

No. 22-200

IN THE
Supreme Court of the United States

SLACK TECHNOLOGIES, LLC
(F/K/A SLACK TECHNOLOGIES, INC.) *et al.*,
Petitioners,

v.

FIYYAZ PIRANI,
Respondent.

**On Writ of Certiorari
to the United States Court of Appeals
for the Ninth Circuit**

JOINT APPENDIX

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**UNITED STATES DISTRICT COURT FOR THE
NORTHERN DISTRICT OF CALIFORNIA**

TYLER DENNEE, Individu-
ally and On Behalf of All Oth-
ers Similarly Situated,

Plaintiff,

v.

SLACK TECHNOLOGIES,
INC., STEWART BUTTER-
FIELD, ALLEN SHIM,
BRANDON ZELL, ANDREW
BRACCIA, EDITH COOPER,
SARAH FRIAR, JOHN
O'FARRELL, CHAMATH PA-
LIHAPITIYA, GRAHAM
SMITH, ACCEL GROWTH
FUND IV ASSOCIATES
L.L.C.,

Case No.
3:19-CV-05857-SI

**AMENDED
CLASS ACTION
COMPLAINT
FOR
VIOLATIONS OF
FEDERAL
SECURITIES
LAWS**

**DEMAND FOR
JURY TRIAL**

ACCEL GROWTH FUND INVESTORS 2016 L.L.C., ACCEL LEADERS FUND ASSOCIATES L.L.C., ACCEL LEADERS FUND INVESTORS 2016 L.L.C., ACCEL X ASSOCIATES L.L.C., ACCEL INVESTORS 2009 L.L.C., ACCEL XI ASSOCIATES L.L.C., ACCEL INVESTORS 2013 L.L.C., ACCEL GROWTH FUND III ASSOCIATES L.L.C., AH EQUITY PARTNERS I L.L.C., A16Z SEED-III LLC, SOCIAL+ CAPITAL PARTNERSHIP GP II, L.P., SOCIAL+CAPITAL PARTNERSHIP GP II LTD., SOCIAL+CAPITAL PARTNERSHIP GP III LP, SOCIAL+ CAPITAL PARTNERSHIP GP III, LTD., SOCIAL+CAPITAL PARTNERSHIP OPPORTUNITIES FUND GP L.P., and SOCIAL+CAPITAL PARTNERSHIP OPPORTUNITIES FUND GP LTD.,

Defendants.

Plaintiff Fiyaz Pirani (“Plaintiff”), individually and on behalf of all others similarly situated, by and through his undersigned counsel, alleges the following upon information and belief, except as to those allegations concerning Plaintiff, which are alleged upon personal knowledge. Plaintiff’s information and belief is based upon, among other things, his counsel’s investigation, which includes without limitation, review and analysis of: (a) regulatory filings made by Slack Technologies, Inc. (“Slack” or the “Company”) with the United States Securities and Exchange Commission (“SEC”); (b) Slack’s other public statements, including press releases; (c) news articles, analyst reports, and other commentary and analysis concerning Slack and the industry in which it operates; and (d) other publicly available information concerning Slack. Counsel’s investigation into the factual allegations contained herein is continuing, and many of the facts supporting those allegations are known only to Defendants (defined below) and are exclusively within their custody or control. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE AND SUMMARY OF THE ACTION

1. Plaintiff brings this federal securities class action on behalf himself and a class consisting of all persons and entities that purchased or otherwise acquired Slack common stock pursuant and/or traceable to the Company’s registration statement and prospectus (collectively, the “Offering Materials”), which offered over 283 million shares of Class A common stock that began publicly trading on or around June 20, 2019 (the “Offering”). The claims asserted herein against the Defendants arise under Sections 11, 12,

and 15 of the Securities Act of 1933 (the “Securities Act”).

2. Slack is a technology company based in San Francisco that offers a cloud-based collaboration and productivity platform that essentially replaces the need for internal emails by bringing people, applications, and data together in a single, centralized hub. Slack maintains a record of conversations, data, documents, and application workflows for specific topics by utilizing “team-based” channels. It also integrates thousands of third-party applications, ensuring the flow of critical business information. This information is then acted upon, transformed, and routed to its destination.

3. Slack has four subscription plans: Free or “freemium,” providing users a basic, free version of its services, Standard, Plus, and Enterprise Grid, each with service enhancements. For Slack Plus and Enterprise Grid customers, Slack enters into “service level agreements” (“SLA”), which, among other things, guarantees that Slack’s service will be available 99.99% of the time for each fiscal quarter.

4. On June 20, 2019, the Company’s common stock began trading on the New York Stock Exchange (“NYSE”), offering for sale to the public up to 118,429,640 registered shares and 164,932,646 unregistered shares purportedly exempt from registration. On that date, Slack stock opened at \$38.50 per share under the ticker symbol “WORK”.

5. Only days after the Offering, the Company’s platform experienced severe service disruptions, triggering a punitive level of service credit being issued to

its customers regardless of whether the customers experienced service outages. Slack experienced three significant outages in June and July 2019.

6. Slack's Offering Materials failed to disclose that in the event the 99.99% guarantee was triggered, Slack would be obligated to pay its customers 100x the cost of the downtime, regardless of whether the customer complained or even whether the customer was impacted by the Slack outage. Slack later admitted that this guarantee was "outrageously customer-centric", "exceptionally generous", and far out of line with industry standards. Although the Offering Materials disclosed that "from time to time, we have granted credits to paid customers pursuant to the terms of these agreements," the Offering Materials did not disclose that, during 2018, Slack failed to meet the 99.99% uptime guarantee in seven out of twelve months.

7. Further, although the Offering Materials disclosed that Slack competed with companies like Microsoft and Google, the Offering Materials failed to disclose the extent to which Microsoft's competing product, "Teams" was gaining in market share or the impact that such competition would have on Slack's revenue.

8. On July 11, 2019, less than one month after the Offering, Microsoft announced that its "Teams" product had 13 million "daily average users," ("DAU") far surpassing Slack's 10 million DAUs during the same period. Microsoft would hit 20 million DAUs by November 2019, while Slack lagged far behind at 12 million DAUs.

9. On September 4, 2019, the Company announced its second quarter results for fiscal 2020,

which revealed that the Company's "revenue was ***negatively impacted by \$8.2 million***¹ of credits related to service level disruptions in the quarter," a hit of almost 5%. Defendants also admitted that the Company's service level agreement with many of its customers was "***outrageously customer-centric***" and that the 99.99% uptime requirement is an extraordinary and unusual standard in the industry. It was further admitted that the Company had an "***exceptionally generous credit payout multiplier***" in its customer contracts.

10. Following the revelations in the Company's earnings announcement, and news reports and analyses from industry professionals, the value of the Company's shares plummeted to below \$25 per share, conveniently after Defendants had cashed out hundreds of millions of dollars of stock in the Offering at over \$38 per share. Slack's share price has continued to decline, falling as low as \$19.53 per share and at the time of this Complaint, trading in the \$22 per share range,² ***approximately 42% below the initial Offering price*** of \$38.50.

11. Unbeknownst to investors, the Offering Materials were negligently prepared, and as a result, contained untrue statements of material fact or omitted to state other facts necessary to make the statements made not misleading and were not prepared in accordance with governing rules and regulations. Specifically, the Offering Materials made false and/or misleading statements and failed to disclose that:

¹ Unless otherwise noted, all emphasis is added.

² At the time this action was commenced, Slack's shares were trading at \$25.72 per share.

- (1) The Slack App (defined below) was already suffering vulnerabilities that caused severe service disruptions, and the Company could not support its promised uptime guarantee of 99.99%;
- (2) The Company's reliability problem was not a mere hypothetical problem but a known issue to Defendants since in 2018 alone the Company failed to meet its 99.99% uptime guarantee in 7 out of 12 months;
- (3) The Company provided customers a highly unusual and punitive SLA that established an "exceptionally generous credit payout multiplier" of 100 times the cost of the lost service;
- (4) Due to service disruptions from its inability to sufficiently scale its platform, which triggered the punitive 100x provision, the Company's financial and operational results, including revenues and reputation, were significantly impacted;
- (5) The Company was paying out significant service credits to customers who did not experience service disruptions below the uptime guarantee threshold;
- (6) The Company was automatically paying significant amounts of service credits whether or not customers complained about the service outages or requested a refund or service credit;
- (7) The Company was rapidly losing market share to rivals such as Microsoft;

- (8) Microsoft Teams had already overtaken Slack as the market leader in the work collaboration space around the time of the Offering; and
- (9) The Company had difficulty scaling globally and expanding the paying enterprise customer base due to problems in maintaining and expanding its infrastructure.

12. As alleged herein, as a result of Defendants' wrongful acts and omissions, and the precipitous share price decline in Slack's common stock, Plaintiff and other Class (defined below) members have suffered and continue to suffer significant losses and damages.

JURISDICTION

13. The claims asserted herein arise under and pursuant to Sections 11, 12(a)(2), and 15 of the Securities Act (15 U.S.C. §§ 77k, 771(a)(2), and 77o, respectively).

14. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331 and Section 22 of the Securities Act (15 U.S.C. § 77v).

15. Venue is proper in this Judicial District pursuant to 28 U.S.C. § 1391(b). The Company's principal executive offices are in this District.

16. In connection with the acts, transactions, and conduct alleged herein, Defendants directly and indirectly used the means and instrumentalities of interstate commerce, including the United States mail, interstate telephone communications, and the facilities of a national securities exchange.

PARTIES

Plaintiff

17. Plaintiff purchased or otherwise acquired Slack common stock pursuant and/or traceable to the Offering Materials issued in connection with the Company's Offering, and suffered damages as a result of the federal securities law violations and false and/or misleading statements and/or material omissions alleged herein.

Defendants

18. Slack is incorporated under the laws of Delaware with its principal executive offices located in San Francisco, California. Shares of Slack's common stock are traded on the NYSE under the ticker symbol "WORK." Pursuant to the Securities Act, as an issuer and control person, Slack is strictly liable for the materially untrue and misleading statements incorporated into the Offering Materials.

19. Stewart Butterfield ("Butterfield") is, and was at the time of the Offering, the Company's Chief Executive Officer ("CEO") and Chairman of the Board of Directors (the "Board"). Butterfield co-founded Slack and is a central figure in the Company, participating in the review, approval, and making of the statements in the Offering Materials, including signing the Offering Materials. Additionally, Butterfield participated in the preparation and dissemination of the Offering's investor day and investor education meetings presentation, talking points and script. He also participated in making false and misleading statements during the investor day presentation. Butterfield was financially motivated to take the Company public. As part of the Offering, Butterfield sold 1,360,909 shares of Slack Class A common stock for gross proceeds of more than

\$53 million. To date, Butterfield has sold Slack Class A shares for gross proceeds of more than \$68.7 million. At the time of the Offering, Butterfield beneficially owned approximately 41.6 million Class B shares, giving him 8.4% of the voting power as the Class B shares are entitled to ten votes per share. Including shares subject to a voting proxy, Butterfield beneficially owned almost 88.6 million Class B shares, equaling 17.8% of the total voting power.

20. Allen Shim (“Shim”) is, and was at the time of the Offering, the Company’s Chief Financial Officer (“CFO”). Shim is and was responsible for Slack’s financial management strategy, which includes overseeing global operations, finance, accounting, corporate strategy, treasury, tax, investor relations, business analytics, and IT. He is a central figure in the Company, participating in the review, approval, and making of the statements in the Offering Materials, including signing the Offering Materials. Additionally, Shim participated in the preparation and dissemination of the Offering’s investor day and investor education meeting presentations, talking points and script. He also participated in making false and misleading statements during the investor day presentation. Shim was financially motivated to take the Company public. As part of the Offering, Shim sold 502,925 shares of the Company’s Class A common stock for gross proceeds of more than \$19.4 million. To date, Shim has sold Slack Class A shares for gross proceeds of more than \$22.6 million.

21. Brandon Zell (“Zell”) served as the Company’s Chief Accounting Officer at the time of the Offering. Zell was a central figure in the Company, participating in the review, approval, and making of the state-

ments in the Offering Materials and signing the Offering Materials. Zell was financially motivated to take the Company public. As part of the Offering, Zell sold 59,145 shares of the Company's Class A common stock for gross proceeds of more than \$2.3 million. To date, Zell has sold Slack Class A shares for gross proceeds of more than \$2.8 million.

22. Andrew Braccia ("Braccia") is, and was at the time of the Offering, a director on Slack's Board. Braccia primarily earns his income through his employment as a partner at the Accel venture capital firm (previously known as Accel Partners), which designated Braccia to the Slack Board and was one of Slack's largest shareholders prior to the Offering. As a director, Braccia participated in the review, approval, and making of the statements in the Offering Materials and signed the Offering Materials. Braccia was financially motivated to take the Company public due to his position at Accel, which sold 8.5 million shares of Slack Class A common stock for gross proceeds of more than \$329 million in the Offering. Braccia, through Accel and its related entities, controlled approximately 24% of the voting power at the time of the Offering through ownership of over 119 million shares of Slack's Class B common stock. *See also* ¶ 30.

23. Edith Cooper ("Cooper") is, and was at the time of the Offering, a director on Slack's Board. As a director, Cooper participated in the review, approval, and making of the statements in the Offering Materials and signed the Offering Materials. Cooper was financially motivated to take the Company public because Cooper beneficially owned over 273,000 Slack Class B shares prior to the Offering. Through conversions and exercising her options, Cooper held approximately 120,000 Slack Class A shares as of October 1,

2019, which can be converted and easily liquidated due to the Offering.

24. Sarah Friar (“Friar”) is, and was at the time of the Offering, a director on Slack’s Board. As a director, Friar participated in the review, approval, and making of the statements in the Offering Materials and signed the Offering Materials. Friar was financially motivated to take the Company public because, prior to the Offering, Friar beneficially owned over 406,000 Slack Class B shares, which can be converted and easily liquidated due to the Offering.

25. John O’Farrell (“O’Farrell”) is, and was at the time of the Offering, a director on Slack’s Board. O’Farrell primarily earns his income through his employment as a general partner at the Andreessen Horowitz venture capital firm, which designated O’Farrell to the Board and was one of Slack’s largest shareholders prior to the Offering. As a director, O’Farrell participated in the review, approval, and making of the statements in the Offering Materials and signed the Offering Materials. O’Farrell was financially motivated to take the Company public due to his position at Andreessen Horowitz, which sold 3 million shares of Slack Class A common stock for gross proceeds of approximately \$116 million. O’Farrell, through Andreessen Horowitz, controlled approximately 13.2% of the voting power at the time of the Offering through ownership of over 66 million shares of Slack’s Class B common stock. *See also* ¶ 31.

26. Chamath Palihapitiya (“Palihapitiya”) served as a director of the Board at the time of the Offering. Palihapitiya is the founder and CEO of Social Capital, which designated defendant Palihapitiya to the Board and was one of Slack’s largest shareholders prior to the Offering. As a director, Palihapitiya participated

in the review, approval, and making of the statements in the Offering Materials and signed the Offering Materials. Palihapitiya was financially motivated to take the Company public due to his position at Social Capital, which sold 1,017,067 shares of Slack Class A common stock for gross proceeds of more than \$39.6 million. Palihapitiya, through Social Capital and its related entities, controlled 10.1% of the voting power at the time of the Offering through ownership of over 50.8 million shares of Slack's Class B common stock. *See also* ¶ 32.

27. Graham Smith ("Smith") is, and was at the time of the Offering, a director on Slack's Board. As a director, Smith participated in the review, approval, and making of the statements in the Offering Materials and signed the Offering Materials. Smith was financially motivated to take the Company public because, prior to the Offering, Smith beneficially owned over 210,000 Slack Class B shares, which can be converted and easily liquidated due to the Offering.

28. Defendants Butterfield, Shim, Zell, Braccia, Copper, Friar, O'Farrell, Palihapitiya, and Smith are collectively referred to herein as the "Individual Defendants."

29. Slack and the Individual Defendants are referred to herein as "Defendants."

30. Defendants Accel Growth Fund IV Associates L.L.C., Accel Growth Fund Investors 2016 L.L.C., Accel Leaders Fund Associates L.L.C., Accel Leaders Fund Investors 2016 L.L.C., Accel X Associates L.L.C., Accel Investors 2009 L.L.C., Accel XI Associates L.L.C., Accel Investors 2013 L.L.C., and Accel Growth Fund III Associates L.L.C., along with defendant Braccia, is a part of the largest venture capital

stake in the Company and they beneficially owned, through entities they controlled (including, Accel Growth Fund IV L.P., Accel Growth Fund IV, Strategic Partners L.P., Accel Leaders Fund L.P., Accel X L.P., Accel X Strategic Partners L.P., Accel XI L.P., Accel XI Strategic Partners L.P., Accel Growth Fund III L.P., and Accel Growth Fund III Strategic Partners, L.P.) approximately 23.8% of the Company's Class B common stock supervoting shares at the time of the Offering.

31. Defendants AH Equity Partners I L.L.C. and Al6Z Seed-III LLC, along with defendant O'Farrell, is a part of the largest venture capital stake in the Company and they beneficially owned, through entities they controlled (including, Andreessen Horowitz Fund I L.P., Andreessen Horowitz Fund I L.P., Andreessen Horowitz Fund I-A L.P., Andreessen Horowitz Fund I-B L.P., AH Parallel Fund IV L.P., AH Parallel Fund IV-A L.P., AH Parallel Fund IV-B L.P., and AH Parallel Fund IV-Q L.P.) approximately 13.2% of the Company's Class B common stock supervoting shares at the time of the Offering.

32. Defendants Social+Capital Partnership GP II L.P., Social+Capital Partnership GP II Ltd., Social+Capital Partnership GP III L.P., Social+Capital Partnership GP III Ltd., Social+Capital Partnership Opportunities Fund GP L.P., and Social+Capital Partnership Opportunities Fund GP Ltd., along with defendant Palihapitiya, is a part of the largest venture capital stake in the Company and they beneficially owned, through entities they controlled (including, Social+Capital Partnership II L.P., Social+Capital Partnership III L.P., and Social+Capital Partnership Opportunities Fund, L.P.) approximately 10.1% of the

Company's Class B common stock supervoting shares at the time of the Offering.

33. Defendants O'Farrell, Braccia, Palihapitiya, Accel Growth Fund IV Associates L.L.C., Accel Growth Fund Investors 2016 L.L.C., Accel Leaders Fund Associates L.L.C., Accel Leaders Fund Investors 2016 L.L.C., Accel X Associates L.L.C., Accel Investors 2009 L.L.C., Accel XI Associates L.L.C., Accel Investors 2013 L.L.C., Accel Growth Fund III Associates L.L.C., AH Equity Partners I L.L.C., Al6Z Seed-III LLC, Social+Capital Partnership GP II L.P., Social+Capital Partnership GP II Ltd., Social+Capital Partnership GP III L.P., Social+Capital Partnership GP III Ltd., Social+Capital Partnership Opportunities Fund GP L.P., and Social+Capital Partnership Opportunities Fund GP Ltd. are collectively referred to herein as the "Venture Capital Defendants."

34. The Venture Capital Defendants, who collectively held more than 47% of the Company's voting power and included 3 members of the Board at the time of the Offering, effectively controlled Slack and caused Slack to effectuate the Offering. As controllers, the Venture Capital Defendants caused the Company to indemnify them from any liabilities arising from the Securities Act and the Securities Exchange Act of 1934, including negligent or intentional misrepresentation. Further, the Venture Capital Defendants also caused the Company to obtain and maintain a directors and officers insurance policy for them as long as they or their designees served on the Board. As a result of their control over the Company, which led to the Offering, the Venture Capital Defendants sold more than 12.5 million shares for gross proceeds of more than \$484 million.

35. Pursuant to the Securities Act, the Defendants are strictly liability for the materially untrue and misleading statements in or incorporated in the Offering Materials. By virtue of their positions with the Company, and/or as signers of the Offering Materials, each of the Defendants possessed the power and authority to control the contents of Slack's Offering Materials and any documents incorporated by reference therein and the contents of any Offering presentations or materials in connection with the sale of common stock in the Offering.

36. In the run-up to the Offering, the Defendants: (i) assisted in the preparation and presentation of materials designed to induce investment in the Company; and (ii) purportedly conducted adequate due diligence on the Company, including, *inter alia*, access to confidential corporate information concerning Slack's business operations unknown to the investing public.

37. The Defendants planned the Offering, determining, among other things: (i) the terms of the Offering; (ii) the strategy to best accomplish the Offering; (iii) the information to be included in the Offering Materials; and (iv) what responses would be made to the SEC in connection with its review of the Offering Materials.

CLASS ACTION ALLEGATIONS

38. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a class consisting of all persons and entities that purchased or otherwise acquired Slack common stock pursuant and/or traceable to the Offering Materials (the “Class”). Excluded from the Class are Defendants, the officers and directors of the Company at all relevant times, members of their immediate families and their legal representatives, heirs, successors, or assigns, and any entity in which Defendants have or had a controlling interest.

39. The members of the Class are so numerous that joinder of all members is impracticable. Following the Offering, Slack’s shares were actively traded on the NYSE. While the exact number of Class members is unknown to Plaintiff at this time and can only be ascertained through appropriate discovery, Plaintiff believes that there are at least thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by Slack or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

40. Plaintiff’s claims are typical of the claims of the Class as all members of the Class are similarly affected by Defendants’ wrongful conduct in violation of federal law that is complained of herein.

41. Plaintiff will fairly and adequately protect the interests of the Class and has retained counsel competent and experienced in class and securities litigation. Plaintiff has no interests antagonistic to or in conflict with those of the Class.

42. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- whether Defendants' acts violated the federal securities laws as alleged herein;
- whether the Offering Materials omitted and/or misrepresented material facts about the business, operations, and prospects of Slack; and
- to what extent the members of the Class have sustained damages and the proper measure of damages.

43. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation makes it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in managing this action as a class action.

SUBSTANTIVE ALLEGATIONS

Company Background

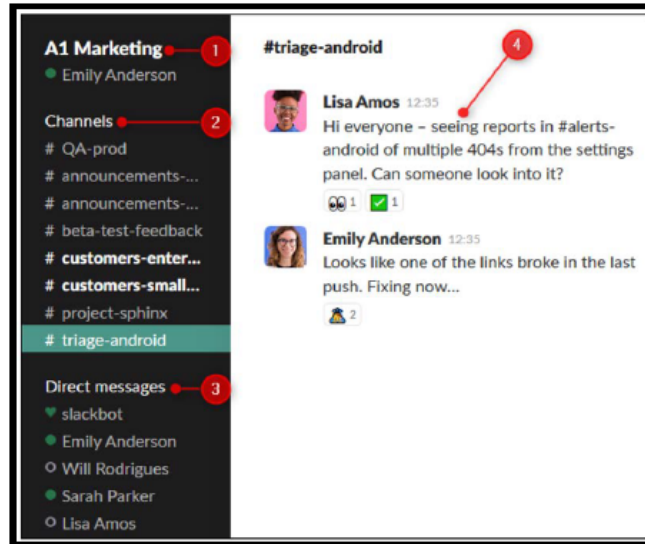
44. Slack is an international software company co-founded by Butterfield in 2009 in Vancouver, Canada. Slack has since incorporated itself in Delaware and moved its headquarters to San Francisco, California.

45. Slack was originally called Tiny Speck and focused on building a computer multiplayer online game. Butterfield, already known at the time for his

part in building Flickr, a photo-sharing service acquired by Yahoo! in 2005, drew interest from various venture capital funds and raised \$1.5 million in 2009 from Accel Partners, Marc Andreessen of Andreessen Horowitz, and other tech entrepreneurs and venture capitalists. In 2010, Slack raised another \$5 million from Accel Partners and Andreessen Horowitz, the largest shareholders of Slack prior to the Offering and each holding a seat on Slack's Board through defendants Braccia and O'Farrell, respectively.

46. Tiny Speck's first product was a computer game called *Glitch*. Originally scheduled for release in Spring 2011, *Glitch* launched on September 27, 2011. Tiny Speck announced that it would close *Glitch* on December 9, 2012.

47. After *Glitch* closed, the Company renamed itself Slack Technologies, Inc. and launched the Slack real-time collaboration app and platform (the "Slack App"), which it described as "a single place for messaging, tools and files." Essentially, the Slack App is an instant messaging system with add-ins for other workplace tools, providing users with a centralized information system and purporting to improve "communication and collaboration inside [] organization[s]." The add-ins are not necessary to use the Slack App, because the main functionality is communicating with other people. There are two methods of chat in the Slack App: channels (group chat) and direct message or DM (person-to-person chat).



48. Around the time Slack launched its collaboration platform in 2013, the Company raised \$17 million from Andreessen Horowitz, Accel Partners, and Social Capital, a firm run by defendant Palihapitiya. The Company continued to receive millions of dollars in funding from these venture capital firms, making them the largest shareholders of the Company.

49. The Company now has two primary offerings: Slack for Teams and Slack Enterprise Grid. Slack for Teams provides a collaboration platform designed for small to medium-sized businesses. Slack for Teams offers a multi-tiered subscription model, known in the subscription industry as “freemium,” which allows customers to use a limited version of the Slack App for free, but charges monthly fees for expanded services. Slack for Teams is offered in three tiers: (1) Free; (2) Standard; and (3) Plus. In the Free plan, customers pay \$0 per month but are restricted to “10K of your team’s most recent messages” and “10 third-party or

custom integrations.” In the Standard plan, customers pay a maximum of \$8 per month and message searches and integrations are unlimited. In the Plus plan, customers pay up to \$15 per month and get unlimited searches and integrations, as well as enterprise-level services such as single sign-on, compliance reporting, and *guaranteed uptime*.

50. Slack Enterprise Grid, on the other hand, was designed for large or complex organizations and includes all of the security and governance functionality required for running a large enterprise. Slack Enterprise Grid, which was launched in 2017, powers the design, usage, and administration of multiple interconnected Slack workspaces across an entire enterprise. In addition to features in Slack for Teams Plus plan, Slack Enterprise Grid offers support for third-party data loss prevention, eDiscovery, and offline backup providers; 24/7 support with 4-hour first response time (plus additional packages to suit the customer’s needs); security, compliance, billing, and integration management in a single view; designated account and customer success teams; and 1 TB (1,000 GB) of storage per member. Pricing for Slack Enterprise Grid varies depending on the number of people in the organization.

51. When the Slack App launched, there were no real competitors in the market due to the platform’s intuitive user-interface with both group and person-to-person messaging. The Slack App also had an invitation system that allowed companies to have a measure of control over who could use the platform.

52. In March 2017, Microsoft launched a collaboration application named Microsoft Teams. Initially, Microsoft Teams largely received negative criticism, because Teams required a subscription to Office 365—

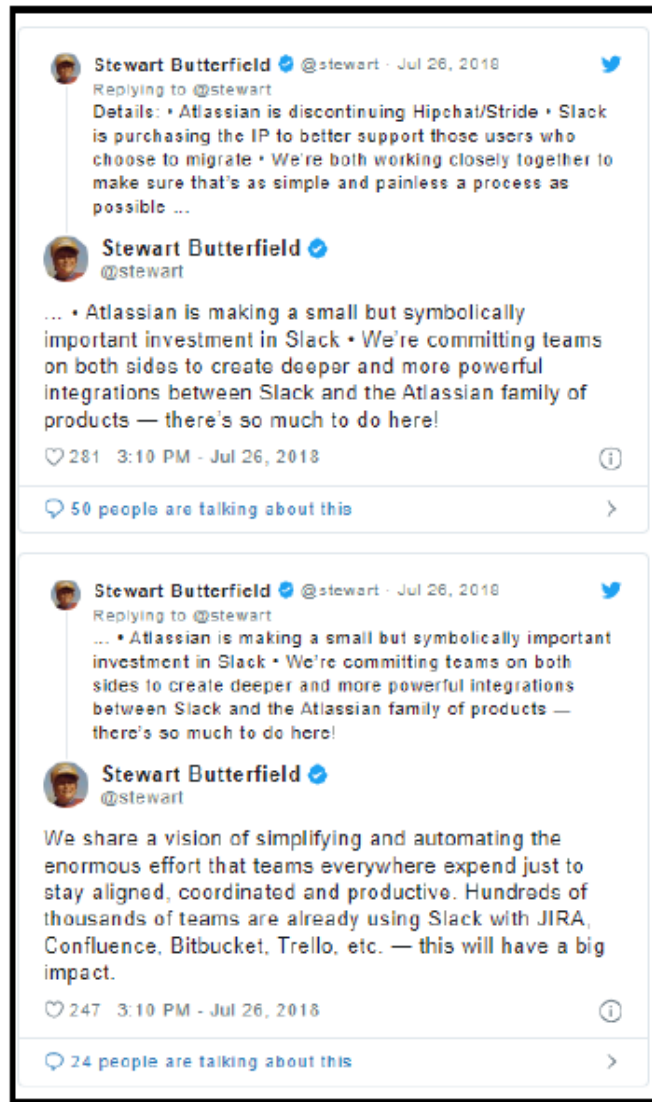
which (at the time) started at \$60 per user per year and cost \$240 per user per year if the full selection of Office programs was included. Further, Microsoft Teams initially did not allow adding people outside of an organization, leading *ZDNet's* Ed Bott to declare that for “small businesses, freelancers, and agile organizations, it’s a non-starter.” Microsoft added this feature a year later and introduced a free tier of Microsoft Teams in July 2018, to compete head-to-head with Slack’s freemium model.

53. Microsoft Teams, with its potential pool of almost 100 million Office 365-based users, was raising the stakes in the high-growth enterprise market. In response to this threat, Butterfield, known to be “media-shy,” sat down with *Business Insider* for an interview in 2017 to address competition from Microsoft Teams. In the interview, Butterfield acknowledged, “Microsoft is the main competitor. They’re the third largest company in the world and if they start channeling all their resources against you, that’s a lot to compete with.”³

54. In 2018, feeling pressure from Microsoft, Slack entered into a partnership with Atlassian, an Australian-based software company focused on team messaging. The Company purchased Atlassian’s intellectual property for team messaging and, in return, Atlassian discontinued its team collaboration apps, Hipchat and Stride.

³ Slack CEO Stewart Butterfield Discusses Microsoft, The Booming Nordics, And What’s Next For His \$5 Billion Company, *Business Insider*, (Dec. 10, 2017), available at: <https://www.businessinsider.com/slack-ceo-stewart-butterfield-discusses-microsoft-the-booming-nordics-and-whats-next-for-his-5-billion-company-2017-12>.

55. In connection with the partnership, on July 28, 2018, Butterfield announced publicly that the Company would work closely with Atlassian.



56. Similarly, in connection with the partnership, Atlassian stated, “Knowledge workers want best-in-

class tools to get their work done, which is why millions of people use both Atlassian and Slack. . . . This strategic partnership between us reinforces our commitment to interoperability and a customer-first philosophy. We believe this partnership is the best way to advance our mission to unleash the potential of every team. And it'll allow us to improve our focus in other areas, including expanding our offerings for technical and IT teams.”

57. Nevertheless, as *PCMag.com* reported, the reason for the partnership was clear: “If you can’t beat ’em, join ’em. . . . What went unsaid in both companies’ statements is that they’re partnering up to take on an even bigger competitor in Microsoft Teams.”⁴

58. Butterfield was correct to label Microsoft Teams as a fierce competitor. In comparing the Slack App and Microsoft Teams, *PCMag.com* noted a clear advantage of Microsoft Teams over the Slack App:

The stickers and GIFs are fun, but the first thing during our first Microsoft Teams demo that really stuck out as a business game-changer was the seamlessly integrated Microsoft Office 365 experience. Microsoft Teams brings every app in the cloud-based Microsoft Office 365 suite into Microsoft Teams in custom tab format.

If you click a particular team and select “Add Tab” on the top-right, you can add Microsoft

⁴ Slack’s Deal With Atlassian Means the End of Hipchat, Stride, *PCMag.com* (Jul. 26, 2018), available at: <https://www.pcmag.com/news/362741/slacks-deal-with-atlassian-means-the-end-of-hipchat-stride>.

Word, Excel, Meetings, Notes, OneNote, Planner, PowerPoint, SharePoint, and a host of other apps as associated tabs with that team, which essentially replicates the full functionality of the app without leaving Microsoft Teams.

When a team is created, a SharePoint directory is automatically provisioned behind the scenes with a folder representing every channel. From there, you can choose a file and open it up directly in Microsoft Word or Excel, or within that integrated Microsoft Office 365 tab directly in Microsoft Teams. This makes the content more searchable and easier to interact with than in Slack. While Slack's universal search is very powerful, its pinning capabilities can't quite match the Microsoft SharePoint file mapping for its ability to easily locate core or evergreen content your team needs to access regularly.

For a business intelligence tool such as Microsoft Power BI (Free at Microsoft in particular, you get the ability to tab over to Microsoft Power BI within your "Marketing" team and interact with real-time data visualizations. This is a huge productivity boon of the tab-based integration system Microsoft is using in Microsoft Teams (which we'll get to in greater detail in a minute).

Aside from the deep Microsoft Office 365 integration and using things such as Active Directory to tie in deeper intranet functionality, Microsoft also has an edge with its built-in video communication. Slack enables a number of great integrations to start voice and

video chats on the fly within the app. However, Microsoft built Skype into the fabric of Microsoft Teams.

A video icon next to a channel in the left-hand navigation means there's an open video meeting happening. If you click the team, then you can click the "Join the Conversation" box in the main feed to jump into the ongoing Skype conversation embedded in the feed. Microsoft Teams lets you schedule voice and video meetings with specific participants within a channel, and like Slack, offers 1:1 voice calling through the Microsoft Teams mobile app. Another minor channel-based improvement over Slack is, you don't have to enable an email integration. Every channel within Microsoft Teams has a dedicated email address people can use to forward emails directly to that channel.

There are also some newer meeting features including background blur, which removes distractions in the video feed during the meeting. Enhanced meeting recording in Teams lets users play back recorded footage or pull up a transcript powered by Microsoft Stream where you can search specific keywords.⁵

59. As to IT Controls and Compliance, key concerns for the lucrative enterprise customers, Microsoft Teams also edged out Slack:

⁵ Microsoft Teams vs. Slack: What's the Difference?, *PCMag.com* (Jan. 24, 2019), available at: <https://www.pcmag.com/article/349274/microsoft-teams-vs-slack-whats-the-difference>.

One area in which Microsoft aims to distinguish itself with Microsoft Teams is administrator controls and security. Microsoft Teams and Slack both encrypt data, messages, and files, in transit and at rest. They also both enforce team-wide and organization-wide two-factor authentication. Beyond that, Microsoft Teams also gives you deeper admin controls when paired with the Microsoft Office 365 Admin Center.

* * *

On the compliance front, Microsoft Teams and Slack are ISO 27001-compliant, but Microsoft adds a heap of other security and compliance certifications for Microsoft Teams, including ISO 27018, SSAE16 SOC 1 and SOC 2, HIPAA, and EU Model Clauses (EUMC). Files are stored in Microsoft SharePoint and are backed by Microsoft SharePoint encryption. Notes stored in Microsoft OneNote are backed by Microsoft OneNote encryption. Microsoft Teams also supports Cloud Security Alliance (CSA) compliance, and the IT department can gain even greater mobile device management (MDM) features by enabling a Microsoft Intune.⁶

60. With the fierce competition coming from Microsoft and others, Slack sought to grow the Company in the following ways: (1) investing in product design and user experience to increase the number of users; (2) increasing sales and marketing efforts to increase the number of new users and organizations, as well as users within organizations already on Slack, focusing

⁶ *Id.*

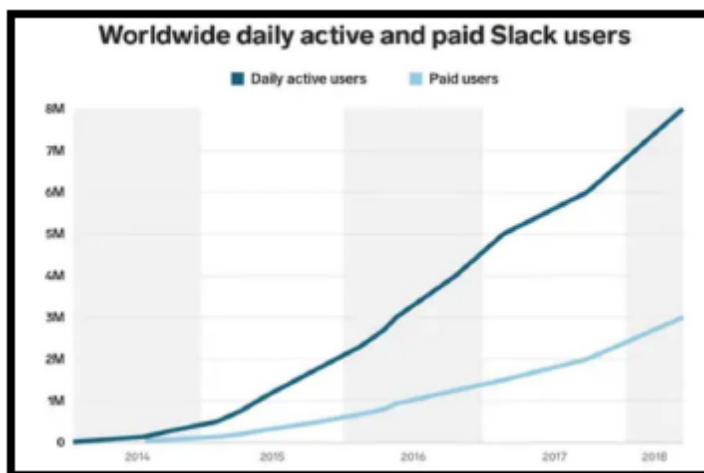
on greater adoption of Slack by large organizations; (3) increasing the number of paid customers through expansion of the Company's salesforce, customer success, and customer experience teams; and (4) increasing the number of active users across existing and new business networks through increased adoption of Slack's guest accounts and shared channels features and continued research and development efforts.

61. Particularly, leading up to the Offering, the Company aggressively pursued direct sales and go-to-market efforts for the Enterprise Grid, the higher revenue generating customers.

62. As part of aggressively pursuing enterprise customers, who tended to be larger, more technically adept organizations that depended on Slack and would be likely to increase spending over time, the Company sought to market its reliability of service. To entice enterprise customers, the Company included a 99.99% guaranteed uptime SLA to Slack for Teams Plus and Enterprise Grid customers.

63. Slack's SLA stood out from its competitors in several aspects: (1) while most competitors guaranteed uptime of three-nines (99.9%), Slack guaranteed four-nines (99.99%); (2) Slack would refund or credit 100 times what the customer would have paid during the downtime as opposed to the actual cost of service lost during the downtime; (3) Slack would pay the 100x refund/credit whenever the Slack App was down, regardless of specific customers experiencing downtime; and (4) Slack refunded or credited all eligible customers automatically regardless of the customer's request for refund or credit.

64. As a result of its growth plan, Slack experienced growth in DAUs, a key metric for growth, and paid users since its inception.



65. As of January 31, 2019, the Company had over 10 million DAUs, more than 500,000 organizations on its Free subscription plan and more than 88,000 Paid Customers (including more than 65 companies in the Fortune 100). As of April 30, 2019, Slack had more than 95,000 Paid Customers. According to the Offering Materials, Slack measured the number of Paid Customers with more than \$100,000 of annual recurring revenue (“ARR”), as a gauge of adoption within and expansion into large enterprises. As of April 30, 2019, the Company had 645 Paid Customers with more than \$100,000 of ARR, which accounted for approximately 43% of Slack’s revenue for the three months ended April 30, 2019.

Slack’s Direct Offering

66. On January 11, 2019, *Bloomberg* and *Reuters* reported that Slack was planning to forgo a traditional initial public offering (“IPO”) and instead was

intending to sell its shares to bidders in a direct listing.

67. Most companies opt for buzzy IPOs as a way of raising additional capital while also delivering a payday for prior shareholders. In an IPO, a company will offer a certain amount of new and/or existing shares to the public. For example, if a company has 100 shares, it might create 10 more shares that it sells for extra cash. The total amount of shares thus becomes 110. In selling these extra shares to investors, IPOs help raise additional capital for company operations and expansion.

68. In a traditional IPO, underwriters play a big role in marketing the company. Underwriters do the leg work of bringing in prospective suitors, including hosting “roadshows” that explain to investors why they should buy shares in the company.

69. On the other hand, in a direct listing, the company’s early investors and employees skip the middlemen by selling their shares directly to new investors once the company is listed. The company does not raise any cash.

70. Insiders, who often take shares during the early stages of a company may prefer a direct listing so they can quickly sell shares in the offering itself. In an IPO, early investors are typically subject to a “lock-up period” of 90 to 180 days where they cannot sell their shares. Here, the Individual Defendants and Venture Capital Defendants wanted to cash out their stake in the Company as soon as possible through a direct listing.

71. On February 1, 2019, Defendants filed a confidential Form DRS registration statement with the SEC. After the SEC’s feedback, Defendants filed a

Form S-1 registration statement with the SEC on April 26, 2019. Subsequently, Defendants filed amendments to the Form S-1 on May 13, 2019, May 20, 2019, and May 31, 2019 (as amended, the “Registration Statement”).

72. On May 13, 2019, Slack hosted an “investor day” in New York City to generate investor interest in the Offering, in which Butterfield and Shim repeated the same false and misleading statements made in the Offering Materials.⁷

73. The Individual Defendants and the Venture Capital Defendants wished to cash in their early investment and stake in the Company as soon as possible, so, on June 5, 2019, the Company and defendant Butterfield asked the SEC to accelerate the effective date of the Registration Statement, “acknowledge[ing] that [Slack] is aware of its responsibilities under the [Securities Act],” including its obligation under Section 11 of the Securities Act to ensure that the Registration Statement does not “contain[any] untrue statement of a material fact or omit[] to state a material fact required to be stated therein or necessary to make the statements therein not misleading.”

74. With Defendants’ assurances, the SEC declared the Registration Statement effective on June 7, 2019.

75. On June 20, 2019, Defendants filed a prospectus on Form 424B4 (the “Prospectus”) and began to sell Slack Class A common stock to the public. The

⁷ The full video of the May 13, 2019 investor day is available on YouTube at <https://www.youtube.com/watch?v=KHNQeFpsYdY>.

Company's Class A common stock shares began selling on the same day at \$38.50 per share.

The Company's False and/or Misleading Offering Materials

76. The Offering Materials were materially false and/or misleading in several aspects: (1) Slack's growth strategy and growth rate; (2) competition from Microsoft Teams and its impact on Slack's growth; (3) the Slack App's vulnerabilities resulting from the Company's attempt to grow revenue from enterprise customers; and (4) Slack's ability to meet its 99.99% uptime guarantee and credit award policy for service outages.

A. Misstatements Concerning Slack's Growth Strategy and Growth Rate

77. The Offering Materials touted the Company's "[d]ifferentiated go-to-market strategy." Slack described its "go-to-market" approach as a combination of a highly effective customer engagement model through customers' word-of-mouth engagement and a direct sales force driving successful adoption and expansion within larger organizations that had the potential to increase the number of users.

78. Slack implied that its go-to-market strategy was responsible for Slack's: (1) "rapid[]" growth; (2) high customer engagement; and (3) revenue growth and decreasing net losses from 2017 through 2019.

79. In a section in the Offering Materials describing the Company's business model, the Company stated:

From the outset, our go-to-market strategy has centered around offering an exceptional product and level of service to organizations on Slack. We offer a self-service approach, for both free and paid subscriptions to Slack, which capitalizes on strong word-of-mouth adoption and customer love for our brand. Since 2016, we have augmented our approach with a direct sales force and customer success professionals who are focused on driving successful adoption and expansion within organizations, whether on a free or paid subscription plan.

* * *

Our user base has grown rapidly since our launch in 2014. During the three months ended January 31, 2019, our daily active users exceeded 10 million. As of January 31, 2019, Slack had more than 600,000 organizations with three or more users, comprised of:

- More than 500,000 organizations on our Free subscription plan; and
- More than 88,000 Paid Customers, including more than 65 companies in the Fortune 100.

As of April 30, 2019, Slack had more than 95,000 Paid Customers. ***Many of these Paid Customers have thousands of active users and our largest Paid Customers have tens of thousands of employees using Slack on a daily basis.***

Our users, whether on a free or paid subscription plan, are highly engaged, and their collective active use of Slack for the

week ended January 31, 2019 exceeded 50 million hours. During the week ended January 31, 2019, more than 1 billion messages were sent in Slack During this same time, on a typical workday, users at Paid Customers averaged nine hours connected to Slack through at least one device and spent more than 90 minutes actively using Slack.

Our direct sales and customer success efforts are focused on larger organizations who have a greater number of users and teams and have the potential to increase spend over time. We measure the number of Paid Customers >\$100,000 of annual recurring revenue, or ARR, as a gauge of adoption within and expansion into large enterprises. As of January 31, 2019, we had 575 Paid Customers >\$100,000 of ARR, which accounted for approximately 40% of our revenue in fiscal year 2019. As of April 30, 2019, we had 645 Paid Customers >\$100,000 of ARR, which accounted for approximately 43% of our revenue in the three months ended April 30, 2019.

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

Our revenue was \$105.2 million, \$220.5 million, and \$400.6 million in fiscal years 2017, 2018, and 2019, respectively, representing annual growth of 110% and 82%, respectively. Our revenue was \$80.9 million and \$134.8 million for the three months ended

April 30, 2018 and 2019, respectively, representing year-over-year growth of 67%. Our growth is global with international revenue representing 34%, 34%, and 36% of total revenue in fiscal years 2017, 2018, and 2019, respectively, and 36% and 37% in the three months ended April 30, 2018 and 2019, respectively. ***We continue to invest in growing our business to capitalize on our market opportunity.*** As a result, we incurred net losses of \$146.9 million, \$140.1 million, and \$138.9 million in fiscal years 2017, 2018, and 2019, respectively. We incurred net losses of \$24.9 million and \$31.9 million in the three months ended April 30, 2018 and 2019, respectively. ***Our net losses have been decreasing as a percentage of revenue over time as revenue growth has outpaced the growth in operating expenses.***

Expansion within organizations on Slack is a significant contributor to our growth. We measure the rate of expansion within our Paid Customer base, both sales-driven and through organic growth, by Net Dollar Retention Rate. Our Net Dollar Retention Rate was 138% as of April 30, 2019. We believe that our Net Dollar Retention Rate is a reflection of the rapid pace of adoption that often occurs as usage spreads within and across teams. ***We believe that all of these factors will contribute to a high lifetime value of an organization on Slack.***

80. Following the discussion of the Company's business model and touting the Company's growth, high customer engagement, and improving financials,

Defendants again stressed the Company's go-to-market strategy, growth, and market leadership in the "What Sets Us Apart" section of the Offering Materials:

Scale and market leadership

The strength of our market leadership is demonstrated by the scale and growth of our users, the high level of engagement within our user base, our growth within organizations, the breadth of applications that integrate with Slack, and the size of our developer ecosystem.

Strong increasing returns dynamics

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

Customer love leading to stickiness and organic expansion

People love using Slack and many become advocates for wider use inside of their organizations. They also tend to recommend Slack when they switch jobs or join organizations that are not yet using Slack. ***This customer***

love is a source of growth that is exceptional in enterprise software.

Differentiated go-to-market strategy

Organic growth is generated as users realize the benefits of Slack This growth enables us to attract new and prospective organizations through a highly effective self-service customer engagement model for free and paid subscription plans. We complement our self-service strategy with a focused direct sales effort and our customer success teams work to broaden adoption of Slack into wider-scale deployments.

81. The Company also included a section in the Offering Materials titled “Growth Strategy,” purporting that Slack planned to “[g]row the number of organizations” and to “increase [its] paid customers.” The Growth Strategy section of the Offering Materials stated:

We intend to continue to grow by the following means:

Expand our user base through continuous enhancements to Slack

We will continue a relentless focus on product design and new user experience to reach more users and organizations.

Grow the number of organizations on Slack and increase our paid customers

We believe our market remains underpenetrated and we will continue to expand our

marketing and sales efforts to reach more users and organizations and to increase the number of paid customers.

Increase usage within organizations on Slack

We plan to continue to grow use and users within organizations on Slack by increasing our investments in our direct sales force, customer success, and customer experience teams, along with new user education initiatives.

Enable Slack usage across existing and new business networks

Slack's guest accounts and shared channels features facilitate secure collaboration between companies and we believe adoption of these features will grow significantly in the coming years. We expect the associated network effects will increase the value of Slack both for existing and new organizations on Slack and will be an important factor in our future growth.

Further invest in enterprise capabilities

We intend to increase investments in marketing, expand our field sales team, and continue to build product functionality in order to drive greater adoption of Slack by large organizations.

Invest in international expansion

We plan to open offices and hire sales and customer experience people in additional countries and expand our presence in countries where we already operate.

Grow our application platform and developer ecosystem

We will continue investing to expand the number of developers building applications that integrate with Slack and to make Slack work with an increasing number of third-party and internally developed custom applications.

82. The statements in ¶¶ 77-81 were materially false and/or misleading and omitted material facts at the time of the Offering because: (1) the Company's revenue growth was trending downward while marketing expenses were increasing due to increasing competition from Microsoft Teams; (2) the Slack App's reliability was compromised due to scaling its technology to meet enterprise-level customer needs; (3) the Company's financials were uniquely vulnerable due to its unique SLA which included an "exceptionally generous credit payout multiplier" of 100 times the price paid by the customer during the downtime, which the Company provided whether or not the customers were actually affected; and, (4) the Company's growth was slowing down in several aspects, including its key metric, DAUs.

B. Misstatements Concerning the Company's Competition

83. The Offering Materials identified Microsoft as the Company's primary competitor, along with Google, Cisco, and Facebook. Nevertheless, the Company only vaguely described the existing competition and downplayed the impact the potential competitors may have on the Company. Further, the Offering Materials misleadingly omitted the impact the competition, Microsoft in particular, was already having on

the Company's expansion into enterprise customers prior to the Offering.

84. In the Offering Materials, the Company included a section titled, "Competition," which stated:

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

needs, new market entrants, and frequent introductions of new products and services.

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

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

We believe that our product experience and product strategy, technological innovation, and company culture enable us to compete favorably on each of these factors.

We expect competition to increase as established and emerging companies continue to enter the markets we serve or attempt to address the problems Slack addresses, as customer requirements evolve and as new products, technologies, and regulations are introduced. Further, some of our competitors have longer operating histories, the ability to bundle a broader range of products and services, larger marketing budgets, access to larger existing user bases, and greater financial, technical, and other resources than we do. ***We believe, however, that we are uniquely posi-***

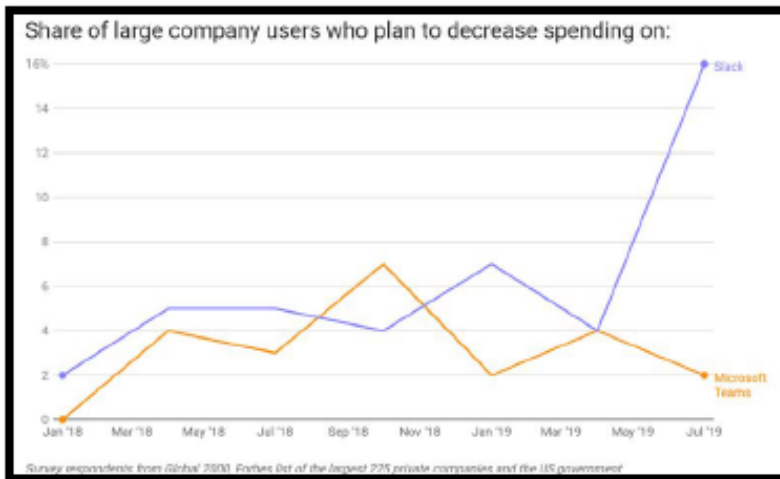
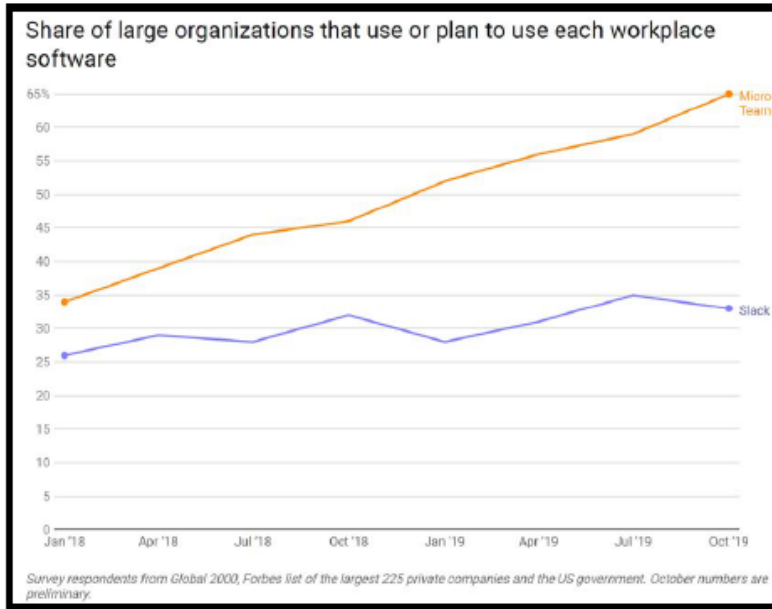
tioned to more rapidly innovate and respond to new technologies and customer requirements than our competitors.

85. The statements in ¶¶ 83-84 were materially false and/or misleading and omitted material facts at the time of the Offering because, as mentioned above in ¶¶ 52-59, the Company was already experiencing serious competition from Microsoft, which cut into the Company's ability to attract enterprise customers.

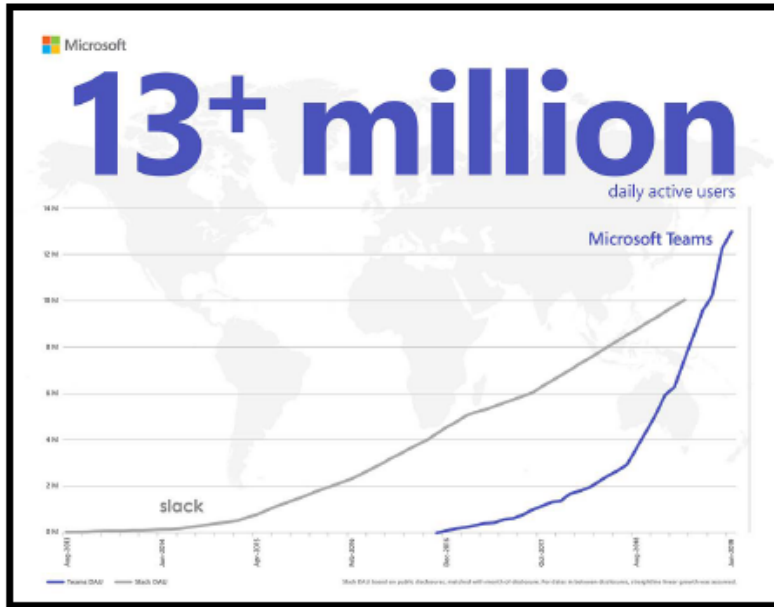
86. Further, shortly after the Offering, media outlets reported that Microsoft was already beating Slack at its own game. For example, *Vox* published an article on July 9, 2019 titled "Microsoft might crush Slack like Facebook crushed Snapchat," which stated that "Slack's market share among the world's largest companies is mostly flat, adoption rates are declining, and a bigger portion of these companies indicate they plan on leaving the service, according to a new survey by market research firm ETR, which asks chief information officers and other leaders at the world's biggest organizations where they plan to spend their company's tech budget."⁸

87. The *Vox* article also demonstrated the Company's stagnating growth as compared to Microsoft's growth in the following demonstrative charts:

⁸ Available at, <https://www.vox.com/2019/7/9/20686206/microsoft-teams-slack-facebook-snapchat-copy>.



88. Microsoft was also beating the Company in DAUs around the time of the offering. On July 11, 2019, Microsoft announced that Microsoft Teams reached 13 million DAUs, surpassing Slack’s 10 million DAUs.



89. In response to Microsoft’s announcement surpassing Slack, Butterfield went on the defensive in his next public appearance at the *Fortune* Brainstorm Tech conference held on July 15, 2019. At the conference, Butterfield quickly backtracked on the Company’s purported “market leadership” in the work collaboration sphere as stated in the Offering Materials and stated that “I think that it’s harder and harder, not because there’s anything wrong with Microsoft, because it’s hard for us at this point, given the size that we’re at—it’s hard to maintain a real focus on quality, on user experience, and the bigger you get, the harder it is. So if the competition was based on the quality of user experience, and that’s where all the effort is, that would probably be more daunting for us.”

90. Since the Offering, Microsoft Teams has continued to grow at a faster rate than Slack. On November 20, 2019, *MarketWatch* reported that “Microsoft

Teams, which grew 54% since July to more than 20 million daily active users, is on a trajectory to double Slack's customer base by early next year as more corporations adopt group chat. Last month, Slack said its daily active users improved 20% to 12 million from 10 million in late January."⁹

C. Misstatements Concerning the Slack App's Vulnerabilities

91. The Offering Materials included a section titled "Summary of Key Benefits," which stated:

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

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

⁹ Microsoft Teams is making Slack investors nervous with its growth, *MarketWatch* (Nov. 20, 2019), available at: <https://www.marketwatch.com/story/microsoft-teams-is-making-slack-investors-nervous-with-its-growth-2019-11-19?siteid=yhoof2&yptr=yahoo>.

transparency and breaks down silos. The organization benefits from increased coordination and alignment from a given amount of communication, with no additional effort in the form of status reports, update meetings, and so on.

- **Slack increases the value of existing software investment.** Integration with Slack increases both the accessibility of information inside applications and the response times for many basic actions. Because Slack users can do virtually everything on Slack on mobile that they can do on desktop, they do not need to have dozens of work applications on their mobile devices to be able to make lightweight use of those applications on the go.

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

* * *

- **Slack helps achieve organizational agility.** Slack's channels immerse workers

directly into the dynamic and evolving communication, decision making, and data flow that defines modern work. Because workers have both more access to data updated in real time and more context for that data, they are better able to quickly react and adjust work streams in response to new business priorities or changing conditions while staying in alignment with one another.

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

92. Additionally, the Offering Materials touted that the Company “ha[s] built [its] technology infrastructure using a distributed and *scalable architecture on a global scale.*”

93. Through the above statements in ¶¶ 91-92, in combination with other statements in the Offering Materials, Defendants implied that the Slack App was a market leader with unique advantages over its competitors and that the Company possessed the ability to scale up its services to reach more lucrative enterprise customers.

94. However, the statements in ¶¶ 91-92 were materially false and/or misleading and omitted mate-

rial facts at the time of the Offering because: (1) Microsoft Teams had already overtaken Slack as the market leader at the time of the Offering; (2) the Slack App's reliability was regularly below the promised 99.99% uptime; and (3) Slack was facing difficulty in scaling globally and attaining enterprise customers due to problems in maintaining and expanding its infrastructure as evidenced by the Slack App's widespread downtime.

D. Misstatements Concerning Slack's Uptime Guarantee

95. In a section titled "Risks Related to Our Business" in the Offering Materials, the Company included numerous generic, boilerplate, conditional, and purportedly hypothetical statements regarding its service commitment and potential service interruptions, including:

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

We have experienced, and expect to continue to experience, rapid growth, which has placed, and may continue to place, significant demands on our management and our operational and financial resources. For example, our headcount has grown from 716 employees as of January 31, 2017 to 1,664 employees as of April 30, 2019. We have established international offices, including offices in Australia, Canada, Ireland, India, Japan, and the United Kingdom, and we plan to continue to expand our international operations into other countries in the future. We have also experienced

significant growth in the number of users, organizations on Slack and integrations, and in the amount of data that Slack supports. Additionally, our organizational structure is becoming more complex as we scale our operational, financial and management controls as well as our reporting systems and procedures.

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

In addition, as we expand our business, it is important that we continue to maintain a high level of customer service and satisfaction. As our paid customer base continues to grow, we will need to expand our account management,

customer service and other personnel, our partners, our features, and our security offerings to provide personalized account management and customer service as well as personalized features, integrations and capabilities. ***If we are not able to continue to provide high levels of customer service, our reputation, as well as our business, results of operations, and financial condition, could be harmed.***

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

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

* * *

• ***security breaches, technical difficulties, or interruptions to Slack resulting in service level agreement credits;***

* * *

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

* * *

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

Our continued growth depends, in part, on the ability of existing and potential organizations on Slack to access Slack 24 hours a day, seven days a week, without interruption or degradation of performance. We have in the past and may in the future experience disruptions, data loss, outages, and other performance problems with our infrastructure due to a variety of factors, including infrastructure changes, introductions of new functionality, human or software errors, capacity constraints, denial-of-service attacks, ransomware attacks, or other security-related incidents. In some instances, we may not be able to identify the cause or causes of these performance problems immediately or in short order. ***We may not be able to maintain the level of service uptime and performance required by organizations on Slack, especially during peak usage times and as our user traffic and number of integrations increase.*** For example, we have experienced intermittent connectivity issues and product issues in the past, including those that have prevented many organizations on Slack and their users from accessing Slack for a period of time. If Slack is unavailable or if organizations are unable to access Slack within a reasonable amount of time, or at all, our business would be harmed.

Since organizations on Slack rely on Slack to communicate, collaborate, and access and complete their work, which in many cases includes entire organizations that complete substantially all of their work functions on Slack, any outage on Slack would impair the ability of organizations on Slack and their users to perform their work, which would negatively impact our brand, reputation, and customer satisfaction, and could give rise to legal liability under our service level agreements with paid customers.

Moreover, we depend on services from various third parties to maintain our infrastructure, including Amazon Web Services, or AWS. If a service provider fails to provide sufficient capacity to support Slack or otherwise experiences service outages, such failure could interrupt access to Slack by users and organizations, which could adversely affect their perception of Slack's reliability and our revenue and harm the businesses of organizations on Slack. Any disruptions in these services, including as a result of actions outside of our control, would significantly impact the continued performance of Slack. In the future, these services may not be available to us on commercially reasonable terms, or at all. Any loss of the right to use any of these services could result in decreased functionality of Slack until equivalent technology is either developed by us or, if available from another provider, is identified, obtained, and integrated into our infrastructure. If we do not accurately predict our infrastructure capacity requirements, organizations on Slack could experience service

shortfalls. We may also be unable to effectively address capacity constraints, upgrade our systems as needed, and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology.

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

* * *

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

Certain of our paid customer agreements contain service level agreements, under which we guarantee specified minimum availability of Slack. From time to time, we have granted credits to paid customers pursuant to the

terms of these agreements. We do not currently have any material liabilities accrued on our balance sheet for these commitments. Any failure of or disruption to our infrastructure could make Slack unavailable to organizations on Slack. ***If we are unable to meet the stated service level commitments to our paid customers or suffer extended periods of unavailability of Slack, we may be contractually obligated to provide affected paid customers with service credits for future subscriptions***, or paid customers ***could*** elect to terminate and receive refunds for prepaid amounts related to unused subscriptions. Our revenue, other results of operations, and financial condition ***could*** be harmed if we suffer unscheduled downtime that exceeds the service level commitments under our agreements with our paid customers, and any extended service outages ***could*** adversely affect our business and reputation as paid customers may elect not to renew and we could lose future sales.

96. The statements in ¶ 95 were materially false and/or misleading and omitted material facts at the time of the Offering because:

- (1) The Slack App was already suffering vulnerabilities that caused severe service disruptions and the Company could not support its promised uptime guarantee of 99.99%;
- (2) The Company's reliability problem was not merely hypothetical but a known issue to Defendants since in 2018 alone the

Company failed to meet its 99.99% uptime guarantee 7 out of 12 months;

- (3) The Company provided a highly unusual and punitive SLA, which established an “exceptionally generous credit payout multiplier” of 100 times the value of the lost service;
- (4) Due to service disruptions from its inability to sufficiently scale its platform that triggered the punitive 100x provision, the Company’s financial and operational results, including revenues and reputation, were significantly impacted;
- (5) The Company was paying out significant amounts of service credits to customers who did not experience service disruptions below the uptime guarantee threshold;
- (6) The Company was automatically paying out significant amounts of service credits whether or not customers complained about the service outages or requested a refund or service credit;
- (7) The Company was rapidly losing market share to rivals such as Microsoft;
- (8) Microsoft Teams had already overtaken Slack as the market leader in the work collaboration space around the time of the Offering; and
- (9) The Company had difficulty scaling globally and expanding the paying enterprise customer base due to problems in maintaining and expanding its infrastructure.

97. Further, pursuant to Item 303 of SEC Regulation S-K, 17 C.F.R. § 229.303 and the SEC's related Interpretative Releases thereto, issuers are required to disclose events or uncertainties, including any known trends, that have had or are reasonably likely to cause the registrant's financial information not to be indicative of future operating results. Defendants failed to sufficiently disclose events or uncertainties, including any known trends, as described in ¶ 96 above.

98. Additionally, Item 105 of SEC Regulation S-K, 17 C.F.R. § 229.105, required, in the "Risk Factors" section of the Offering Materials, a discussion of the most significant factors that make the Offering risky or speculative and that each risk factor adequately describe the risk. Defendants failed to adequately describe the risks as described in ¶ 96 above.

Events and Disclosures Following the Offering

99. On June 28, 2019, only about a week after the Offering, the Company's platform suffered outages affecting users across the United States and Europe. Customers reported on Twitter that messages were repeating and showing multiple times after being sent. One customer wrote, "Anyone else's @SlackHQ gone all echoey? People are sending things once but it's coming up 2-3 times." Other customers reported server errors and general outages. Some customers speculated whether the outage was connected to issues surrounding the Slack App's workspace analytics that were resolved a day prior.

100. Service was interrupted from 4:30 a.m. PDT to 7:20 p.m. PDT, approximately 15 hours, as explained by the Company's incident summary report:

On June 28, 2019 at 4:30 a.m. PDT some of our servers became unavailable, causing degraded performance in our job processing system. This resulted in delays or errors With features such [as] notifications, unfurls, and message posting.

At 1:05 pm. PDT, a separate issue increased server load and dropped a large number of user connections. Reconnection attempts further increased the server load, slowing down customer reconnection. Server capacity was freed up eventually, enabling all customers to reconnect by 1:36 pm. PDT.

Full service restoration was completed by 7:20 pm. PDT. During this period, customers faced delays or failure with a number of features including file uploads, notifications, search indexing, link unfurls, and reminders.

Now that service has been restored, the response team is continuing their investigation and working to calculate service interruption time as soon as possible. ***We're also working on preventive measures to ensure that this doesn't happen again in the future.*** If you're still running into any issues, please reach out to us at feedback@slack.com.

101. Following the service disruption, the Company issued a bulletin stating that a “fix ha[d] been rolled out and all features should be working normally.”

102. The June 28, 2019 service disruption was immediately picked up by various news outlets. For example, *Newsweek* reported that service outages were being experienced “around the world, including

Sweden, Russia, Argentina, Italy, Czech Republic, Ukraine and Croatia.”¹⁰ The *Newsweek* article also noted that Slack “suffered a major outage last year as messages could no longer be sent between users, sparking panic online.”

103. On this news, the Company’s stock dropped to \$36.55 per share on July 1, 2019, a 2.5% decline. The Company’s stock continued to suffer from the effects of the outage for the next several days, closing at \$35.00 per share on July 8, 2019.

104. On July 18, 2019, Slack reported that it would reset the passwords of tens of thousands of its customers due to a 2015 security incident where “unauthorized individuals gained access to some Slack infrastructure, including a database that stored user profile information including usernames and irreversibly encrypted, or ‘hashed,’ passwords.”

105. Following the news, Slack’s stock price dropped from a closing price of \$33.46 per share on July 17, 2019, to a closing price of \$32.00 on July 18, 2019, a decline of 4.36%.

106. In addition to the security issue, Slack continued to suffer from service outage issues. On July 29, 2019, despite the Company’s assurance that the Company had worked on “preventative measures to ensure that it doesn’t happen again,” the Slack App suffered another large-scale service outage which disrupted services for more than 2,000 users worldwide, with concentration in the United States, Japan, and

¹⁰ Slack Down: Work Chat App Suffers Global Outage And ‘Degraded Service’ As Messages Stop Working, *Newsweek* (Jun. 28, 2019), available at: <https://www.newsweek.com/slack-down-global-outage-messages-down-detector-united-states-europe-1446484>.

Europe. The customers complained that they could not access Slack before 8:00 a.m. PDT. The Company's stock price decreased by 1.3% following the news of the service outage.

107. At the same time Slack was suffering from the multiple service outages, Microsoft Teams surpassed Slack's DAU figures, hitting 13 million DAUs.¹¹ With Slack's stagnating growth and faltering reliability, the Company's stock continued to decline and researchers and analysts were beginning to link the declining stock price to increased competition from Microsoft and the service outages. For example, on August 7, 2019, Jeremy Bowman from *The Motley Fool* stated, "Shares gave up 11% in July, according to data from S&P Global Market Intelligence. The pull-back seemed to come as Microsoft (NASDAQ: MSFT) Teams, Slack's closest competitor, surpassed Slack in number of users, and the office-chat platform experienced a service outage for the second time in a month, casting doubts about its reliability."

108. On September 4, 2019, the Company reported disappointing second quarter fiscal 2020 results and issued guidance for the third quarter. In a press release discussing the quarterly results, the Company disclosed that, "Revenue was negatively impacted by \$8.2 million of credits related to service level disruptions in the quarter." The press release stated, in relevant part:

¹¹ See Jared Spataro, Microsoft teams reaches 13 million daily active users, introduces 4 new ways for teams to work better together, *Microsoft* (Jul. 11, 2019), available at: <https://www.microsoft.com/en-us/microsoft-365/blog/2019/07/11/microsoft-teams-reaches-13-million-daily-active-users-introduces-4-new-ways-for-teams-to-work-better-together>.

Management Commentary:

“This is an entirely new category of software enabling a once-in-a-generation shift in the way people work together. We believe channel-based collaboration is so superior to email-based communication for work, that this shift is inevitable,” said Stewart Butterfield, Chief Executive Officer and Co-Founder at Slack. “Customers are choosing Slack because *we offer a great user experience, a rich application platform and ecosystem, and a growing network for inter-company collaboration via shared channels.*”

“Revenue growth was 58% year-over-year, despite a one-time revenue headwind from credits issued in the quarter related to service level disruption,” said Allen Shim, Chief Financial Officer at Slack. “We remain focused on expansion within existing customers and growing our large enterprise customer base, and ended the quarter with 720 Paid Customers greater than \$100,000 in annual recurring revenue, which is up 75% year-over-year.”

Second Quarter Fiscal 2020 Financial Highlights:

- Total revenue was \$145.0 million, an increase of 58% year-over-year. *Revenue was negatively impacted by \$8.2 million of credits related to service level disruption in the quarter.*
- Calculated Billings was \$174.8 million, an increase of 52% year-over-year.

- GAAP gross profit was \$113.9 million, or 78.5% gross margin, compared to \$80.7 million, or 87.7% gross margin, in the second quarter of fiscal year 2019. Non-GAAP gross profit was \$126.3 million, or 87.1% gross margin, compared to \$80.7 million, or 87.7% gross margin, in the second quarter of fiscal year 2019.

- ***GAAP operating loss was \$363.7 million, or 251% of total revenue, compared to a \$33.7 million loss in the second quarter of fiscal year 2019, or 37% of total revenue.*** GAAP operating loss includes \$307.0 million of stock-based compensation and related employer payroll taxes, primarily related to the satisfaction of the performance vesting condition on outstanding RSUs in connection with Slack's direct listing on June 20, 2019. Non-GAAP operating loss was \$55.6 million, or 38% of total revenue, compared to a \$32.0 million loss in the second quarter of fiscal year 2019, or 35% of total revenue.

- GAAP net loss per basic and diluted share was \$0.98. Non-GAAP net loss per share was \$0.14.

- ***Net cash provided by operations was \$0.3 million, or 0% of total revenue, compared to cash provided by operations of \$1.5 million, or 2% of total revenue, for the second quarter fiscal year 2019.*** Free Cash Flow was \$(7.9) million, or 5% of total revenue, compared to \$(7.7) million, or 8% of

total revenue for the second quarter of fiscal year 2019.

* * *

Financial Outlook:

For the third quarter of fiscal year 2020, Slack currently expects:

- Total revenue of \$154 million to \$156 million, representing year-over-year growth of 46% to 48%.
- Non-GAAP operating loss of \$49 million to \$47 million.
- Non-GAAP net loss per share of \$0.09 to \$0.08, assuming weighted average shares outstanding of 544 million.

109. On the same day, the Company held a conference call to discuss its second quarter fiscal year 2020 results with investors and analysts. During the call, Shim elaborated on the impact of the Slack App’s service disruption and the effect of the Company’s “exceptionally generous credit payout multiplier” on the Company’s revenue:

Turning to Q2. Results reflect our ongoing progress in what we view as a generational shift from e-mail to messaging and channels. Total revenues in the second quarter were \$145 million, growing 58% year-over-year. ***Revenue growth was above the high end of guidance despite an \$8 million onetime revenue headwind from credits issued in the quarter related to service-level disruption in the quarter. Our uptime was 99.9% or 3 nines in the quarter. But this***

was below our commitment of 99.99% or 4 nines. Service-level disruption of this magnitude is unusual for us. Compounding the financial impact of the down time was an exceptionally generous credit payout multiplier, and our contracts dating from when we were a very young company. We've adjusted those terms to be more in line with industry standards while still remaining very customer friendly.

110. Analysts focused in on the service disruption right away. Leading the Q&A, a Goldman Sachs analyst asked "I don't think you guys mentioned specifically what caused the downtime, I was just wondering if you could share that with us."

111. In response, Butterfield *admitted* that the service disruption was partly caused by the Company's attempt at scaling the Company's services for its growing user load. Butterfield explained, "What caused it . . . the more *distant answer is scaling*. So we continue to hit limits that we didn't realize were built into the system. . . . And *we're still figuring some of those things out.*"

112. Butterfield also revealed the Company's "unusual" and "outrageously customer-centric" practice of distributing service credits *regardless of whether a customer was affected by the service outage and whether or not a customer complained or requested a credit* even though the outages only affected "1% or 0.5% or 3% of customers":

The last thing I want to note though, for the service credits, there is a bunch of things that we do with that are *unusual* besides what Allen mentioned, which is the payout ratio. One

is, *customers don't have to request it, we just proactively give it. And almost no outages, I don't know every detail for this quarter but almost no outages affect all customers, in fact most of them affect like 1% or 0.5% or 3% of customers in any given time. And we give those service credits to every customer even if they were not specifically affected.* So those policies are *outrageously customer-centric*, which is part of our background and our orientation. And that is one of the reasons you see that effect. *It's not necessarily proportionate to the outage, because if we had the same SLA as Salesforce or Microsoft or any of our peers in the industry, we wouldn't have paid out anything because we would have hit the 3 9 they're committed to, it's our 4 9 and the rest of the policies that make a difference.*

113. A KeyBanc analyst, following the Goldman Sachs's analyst question, appeared concerned about the \$8 million payment's "lingering impact" on the Company.

114. In response, Shim hesitantly admitted that the service credit was "more onetime nature," but it would cause "a headwind in billings for about \$5 million and that was reflected in our guidance."

115. Later in the Q&A session, a Citigroup Inc. analyst pointed out the Company's slowing growth:

I have a question probably best directed at Allen, and that's I've been assessing the billing growth patterns. And I just wanted to—I just

needed a little bit of help in contextualizing them. *Q1 to Q3 of last year, you grew billings pretty consistently around 70%, and then you had a very fabulous Q4, close to 100% year-over-year billings growth. And then that growth has since dropped to around 47% in Q1. And it hasn't really improved that much because this quarter, it was around 52%. And when I'm looking at the top end of your billings guidance for the full year, it implies on H2, you'll be growing around 45%.* And so given that you had a very good Q4 last year, what is the danger that you may be perceived as, say, a 30% billings grower by the end of the year, as we're ending the year.

116. Additionally, Slack's Form 10-Q filed on September 5, 2019 with the SEC disclosed that the Company's sales and marketing expenses were exponentially increasing as compared to the same period the year prior. For the second quarter of fiscal 2020, the Company expended ***approximately \$136.4 million in sales and marketing***, as compared to \$53.6 million during the same period in fiscal 2019.

117. Following the announcement of the fiscal second quarter 2020 results, numerous news outlets began expressing concern over the Company. Wall street analysts were likewise unimpressed with the Company's performance. For example, Mark Moerdler, an analyst at Bernstein Research called Slack's growth "anemic."

118. *MarketWatch* published an article on September 5, 2019 titled "Slack shares plunge 13% on weak earnings guidance" in which it stated, "***Growth remains a principle worry. Slack's revenue rose***

110% in fiscal years 2017-2018, but slowed to 82% in 2018-2019 and the company is now forecasting 51% in the current fiscal year. . . . The *MarketWatch* article also pointed out Microsoft’s transformation into the market leader in the work collaboration sphere:

A major obstacle to Slack’s growth is Microsoft Corp., which includes the Teams work chat app in Office 365 business subscriptions. In July, Microsoft released statistics suggesting Teams is more widely used than Slack, largely because of adoption among companies that use Microsoft productivity software.

Less than 1% of Slack’s customer base is comprised of customers that spend more than \$100,000 a year, according to Bloomberg Intelligence analyst Andrew Eisenson. Slack said it had 720 of those big spenders in the last quarter, up 75% year-over-year. The company surpassed 100,000 paid customers for the quarter.

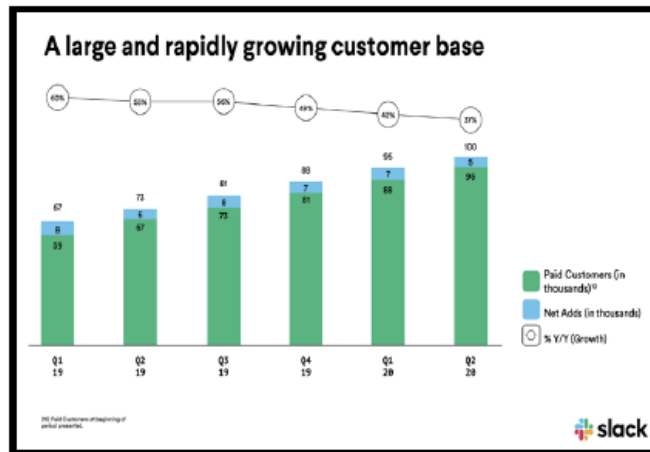
119. *SeekingAlpha.com* contributor Stone Fox Capital reported on Slack’s “decelerating metrics” in a September 5, 2019 article titled “Slack: Wheels Just Off,” stating, in relevant part:

Decelerating Metrics

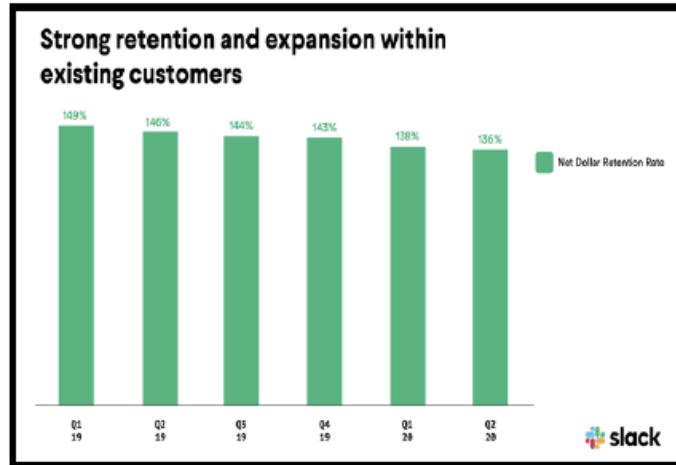
No other metric kills a highly priced IPO than metrics pointing towards decelerating growth. So, despite beating FQ2 revenue estimates by \$3.7 million, ***the company only reported 57.5% growth for the quarter. The company had growth rates in the mid-60% range in FQ1.***

The bigger issue is all of the trends that drive future growth are all decelerating.

The customer base hit 100,000 for only 37% growth YoY. Last FQ2, the customers were at 73,000 for 55% growth. The growth rate has dipped at least 500 bps per quarter for three quarters now.



The net retention rate is another metric facing constant deceleration. Slack saw FQ2'20 net dollar retention at 136%, down from 146% in the same period last year. The number is still impressive, but a lower retention rate will naturally reduce growth rates.



* * *

Considering the reasonable expectations that the decelerating revenue growth holds according to projections, the company just can't guide to an operating loss of up to \$180 million for the year and retain lofty valuation multiples. ***Large losses are best supported by accelerating or at least stable revenue growth.***

At the least, ***the numbers are enough to concern investors that the competitive Microsoft (MSFT) Teams collaboration app is cutting into growth rates. The tech giant recently reported 13 million DAUs to top the amount claimed by Slack.***

120. Also on September 5, 2019, Jonathan Dame from *TechTarget* reported that while Slack had changed its SLAs since the June and July 2019 service outages, the previous "exceptionally generous" credit

multiplier was “**worth 100 times what each customer paid for the service.**”¹² Dame reported, based on comparing Slack’s then-current policy to a version of the document from May 2019:

[Slack] will no longer pay every customer regardless of whether they were affected by an outage. Plus Slack will average uptimes over each fiscal quarter, rather than issuing credits each month.

Slack also reduced its payout ratio. ***It used to provide credits worth 100 times what each customer paid for the service during the time Slack was inaccessible.*** Moving forward, the credits will be worth 10 times that cost. As before, the promise applies to customers on Plus and Enterprise Grid subscription plans.

121. Furthermore, contrary to defendant Shim’s claim that the magnitude of the June and July 2019 service level disruptions were “unusual,” Jordon Novet of *CNBC* was quick to point out that, “In 2017, Slack’s uptime was below the key 99.99% level for seven out 12 months,” adding “[i]f Slack does not get its outage problem under control, customers could defect to competing services, like Microsoft’s Teams.”¹³

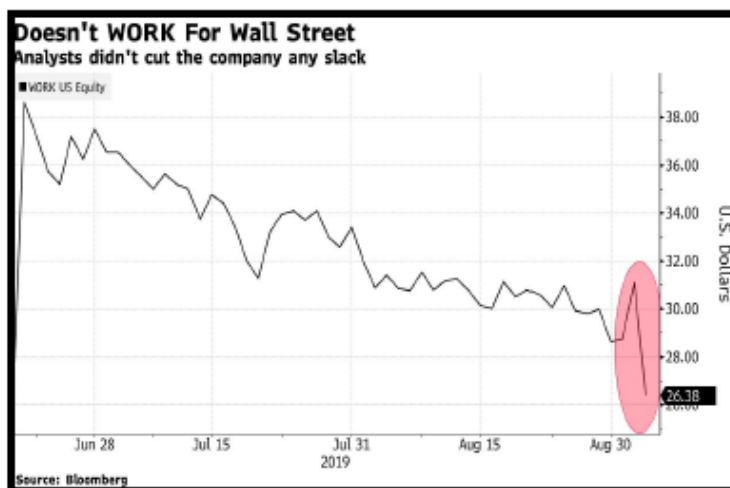
¹² Slack Waters Down Cloud SLA After \$8.2 Million Payout, *TechTarget* (Sep. 5, 2019), available at: <https://searchunified-communications.techtarget.com/news/252470248/Slack-waters-down-cloud-SLA-after-82-million-payout>.

¹³ Slack asks investors to trust that outage costs were a ‘one-time’ issue, *CNBC* (Sep. 5, 2019), available at: <https://www.cnb.com/2019/09/05/slack-says-in-q2-earnings-that-outage-costs-were-one-time-issue.html>.

122. On this news, the price of the Company's stock plummeted to \$27.38 per share on September 6, 2019, which represented an **almost 12%** decrease as compared to the stock price on September 4, 2019 of \$31.07 per share. The share price continued to decrease another 8.98% the next trading day, September 9, 2019, closing at \$24.92 per share.

123. *Bloomberg's* Ryan Vlastelica noted Slack's sinking stock price on September 5, 2019, stating in a report titled "Slack Hits Record After First Report Gives Tepid Outlook," that Slack's shares "sank as much as 16% in its biggest intraday percentage drop ever." The report continued, stating, in relevant part:

The decline took the company, which went public in June, to a new low. Shares have dropped more than 30% from their record closing high.



124. *SeekingAlpha.com* contributor Gary Alexander published an article on September 9, 2019, titled "Slack: Overfull Valuation Taking Its Toll," stating, in relevant part:

Slack's (WORK) public debut was all the rage earlier this year, but barely one quarter into its existence as a public company, the once-proud unicorn is tanking. Slack has ***shed more than \$5 billion in market value since it went public in a direct listing in late June***, falling in a consistent down-trend and following the trajectory of other highly-anticipated IPOs like Uber (UBER) and Lyft (LYFT). Losses were aggravated after the company released a dismal Q2 earnings report, and now Slack is back near the \$26 "reference price" that it set immediately prior to its public debut.

* * *

The question for investors now: is Slack a "buy the dip" situation, or does the stock have further to fall? In my view, it's the latter. Slack benefited from a lot of hype going into its IPO, selling a compelling story that Slack was disrupting the future of work-based communication. ***In reality, Slack is up against a slew of competitors from the likes of Microsoft Teams (MSF1) and Microsoft Skype, various workflow/collaboration tools like Atlassian (TEAM), new entrant Workplace by Facebook (FB), as well as old-fashioned email and text chains.***

Slack's furious growth rates in its S-1 filing were something of a "teaser rate." In FY19, Slack's revenues grew at a compelling 88% y/y rate. In Q1, that fell to 67% y/y, and now in Q2, Slack's growth rate has crumbled to 57% y/y. Of course, a >50% y/y growth rate

still classifies Slack as a “high-growth” company, but this level of growth is already well-priced into Slack’s buoyant valuation.

At present share prices around \$27, Slack still trades at a hefty market cap of \$13.81 billion. After netting out the \$841.4 million of cash on Slack’s balance sheet, the company is left with an enterprise value of \$12.97 billion. This represents a generous multiple of 21.4x EV/FY20 expected revenues based on the midpoint of Slack’s updated revenue guidance of \$603-\$610 million (representing 51-52% y/y growth, and a slight uptick versus a prior midpoint outlook of \$595 million or 49% y/y growth)[.]

* * *

Very few companies are worth paying >20x forward revenues for, and certainly not companies that are facing such heightened deceleration risks. Slack’s huge losses are another significant problem—on a pro forma basis, even after stripping out the impacts of Slack’s substantial stock compensation to executives, Slack’s operating losses nearly doubled this quarter, growing at a faster pace than revenue growth.

* * *

Key takeaways

Slack’s disappointing growth is a reflection of the hyper-competitive nature of its product niche. A plethora of companies are competing in the work communication space, and though Slack enjoys plenty of support from Silicon Valley

startups, offerings like Microsoft Teams—with its native connection to Microsoft Office applications and workflows—may make more sense for customers that are already deeply embedded into the Microsoft ecosystem. Slack’s significant service downtime in Q2—and the potential ripple effects that may have had on customer retention—is another red flag.

125. Slack’s share price has continued to decline, falling as low as \$19.53 per share and at the time of this Complaint, trading in the \$22 per share range, *approximately 42% below the Offering price* of \$38.50.

CAUSES OF ACTION

COUNT I

For Violations of Section 11 of the Securities Act (Against the Company and the Individual Defendants)

126. Plaintiff repeats and re-alleges each and every allegation contained above as if fully set forth herein.

127. This Count is brought pursuant to Section 11 of the Securities Act, 15 U.S.C. § 77k, on behalf of Plaintiff and other members the Class, against the Company and the Individual Defendants.

128. This Count does not sound in fraud. Plaintiff does not allege that the Company or the Individual Defendants committed intentional or reckless misconduct or that the Company or the Individual Defendants acted with scienter of fraudulent intent, which are not elements of a Section 11 claim.

129. The Offering Materials for the Offering was inaccurate and misleading, contained untrue statements of material facts, omitted to state other facts necessary to make the statements made not misleading, and omitted to state material facts required to be stated therein.

130. Slack is the issuer of the securities purchased by Plaintiff and the other members of the Class. As such, the Company is strictly liable for the materially untrue statements contained in the Offering Materials and the failure of the Offering Materials to be complete and accurate.

131. The Individual Defendants each signed the Offering Materials. As such, each is strictly liable for the materially inaccurate statements contained therein and the failure of the Offering Materials to be complete and accurate, unless they are able to carry their burden of establishing an affirmative “due diligence” defense. The Individual Defendants named herein were responsible for the contents and dissemination of the Offering Materials, which were inaccurate and misleading, contained untrue statements of material facts, omitted facts necessary to make the statements made there in not misleading, and omitted to state material facts required to be stated therein. The Individual Defendants each had a duty to make a reasonable and diligent investigation of the truthfulness and accuracy of the statements contained in the Offering Materials and ensure that they were true and accurate and not misleading. In the exercise of reasonable care, the Individual Defendants should have known of the material misstatements and omissions contained in the Offering Materials. Accordingly, the Individual Defendants are liable to Plaintiff and the other members of the Class.

132. By reasons of the conduct alleged herein, each of the Company and the Individual Defendants violated, and/or controlled a person who violated, Section 11 of the Securities Act.

133. Plaintiff and the other members of the Class acquired Slack common stock pursuant and/or traceable to the Offering Materials and without knowledge of the untruths and/or omissions alleged herein.

134. Plaintiff and the other members of the Class have sustained damages, as the value of Slack's common stock has declined substantially below the Offering price and is below the price the Plaintiff and the other members of the Class paid for their Slack common stock due to the material misstatements and omissions in the Offering Materials.

135. This claim was brought within one year after the discovery of the untrue statements and omissions and within three years of the date of the Offering.

136. By virtue of the foregoing, Plaintiff and the other members of the Class are entitled to damages under Section 11, as measured by the provisions of Section 11(e), from the Company and the Individual Defendants and each of them, jointly and severally.

137. This claim is brought within three years from the time that the shares upon this Count is brought were sold to the public, and within one year from the time when Plaintiffs discovered or reasonably could have discovered the facts upon which this Count is based.

COUNT II**For Violations of Section 12(a)(2) of the
Securities Act
(Against the Company and the
Individual Defendants)**

138. Plaintiff repeats and re-alleges each and every allegation contained above as if fully set forth herein.

139. This Count is brought pursuant to Section 12(a)(2) of the Securities Act, 15 U.S.C. § 771(a)(2), on behalf of the Class, against each of the Company and the Individual Defendants.

140. This Count does not sound in fraud. The Company and the Individual Defendants were sellers, offerors, and/or solicitors of purchasers of the Company's Class A common stock offered pursuant to the Offering. The Offering Materials were used to induce investors, such as Plaintiff and the other members of the Class, to purchase the Company's shares in the Offering.

141. The Offering Materials contained untrue statements of material facts, omitted to state other facts necessary to make the statements made therein not misleading, and omitted to state material facts required to be stated therein. The Company's and the Individual Defendants' acts of solicitation included participating in the preparation of the false and misleading Offering Materials.

142. The Company and the Individual Defendants owed Plaintiff, and the other members of the Class, the duty to make a reasonable and diligent investigation of the statements contained in the Offering Materials to ensure that such statements were

true and that there was no omission to state a material fact required to be stated in order to make the statements contained therein not misleading. Neither the Company nor and the Individual Defendants made a reasonable investigation or possessed reasonable grounds for the belief that the statements contained in the Offering Materials were accurate and complete in material respects. Had they done so, the Company and the Individual Defendants would have known of the material misstatements and omissions alleged herein.

143. Plaintiff and other Class members did not know, nor in the exercise of reasonable diligence could have known, of the material untruths and omissions contained in the Offering Materials.

144. By reason of the conduct alleged herein, the Company and the Individual Defendants violated Section 12(a)(2) of the Securities Act.

145. As a direct and proximate result of such violations, Plaintiff and the other members of the Class who purchased Slack common stock pursuant to the Offering Materials sustained substantial damages in connection with their purchases of stock.

146. This claim is brought within three years from the time that the shares upon this Count is brought were sold to the public, and within one year from the time when Plaintiffs discovered or reasonably could have discovered the facts upon which this Count is based.

COUNT III**For Violations of Section 15 of the
Securities Act
(Against the Individual Defendants and the
Venture Capital Defendants)**

147. Plaintiff repeats and re-alleges each and every allegation contained above as if fully set forth herein.

148. This Count is brought pursuant to Section 15 of the Securities Act, 15 U.S.C. § 77o, on behalf of Plaintiff and the other members of the Class, against the Individual Defendants and the Venture Capital Defendants.

149. This Count does not sound in fraud. Plaintiff does not allege that any of the Individual Defendants and the Venture Capital Defendants committed intentional or reckless misconduct or that any of the Individual Defendants and the Venture Capital Defendants acted with scienter of fraudulent intent, which are not elements of a Section 15 claim.

150. The Individual Defendants were controlling persons of the Company within the meaning of Section 15 of the Securities Act. By reason of their ownership interest in, senior management positions at, and/or directorships held at the Company, as alleged above, the Individual Defendants invested in, individually and collectively, had the power to influence, and did in fact exercise control over the Company to cause it to engage in the conduct complained of herein.

151. The Individual Defendants were each a culpable participant in the violations of Section 11 of the Securities Act alleged in the first Count above, based on their having signed the Offering Materials and

having otherwise participated in the process which allowed the Offering to be successfully completed.

152. The Venture Capital Defendants each had the ability to influence the policies and management of the Company at all relevant times by their control over the Company through Class B super voting common stock, pre-Offering agreements, and through their designated directors of the Board. The Venture Capital Defendants also had a financial interest in taking the Company public and were critical to effectuating the Offering.

153. By reason of such wrongful conduct, the Individual Defendants and the Venture Capital Defendants are liable pursuant to Section 15 of the Securities Act. As a direct and proximate result of said wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their purchase or acquisition of Slack common stock.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff prays for judgment as follows:

A. Determining that the instant action may be maintained as a class action under Rule 23 of the Federal Rules of Civil Procedure, and certifying Lead Plaintiff as the Class representative;

B. Awarding compensatory damages in favor of Plaintiff and the other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be proven at trial;

C. Awarding Plaintiff and the members of the Class rescission, disgorgement, and all other remedies in equity or in law pursuant to the Securities Act;

D. Awarding Plaintiff and the other members of the Class prejudgment and post-judgment interest, as well as their reasonable attorneys' fees with interest, expert fees, and other costs; and

E. Awarding such other and further relief as the Court deems just and proper.

JURY TRIAL DEMANDED

Plaintiff hereby demands a trial by jury.

DATED: January 6, 2020.

Respectfully submitted,

BRAGAR EAGEL & SQUIRE, P.C.

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