March 9, 2021)

10.8	Stockholders' Agreement by and between the Registrant, SAP America, Inc. and Q II, LLC, dated February 1, 2021 (incorporated by reference from Exhibit 10.8 to the Registrant's Annual Report on Form 10-K filed on March 9, 2021)
10.9+	Real Estate Matters Agreement by and between the Registrant and SAP SE, dated February 1, 2021 (incorporated by reference from Exhibit 10.9 to the Registrant's Annual Report on Form 10-K filed on March 9, 2021)
10.10#	Form of Director and Executive Officer Indemnification Agreement (incorporated by reference from Exhibit 10.12 to the Registrant's Registration Statement on Form S-1 filed on December 28, 2020)
10.11#	2021 Qualtrics Employee Omnibus Equity Plan and forms of award agreements thereunder (incorporated by reference from Exhibit 10.13 to the Registrant's Amendment No. 1 to Registration Statement on Form S-1/A filed on January 12, 2021)
10.12#	2021 Qualtrics Employee Stock Purchase Plan (incorporated by reference from Exhibit 10.14 to the Registrant's Registration Statement on Form S-1 filed on December 28, 2020)
10.13#	Employment Agreement, by and between the Registrant and Ryan Smith, dated as of January 7, 2021 (incorporated by reference from Exhibit 10.15 to the Registrant's Amendment No. 1 to Registration Statement on Form S-1/A filed on January 12, 2021)
10.14#	Employment Agreement, by and between the Registrant and John Thimsen, dated as of August 22, 2018 (incorporated by reference from Exhibit 10.16 to the Registrant's Registration Statement on Form S-1 filed on December 28, 2020)
10.15#	Compensation Letter, by the Registrant to Bill McMurray, effective as of May 18, 2020 (incorporated by reference from Exhibit 10.17 to the Registrant's Registration Statement on Form S-1 filed on December 28, 2020)
10.16+†	Office Lease Agreement, by and between SCD 2U LLC and Qualtrics, LLC, dated as of September 20, 2019 (incorporated by reference from Exhibit 10.18 to the Registrant's Registration Statement on Form S-1 filed on December 28, 2020)
10.17+†	Second Amendment to Lease, by and between SCD 2U LLC and Qualtrics, LLC, dated as of August 24, 2020 (incorporated by reference from Exhibit 10.19 to the Registrant's Registration Statement on Form S-1 filed on December 28, 2020)
10.18+	Purchase and Sale Agreement, by and between Timp Campus LLC and Qualtrics, LLC, effective as of August 31, 2021 (incorporated by reference from Exhibit 10.20 to the Registrant's Registration Statement on Form S-1, filed with the SEC on October 1, 2021)
10.19+	Class A Common Stock Purchase Agreement, dated as of December 8, 2020, by and between the Registrant and Q II, LLC (incorporated by reference from Exhibit 10.21 to the Registrant's Registration Statement on Form S-1 filed on December 28, 2020)
10.20+	Class A Common Stock Purchase Agreement, dated as of December 23, 2020, by and between the Registrant and Silver Lake Partners VI DE (AIV), L.P. (incorporated by reference from Exhibit 10.22 to the Registrant's Registration Statement on Form S-1 filed on December 28, 2020)
10.21#	Employment Agreement, by and between the Registrant and Zig Serafin, dated as of January 7, 2021 (incorporated by reference from Exhibit 10.23 to the Registrant's Amendment No. 1 to Registration Statement on Form S-1/A filed on January 12, 2021)
10.22#	Qualtrics International Inc. Executive Change in Control Severance Plan, adopted January 5, 2021 (incorporated by reference from Exhibit 10.24 to the Registrant's Amendment No. 1 to Registration Statement on Form S-1/A filed on January 12, 2021)
10.23#	2021 Qualtrics International Inc. Inducement Equity Plan (incorporated by reference from Exhibit 99.1 to the Registrant's Registration Statement on Form S-8, filed with the SEC on August 20, 2021)
21.1*	List of subsidiaries of the Registrant
23.1*	Consent of KPMG LLP, independent registered public accounting firm
31.1*	Certification of the Chief Executive Officer pursuant to Exchange Act Rule 13a-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2*	Certification of the Chief Financial Officer pursuant to Exchange Act Rule 13a-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104*	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101)

* Filed herewith.

** The certifications furnished in Exhibit 32.1 hereto are deemed to accompany this Annual Report on Form 10-K and will not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any of the Registrant's filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, irrespective of any general incorporation language contained in any such filing.

\# Represents management compensation plan, contract or arrangement.

\+ Certain schedules and exhibits have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Company agrees to furnish supplementally a copy of any omitted schedule or exhibit to the SEC upon its request.

† Portions of this exhibit (indicated by asterisks) have been redacted in compliance with Regulation S-K Item 601(b)(10)(iv).

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, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Provo, Utah, on the 24th day of February, 2023.

QUALTRICS INTERNATIONAL INC.

By: /s/ Zig Serafin

Zig Serafin

Chief Executive Officer (Principal Executive Officer)

By: /s/ Rob Bachman

Rob Bachman

Chief Financial Officer (Principal Financial and Accounting Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Zig Serafin, Chris Beckstead, and Blake Tierney, and each of them, as his or her true and lawful attorney-in-fact and agents, with full power of substitution and resubstitution, for them and in their name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as they might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Zig Serafin Zig Serafin	Chief Executive Officer (Principal Executive Officer) and Director	February 24, 2023
/s/ Rob Bachman Rob Bachman	Chief Financial Officer (Principal Financial and Accounting Officer)	February 24, 2023
/s/ Ryan Smith Ryan Smith	Founder, Executive Chair and Director	February 24, 2023
/s/ Ritu Bhargava Ritu Bhargava	Director	February 24, 2023
/s/ Egon Durban Egon Durban	Director	February 24, 2023
/s/ Sindhu Gangadharan Sindhu Gangadharan	Director	February 24, 2023
/s/ Omar A. Johnson Omar A. Johnson	Director	February 24, 2023
/s/ Christian Klein Christian Klein	Director	February 24, 2023
/s/ Robin Manherz Robin Manherz	Director	February 24, 2023
/s/ Luka Mucic Luka Mucic	Director	February 24, 2023
/s/ Scott Russell Scott Russell	Director	February 24, 2023
/s/ Kelly Steckelberg Kelly Steckelberg	Director	February 24, 2023

EXPERIENCE MANAGEMENT

Exceptional frontline. High-performing teams. Products people love.