

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

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2021

OR

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

For the transition period from to  
Commission file number 001-41026

**BACKBLAZE, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)  
**500 Ben Franklin Ct  
San Mateo, CA**  
(Address of Principal Executive Offices)

**20-8893125**  
(I.R.S. Employer  
Identification No.)  
**94401**  
(Zip Code)

**(650) 352-3738**

Registrant's telephone number, including area code

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, \$0.0001 par value per share	BLZE	The Nasdaq Stock Market LLC

Securities registered pursuant to section 12(g) of the Act:

None.

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

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

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

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

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

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

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

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

issued its audit report.

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

The aggregate market value of voting stock held by non-affiliates of the Registrant on November 11, 2021 based on the closing price of \$19.90 for shares of the Registrant's Class A common stock as reported by the Nasdaq Stock Market LLC, was approximately \$140 million. The Registrant has elected to use November 11, 2021 as the calculation date, which was the initial trading date of the registrant's Class A common stock on the Nasdaq Global Select Market, because on June 30, 2021 (the last business day of the Registrant's second fiscal quarter), the Registrant was a privately-held company. Shares of Class A common stock held by each executive officer, director, and holder of 5% or more of the Class A outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 28, 2022, 8.5 million shares of the registrant's Class A common stock were outstanding, and 22.1 million shares of registrant's Class B common stock were outstanding.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the information called for by Part III of this Annual Report on Form 10-K is hereby incorporated by reference from the definitive proxy statement for the Registrant's 2022 annual meeting of stockholders, which will be filed with the Securities and Exchange Commission not later than 120 days after the registrant's fiscal year ended December 31, 2021.

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. All statements other than statements of historical facts contained in this Annual Report on Form 10-K, including statements regarding our future results of operations or financial condition, business strategy and plans and objectives of management for future operations, are forward-looking statements. These statements involve known and unknown risks, uncertainties, and other important factors that are in some cases beyond our control and may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as “anticipate,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “will” or “would” or the negative of these words or other similar terms or expressions. These forward-looking statements include, but are not limited to, statements concerning the following:

- our ability to sell our platform offerings to new customers;
- our ability to retain and expand use of our platform by our existing customers;
- our ability to effectively manage our growth;
- our ability to successfully obtain timely returns on our investments in initiatives relating to sales and marketing, research and development, and other areas;
- our ability to maintain our competitive advantages;
- our ability to maintain and expand our partner ecosystem;
- our ability to maintain the security of our platform and the security and privacy of customer data;
- our ability to successfully expand in our existing markets and into new markets;
- the size and growth of our estimated total addressable market;
- the attraction and retention of qualified employees and key personnel;
- our ability to successfully defend litigation brought against us;
- the impact of the COVID-19 pandemic and other disruptive events on our business or that of our customers, partners, and supply chain;
- our ability to successfully remediate and prevent material weaknesses in internal controls over financial reporting; and
- the increased expenses associated with being a public company.

You should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Annual Report on Form 10-K primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition and operating results. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described in the section titled “Risk Factors” and elsewhere in this Annual Report on Form 10-K. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Annual Report on Form 10-K. The results, events and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this Annual Report on Form 10-K. While we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

The forward-looking statements made in this Annual Report on Form 10-K relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Annual Report on Form 10-K to reflect events or circumstances after the date of this Annual Report on Form 10-K or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments.

## Part I

### Item 1. Business

We are a leading storage cloud platform, providing businesses and consumers cloud services to store, use, and protect their data in an easy and affordable manner. We provide these cloud services through a purpose-built, web-scale software infrastructure built on commodity hardware. From genome sequencing to mapping the world, from saving lives to playing online games, from interacting with a business to running one, data is central to modern existence. By substantially reducing the complexity and frustration of storing, using, and protecting data, we help empower customers to focus on their core business operations. Through our blog and culture of transparency, we have built a community of millions of readers and brand advocates. Referrals from our community of brand advocates, combined with our efficient and primarily self-serve customer acquisition model and an ecosystem of thousands of partners, have allowed us to attract approximately 500,000 customers as of December 31, 2021. These customers use the Backblaze Storage Cloud platform across more than 175 countries to grow and protect their business data on our approximately 2 exabytes, or 2 trillion megabytes, of data storage under management. As businesses and consumers shift to the cloud, our goal is that our cloud services will increasingly become a foundational element of their overall technology stack.

At its founding, Backblaze set out to simplify the process of storing, using, and protecting data. Over the following years we focused relentlessly on cutting away the complexity common among diversified cloud vendors' services and legacy on-premises system vendors. Today, we believe our solutions are differentiated by their ease of use and affordability. We believe that focusing on storage use cases and promoting an open ecosystem helps position us to integrate well with a broad range of partners. From our straightforward pricing model, to our transparent communication with customers, to the popular and insightful content on our blog—we believe we have established ourselves as an open and trusted provider and partner.

The Backblaze Storage Cloud organizes, safeguards, and keeps over 500 billion files available on demand and is designed to handle much more in the future. Through our purpose-built software that manages our global physical infrastructure, we provide a platform that we believe is durable, scalable, performant, and secure. Our two cloud services that we offer on our Storage Cloud are:

- **Backblaze B2 Cloud Storage:** Enables customers to store data, developers to build applications, and partners to expand their use cases. The amount of data stored in this cloud service can scale up and down as needed on a pay-as-you-go basis. This service is offered as consumption-based Infrastructure-as-a-Service (IaaS) and serves use cases including backups, multi-cloud, application development, and ransomware protection.
- **Backblaze Computer Backup:** Automatically backs up data from laptops and desktops for businesses and individuals. This cloud backup service offers easily understood flat-rate pricing to continuously back up a virtually unlimited amount of data. This service is offered as a subscription-based Software-as-a-Service (SaaS) and serves use cases including computer backup, ransomware protection, theft and loss protection, and remote access.

Our solutions are designed for individuals and businesses of all sizes and across all industries but have a particularly strong appeal to mid-market organizations (which we define as organizations with 10 to 999 employees) due to their desire for easy-to-use and cost-effective solutions.

We have a go-to-market model that was primarily built on a self-serve selling motion. Prospective customers find us through a variety of channels including our website, partners, and brand advocates. We have fostered community engagement with content we share on our blog—in 2021 alone, millions of readers consumed content that we shared there. Our free trial and self-serve sign-up processes help convert our blog readers and referrals from our brand advocates into customers, with over 80% of our revenue in 2021 coming from self-serve customers. Our developer, alliance, and managed service provider (MSP) partners help expand use cases and attract customers, thereby increasing usage of our Storage Cloud. In addition to our self-serve selling motion, we have a sales-assisted selling motion to identify opportunities to increase business with existing customers and to assist larger customers in adopting our services. Our sales-assisted selling

motion customers are frequently significantly larger in terms of average revenue per customer than our self-serve customers.

Substantially all of our revenue is recurring in nature. We employ a land-and-expand model that drives additional revenue from existing customers. As customers generate, store, and back up more data, their use of our platform increases, creating natural opportunities for revenue expansion. We can further expand our relationships with our customers when they adopt new features and use cases that lead to increased usage of our platform. Our land-and-expand strategy is evidenced by our overall net revenue retention rate of 110% and 114% as of December 31, 2021 and 2020, respectively.

Our B2 Cloud Storage revenue grew by 59% during the year ended December 31, 2021 and our Computer Backup cloud service revenue grew by 13% during the year ended December 31, 2021. By expanding our offerings, we are able to further expand our revenue and market opportunity. Our operations have historically been efficient with limited outside investment.

Our ecosystem of partners—including developer partners, alliance partners, and MSPs—helps us expand our platform in existing and new markets. Our partners leverage our cloud services to provide storage solutions to their customers or our mutual customers and in turn, we are able to expand our use cases and overall reach.

- **Developer partners.** Our platform, alongside the platforms of our developer partners, enables software developers to efficiently build their applications.
- **Alliance partners.** Our platform provides a cloud storage destination for partners whose products require storage to serve their customers. Partners providing software, hardware, and SaaS services to perform backups, synchronize data, manage media, and address other use cases either select our Storage Cloud for the underlying data storage, or offer it as a choice to their customers.
- **Managed service providers (MSP).** Our platform enables MSP partners to store data for backups, archives, hybrid cloud setups, ransomware protection, and otherwise manage their clients' data. MSPs provide critical IT solutions for mid-market organizations who often lack the resources to do so themselves. We believe these providers are drawn to our solutions due to our support of the breadth of their offerings, competitive pricing which helps MSPs with their own margin profile, and ease of use.

The markets addressed by our platform include Public Cloud Infrastructure-as-a-Service (IaaS) storage as well as Data-Protection-as-a-Service (DPaaS). According to IDC forecasts, the worldwide market for Public Cloud IaaS Storage is expected to grow to \$91.0 billion by 2025. Additionally, according to IDC, the worldwide market for DPaaS is expected to grow to \$18.4 billion by 2025. While the Backblaze Storage Cloud can scale to any size organization, we believe our efficient go-to-market and focus on ease of use are particularly suited to selling to and serving the needs of mid-market businesses (defined as businesses and organizations with 10 to 999 employees). According to our analysis of IDC data, mid-market businesses are expected to represent approximately 60% of worldwide IaaS spending throughout the forecast period (2021 to 2025). We believe this ratio serves as a reasonable proxy for spending across both markets. Applying this ratio to the Public Cloud IaaS Storage market yields a mid-market opportunity growing to \$54.6 billion in 2025. Applying the same ratio to the DPaaS market yields a mid-market opportunity growing to \$11.0 billion by 2025.

## Our Platform and Cloud Services

### ***Our Platform: Backblaze Storage Cloud***

The Backblaze Storage Cloud provides the core platform for our cloud services and is designed to be durable, available, scalable, secure, performant and predictive. This storage cloud organizes, safeguards, and keeps over 500 billion files available on demand and is designed to handle many more in the future. The key enabler of the Backblaze Storage Cloud is the software that runs it, which contains millions of lines of code and that our software engineering team has written and continually improved since our Company's founding. The ability to manage an ever-larger amount of data across ever-larger hard drives while maintaining data availability and durability continues to be highly complex. This web-scale software layer receives, stores, and delivers data for customers across the globe. Our code achieves this for billions of files under management by intelligently allocating storage locations in line with capacity and demand. Alongside these core

processes, the software layer also manages load balancing, caching, data compression, deletion, billing, as well as numerous other essential functions for hundreds of thousands of customers. Generally weekly code updates regularly enhance these functions.

Our vault architecture creates redundancy for the storage of customer data using proprietary and other algorithms. Our software splits each uploaded customer file into several data parts, adds multiple redundant parts, and stores these parts across discrete hard drives in different servers in a data center. As a result, even if a few of the parts are entirely lost or offline, we are able to reconstruct the customer data from the remaining parts for durability. Multiple vaults are grouped together to form one cluster, and one or more clusters are organized into a region. Our globally distributed storage platform also offers customers multi-region geographic choice for their data—currently between the United States and Europe—providing flexibility for different needs including geopolitical considerations, regulatory requirements, and performance optimization.

This software manages our global physical infrastructure of more than 200,000 hard drives and one terabit per second (one million megabits per second) of network capacity across multiple data centers. Our systems also manage the automation, monitoring, and security of this infrastructure.

As our customers' data grows, and our revenue with it, we continuously and smoothly deploy additional infrastructure. More than half of our employees are either software engineers that develop and improve the software that runs our Storage Cloud or Cloud Operations employees that specialize in network operations, site reliability engineering, technical operations, and supply chain, which operate our software and systems to deliver our infrastructure as a service and our cloud services.

### ***Our Cloud Service Offerings***

**B2 Cloud Storage.** B2 Cloud Storage provides customers direct access to our Storage Cloud to store, use and protect data. Users can access the platform through industry standard and native application programming interfaces (APIs), software development kits (SDKs), our web interface, or hundreds of third-party integrations. The wide range of options for accessing B2 Cloud Storage allows anyone to use it, including developers and partners who can integrate storage capabilities into their technology stack or build their own solutions on top of our platform. Customers also strategically tier backups of their core data systems to B2 Cloud Storage, including on-premises and virtual machine servers and other high-capacity storage devices. Customers leverage B2 Cloud Storage for a wide range of use cases, including public, hybrid and multi-cloud data storage; application development and DevOps; content delivery and edge computing; security and ransomware protection; media management; backup, archive and tape replacement; repository for analytics, artificial intelligence and machine learning; and Internet of Things (e.g., storing data for surveillance systems, autonomous vehicles, and smart devices).

**Backblaze Computer Backup.** Our Computer Backup cloud service backs up laptops, desktops, and external hard drives in a continuous and automated fashion. Whether for home computers or a business' full fleet of machines, customers can back up a virtually unlimited number of files without size or speed constraints. This cloud service includes a lightweight agent that runs locally on each end user's computer, continuously searching for new and changed files in a manner unobtrusive to the user. When a new or changed file is detected, the altered data is backed up and sent to the Backblaze Storage Cloud. Once there, it is accessible to the end user or business administrator responsible for managing the account. In the event of data loss, customers can restore all or portions of their backed-up data. Customers leverage Computer Backup for many different use cases, including Mac and PC backup; ransomware protection; theft and loss recovery; data archiving; organization and MSP-level management; and remote access.

### **Customers**

Our customers consist of a wide range of organizations and businesses—particularly mid-market organizations—and consumers. As of December 31, 2021, we had approximately 500,000 customers in over 175 countries, including approximately 440,000 customers using our Computer Backup cloud services solution and approximately 74,000 customers using our B2 Cloud Storage solution (approximately 14,000 customers use both our B2 Cloud Storage and Computer Backup solutions). Our customers span a range of industries, including a broad range of businesses, MSPs, developers, media innovators, creative agencies, academic institutions, government agencies, research institutes, gaming

companies, and individuals. Our customer base is highly diversified, with no single customer accounting for more than 1% of our revenue in 2021 or 2020.

### **Sales and Marketing**

We believe we have an efficient go-to-market model that is built on a self-serve selling motion. Prospective customers find us through a number of channels including our website, partners, and brand advocates. We have fostered community engagement through the content shared on our blog. In addition to generating customers, our content generation efforts have contributed to building a community of thousands of partners. Our developer, alliance, and MSP partners expand use cases and attract customers, thereby increasing the usage of our platform.

Our marketing efforts focus on establishing our brand, generating awareness, creating leads, and cultivating the Backblaze community. The marketing team consists primarily of product marketing, corporate communications and publishing, social media, growth marketing, and website teams. We leverage both online and offline marketing channels such as blogs, events and trade shows, seminars and webinars, whitepapers, case studies, search engines, and email marketing.

We complement our self-serve customer acquisition model with a growing inside sales team that is focused on a low-touch sales assisted model that supports our larger customers if the need arises. Among other things, our sales and marketing teams focus on inbound inquiries, outbound prospecting targeting specific use cases, and volume expansion of our self-serve customers. We have plans to increase our investment in our sales and marketing capabilities to capitalize on our large and global market opportunity.

### **Research and Development**

We invest substantial resources in research and development. We have an internal technology roadmap to introduce new features and functionality to our platform. Substantially all of our R&D organization, which makes up approximately one-third of our company, is focused on software development.

We generally have a continuous product release cycle and we typically release updates on a weekly basis. We establish priorities for our organization by collaborating closely with our customers, community, and employees.

### **Competition**

Our current primary competitors generally fall into the following categories: diversified public cloud vendors, such as Amazon.com, Inc. through Amazon Web Services, Alphabet Inc. through Google Cloud Platform, and Microsoft Corporation through Azure; certain smaller cloud storage competitors; and legacy on-premises storage vendors such as Dell EMC.

We compete based on a variety of factors, including ease of adoption and use; continued innovation; price; key platform features; availability, durability, scalability, and performance; brand awareness and reputation; transparency; customer support; independence; security; interoperability; partner ecosystem; and capabilities for configurability and APIs.

### **Intellectual Property**

Our success depends in part on our ability to obtain and maintain intellectual property protection for our technology platform and cloud services, defend and enforce our intellectual property rights, preserve the confidentiality of our trade secrets, and operate without infringing, misappropriating, or otherwise violating the intellectual property rights of others. While we do not own any patents, we protect our intellectual property through a combination of trade secrets, copyrights, trademarks, service marks, and domain names where appropriate. In addition, we control access to our proprietary technology by entering into confidentiality and invention assignment agreements with our employees and contractors, and confidentiality agreements with third parties, such as service providers, vendors, individuals, and entities that may be exploring a business relationship with us. We own two registered trademarks in the United States for the word Backblaze and the Backblaze logo.

Policing unauthorized use of our technology and intellectual property rights is difficult. Despite our efforts to protect our proprietary technology and our intellectual property rights, unauthorized parties may attempt to copy or obtain



and use our technology to develop applications with the same functionality as our offerings. In addition, while we have confidence in the measures we take to protect and preserve our trade secrets, they may be inadequate and can be breached, and we may not have adequate remedies for violations of such measures. Furthermore, our trade secrets may otherwise become known or be independently discovered by competitors.

We may also be subject to third-party infringement claims from our competitors or non-practicing entities, many of these parties may have more significant resources and funding than we have. For more information regarding risks related to intellectual property, please see “Risk Factors—Risks Related to Intellectual Property.”

### **Employees and Human Capital**

We have a highly aligned and engaged workforce with relatively little employee turnover and long tenure. As of December 31, 2021, we had 270 full-time employees, including 98 new full-time employees hired during 2021. During 2021, only 16 employees left the Company. A majority of our employees are based out of our San Mateo, California headquarters. However, since March 2020 and throughout all of 2021, employees generally worked remotely due to the COVID pandemic.

Culture is very important at Backblaze and we recognize that employees are our greatest asset. We recognize and value the importance of diversity, equity and inclusion and have a Diversity, Equity and Inclusion Committee that is comprised of a diverse group of employees and management. The committee is committed to cultivating and nurturing an inclusive and diverse environment at Backblaze by providing unique opportunities that will bring forth and promote the variety of cultures, backgrounds and circumstances that make up the Backblaze team while surpassing basic tolerance with awareness, acceptance and action. No employees are represented by a labor union with respect to his or her employment by us. We have not experienced any work stoppages, and we consider our relations with our employees to be good, as evidenced by our Glassdoor 4.7/5.0 rating, 93% CEO Approval, and 94% Recommend to a Friend ratings as of March 6, 2022.

### **Facilities**

Our principal executive offices are located in San Mateo, California. We lease data center facilities in California, Arizona, and Amsterdam, the Netherlands. We believe that our properties are generally suitable to meet our needs for the foreseeable future. In addition, to the extent we require additional space in the future, we believe that it would be readily available on commercially reasonable terms.

### **Corporate Information**

We were incorporated in Delaware in 2007 under the name Backblaze, Inc. We completed our initial public offering in November 2021 and our common stock is listed on The Nasdaq Stock Market LLC under the symbol “BLZE.” Our principal executive offices are located at 500 Ben Franklin Ct, San Mateo, CA 94401 and our telephone number is (650) 352-3738. Our website address is [www.backblaze.com](http://www.backblaze.com).

### **Available Information**

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

### **Item 1A. Risk Factors**

*Certain factors may have a material adverse effect on our business, financial condition, and results of operations. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Annual Report on Form 10-K, including the section titled “Management’s Discussion and Analysis of*

*Financial Condition and Results of Operations” and our condensed financial statements and the accompanying notes, included elsewhere in this Annual Report on Form 10-K. Our business, financial condition, results of operations, or prospects could also be harmed by risks and uncertainties not currently known to us or that we currently do not believe are material. If any of these risks actually occur, it may materially harm our business, financial condition, liquidity, results of operations, and the market price of our Class A Common Stock.*

## **Risk Factors Summary**

Below is a summary of the principal factors that make an investment in our Class A common stock speculative or risky. Importantly, this summary does not address all of the risks that we face. Our ability to execute our business strategy is subject to numerous risks, as more fully described in the section titled “Risk Factors” immediately following this summary. These risks include, among others:

- We have a history of cumulative losses, and we do not expect to be profitable for the foreseeable future.
- The markets in which we participate are intensely competitive, and if we do not compete effectively, our operating results would be harmed.
- Any significant disruption in our service or loss, or delay in availability, of our customers’ data, could damage our reputation and harm our business and operating results.
- If we are unable to maintain our brand and reputation, our business, results of operations, and financial condition may be adversely affected.
- If our information technology systems, including the data of our customers stored in our systems, are breached or subject to cybersecurity attacks, our reputation and business may be harmed.
- If we are unable to attract and retain customers on a cost-effective basis, our revenue and operating results would be adversely affected.
- If we are unable to provide successful enhancements, new features, and modifications to our cloud services, our business could be adversely affected.
- Material defects or errors in our software could negatively impact our business, harm our reputation, result in significant costs to us, and negatively impact our ability to sell our cloud services.
- We rely on third-party vendors and suppliers, including data center and hard drive providers, which may have limited sources of supply, and this reliance exposes us to potential supply and service disruptions that could harm our business.
- Our business depends, in part, on the success of our strategic relationships with third parties.
- We have identified material weaknesses in our internal controls over financial reporting, and the failure to achieve and maintain effective internal controls over financial reporting could harm our business and negatively impact the value of our Class A common stock.
- The dual class structure of our common stock has the effect of concentrating voting control with those stockholders who held our capital stock prior to the completion of this offering, including our executive officers, employees, and directors and their affiliates, which will limit your ability to influence the outcome of important transactions, including a change in control.

## **Risks Related to Our Business and Our Industry**

***We have a history of cumulative losses, and we do not expect to be profitable for the foreseeable future.***

We incurred net losses of \$21.7 million and \$6.6 million for the years ended December 31, 2021 and 2020, respectively. Over our 14 years of operations, we had an accumulated deficit of \$36.3 million as of December 31, 2021. We cannot guarantee that we will continue operating our business similar to past performance. We intend to continue scaling our business to increase our customer base and to meet the increasingly complex needs of our customers. We have invested, and expect to continue to invest, in our sales and marketing organization to sell our cloud services around the world and in our development organization to deliver additional features and capabilities of our cloud services to address our customers’ evolving needs. We also expect to continue to make significant investments in our data center infrastructure and technical operations organization as we further scale our business. As a result of our continuing investments to scale

our business in each of these areas, we do not expect to be profitable for the foreseeable future. We cannot assure you that we will achieve profitability in the future or that, if we do become profitable, we will sustain profitability.

***The markets in which we participate are intensely competitive, and if we do not compete effectively, our operating results would be harmed.***

The markets in which we operate are highly competitive, with relatively low barriers to entry for certain applications and services. Some of our competitors include cloud-based services such as those offered by Amazon.com, Inc. through Amazon Web Services, Alphabet Inc. through Google Cloud Platform, and Microsoft Corporation through Azure, and on-premises offerings such as those offered by EMC/Dell and NetApp. Many of our competitors and potential competitors are larger and have greater name and brand recognition; much longer operating histories; larger marketing budgets for the development, promotion and sale of their products or services; broader service offerings and capabilities; and significantly greater resources than we do. In addition, many of our competitors have established marketing and distribution relationships with channel partners, consultants, system integrators, and resellers. Our competitors may also be able to respond more quickly and effectively to new or changing opportunities, technologies, standards, or customer requirements. Competition may intensify in the future and may also include new market entrants. Our competitors could offer their products or services at a lower price or in some combination with other services or applications that we do not offer, which could result in pricing pressures on our business. Increased competition generally could result in reduced sales, lower margins, losses, or the failure of our cloud services to achieve or maintain widespread market acceptance, any of which could harm our business.

***Any significant disruption in our service or loss, or delay in availability of our customers' data, could damage our reputation and harm our business and operating results.***

Our brand, reputation, and ability to manage our systems; attract, retain, and serve our customers; and interface with our partners, are dependent upon the reliable performance of our platform, including our underlying technical infrastructure, as well as the systems and infrastructure of various third parties, including third-party hosted data centers that we use and internet access and infrastructure used by us and our customers and partners. Our customers rely on our platform to store and access their data, including financial records, business information, personal information, documents, media, and other important content. There are various reasons that our platform, or the systems that are used to access or support our platform, could experience a disruption in service, some of which are entirely outside of our control. For example, our facilities as well as the data centers that we use are vulnerable to damage or interruption from human error, intentional bad acts, earthquakes, floods, fires, war or other military conflict, including the conflict between Russia and Ukraine, terrorist attacks, cybersecurity attacks or the risk of potential cybersecurity attacks, power losses, hardware failures, systems failures, telecommunications failures, and similar events, any of which could disrupt our service, destroy user content, or prevent us from being able to continuously back up or record changes in our users' content. If any of these events occur, access to customer data may be unavailable or customer data could be lost, and it may take a significant period of time to achieve full resumption of our cloud services. For example, in response to the Russian attack on Ukraine that began in February 2022, the United States and many other countries began imposing sanctions on Russia and certain parts of Ukraine, including restrictions on the import and export of goods and services to those regions. Although we do not have a significant number of customers located in those regions, such actions will have some impact our business. It is difficult to predict how long the conflict may last, how the conflict could escalate, and how the sanctions may evolve, which could cause a greater adverse impact on our business and operations. Our disaster recovery planning cannot account for all eventualities and even if we anticipate an incident, our disaster recovery plans may not be sufficient to timely and effectively address the issue. Moreover, our platform and technical infrastructure may not be adequately designed with sufficient reliability and redundancy to avoid delays or outages that could be harmful to our business. If our platform is unavailable when users attempt to access it, or if it does not load as quickly as they expect, or if data is lost, users may not use our platform as often in the future, or at all.

***If we are unable to maintain our brand and reputation, our business, results of operations, and financial condition may be adversely affected.***

The successful promotion of our brand and our ability to maintain our reputation will depend on a number of factors, including our performance and the reliability of our cloud services; our advertising and marketing efforts, including our blog and social media presence, which have been important to building and maintaining our brand and reputation; our ability to continue to develop high-quality features and cloud services; and our ability to successfully differentiate our cloud services from competitive products and services. Our brand promotion activities may not be successful or yield increased revenue.

The promotion of our brand may require us to make substantial expenditures, particularly as our markets become more competitive and we expand into new markets or offer additional features. Expenditures intended to maintain and enhance our brand may not be cost-effective or effective at all. If we do not successfully maintain and enhance our brand, we may have reduced pricing power relative to our competitors, we could lose customers, we could fail to attract potential new customers or retain our existing customers, or our blog and thought leadership in our industry may decline in popularity, all of which could materially and adversely affect our business.

***If our information technology systems, including the data of our customers stored in our systems, are breached or subject to cybersecurity attacks, our reputation and business may be harmed.***

Our customers rely on our solutions to store their files, which may include confidential or personally identifiable information, critical business information, photos, and other meaningful content. To manage and maintain such data, we are highly dependent on internal and external information technology systems and infrastructure, including the internet, to securely process, transmit, and store critical information. Although we take measures to protect sensitive information from unauthorized access or disclosure, third parties may be able to circumvent our security by deploying viruses, worms, and other malicious software programs that are designed to attack or attempt to infiltrate our systems and networks, including distributed denial of service (DDoS) or phishing attacks, that can undermine the availability and performance of our systems and cloud services, fraudulently steal data, or otherwise cause damage to our reputation. For example, in December 2021, an industry-wide zero-day vulnerability was discovered in the Apache Log4j logging library commonly used by many companies throughout the world that could enable attackers to take control of vulnerable servers. Although we were not aware of any unauthorized access to our systems due to the Log4j vulnerability, out of an abundance of caution and because Log4j was leveraged widely in our environment, we decided it was in our customers' best interest to take our systems offline for a short period of time until we could apply the security patch. Moreover, cybersecurity attacks evolve rapidly and may utilize new methods not recognized. We may be unable to successfully identify, stop, or resolve such attacks, or implement adequate preventative measures. Also, due to the political uncertainty involving Russia and Ukraine, there is an increased likelihood that escalation of tensions could result in cybersecurity incidents that could either directly or indirectly impact our operations. In addition, employee or consultant error, malfeasance, or other errors in the storage, use, or transmission of customer data could result in a breach. For example, in late March 2021, it was discovered that a Backblaze marketing campaign leveraging the Facebook ad network, which had been launched two weeks earlier, had been incorrectly configured to run on all Backblaze platform pages instead of only the Backblaze marketing pages as intended. Once we became aware of the issue, it was promptly resolved. Although we believe that less than 2% of Backblaze customers may have been affected, and no actual customer files, file contents, or user account information were shared at any time, certain file metadata may have been inadvertently shared with Facebook. Even if a breach is detected, the full extent of the breach may not be determined immediately, or at all. While we maintain insurance coverage to mitigate the potential financial impact of these risks, our insurance may not cover all such events or may be insufficient to compensate us for potentially significant losses, including the potential damage to the future growth of our business, that may result from any such breach. In addition, our business utilizes information technology systems of our partners and vendors, who are also subject to similar cybersecurity risks that could adversely impact the security of our systems and business. We may have little or no control over how cybersecurity attacks on our partners or vendors are addressed. An actual or perceived breach of our network security and systems or other cybersecurity-related events that cause the loss, theft or unauthorized disclosure of our customers' information, including any delay in determining the full extent of a potential breach, could have a material adverse impact on our business, results of operations, and financial condition, including harm to our reputation and brand, reduced demand for our solutions, time-consuming and expensive litigation, fines, penalties, and other damages.

***If we are unable to attract and retain customers on a cost-effective basis, our revenue and operating results would be adversely affected.***

We generate substantially all of our revenue from the sale of our cloud services either on a consumption or subscription model. To grow, we must continue to attract a large number of customers on a cost-effective basis. We have historically used, and plan to increase our use of, a variety of advertising and marketing programs to promote our cloud services. For example, as part of our press release and earnings announcement for the fiscal quarter and year ended December 31, 2021, we announced that we planned to make additional sales and marketing investments intended to accelerate the scaling of our business. These programs, including any expansion of existing programs and new programs to promote our cloud services, may not be successful or provide a reasonable return on investment within a desired timeframe. Significant increases in the pricing of one or more of our advertising channels would increase our advertising and marketing costs or cause us to choose less expensive and perhaps less effective channels. We may also need to expand into channels with significantly higher costs, which could adversely affect our operating results. We may also incur advertising

and marketing expenses significantly in advance of the time we anticipate recognizing any revenue generated by such expenses, and we may only at a later date, or never, experience an increase in revenue or brand awareness as a result of such expenditures. If we are unable to maintain effective advertising and marketing programs, our ability to attract new customers could be adversely affected, our advertising and marketing expenses could increase substantially, and our operating results may suffer.

A portion of our potential customers locate our website through search engines, such as Google, Bing, and Yahoo!. Our ability to maintain the number of visitors directed to our website is not entirely within our control. If search engine companies modify their search algorithms in a manner that reduces the prominence of our listing, or if our competitors' search engine optimization efforts are more successful than ours, fewer potential customers may click through to our website. In addition, the cost of purchased listings has increased in the past and may increase in the future. A decrease in website traffic or an increase in promoted search result costs could adversely affect our customer acquisition efforts and our operating results. In addition, we also rely on our blog and word of mouth to drive additional customers. To the extent our blog does not continue to attract readers or if our reputation is harmed, these additional means of attracting customers may no longer provide significant numbers of customers in the future.

In addition, because we offer our Computer Backup cloud service at a fixed price, the amount of data our customers back up affects our costs and gross margins. To the extent current or future customers back up unusually large amounts of data, or growth in the amount of data backed up per customer outpaces decreases in storage costs, our costs and gross margins could be adversely affected.

***If we are unable to provide successful enhancements, new features, and modifications to our cloud services, our business could be adversely affected.***

Our industry is marked by rapid technological developments and new and enhanced applications and cloud services. If we are unable to provide enhancements and new features for our existing services or new services that achieve market acceptance or that keep pace with rapid technological developments, our business could be adversely affected. In addition, because our cloud services are designed to operate on a variety of systems, we will need to continuously modify and enhance our cloud services to keep pace with changes in internet-related hardware, operating systems, and other software, communication, browser, and database technologies, including the systems of our partners, vendors, and competitors. We may not be successful in either developing these modifications and enhancements or in bringing them to market in a timely fashion. For example, we may not be successful in launching our cloud replication feature in the timeframe we anticipate. Any failure of our cloud services to operate effectively and on a timely basis with network platforms and technologies could reduce the demand for our cloud services, result in customer dissatisfaction and adversely affect our business. Furthermore, future enhancements may increase our research and development expenses and infrastructure costs, which could adversely impact our pricing advantage, undermine our ease of use, make it more difficult to attract and retain customers, and harm our results of operations.

***Material defects or errors in our software could negatively impact our business, harm our reputation, result in significant costs to us, and negatively impact our ability to sell our cloud services.***

The software underlying our cloud services is inherently complex and may contain material defects or errors, particularly when first introduced or when new versions or enhancements are released. We have from time to time found defects or errors in our cloud services, and new defects or errors in our existing solutions may be detected in the future by us, our customers or partners, or other third parties. The costs incurred in correcting such defects or errors may be substantial and could negatively impact our business. Backblaze employees could also introduce defects or errors through incompetence, malfeasance, or a mistake that would lead to data loss. For example, to the extent that the encryption keys for encrypted customer data stored by Backblaze were to be deleted or corrupted, the data could become unrecoverable. In addition, we rely on hardware purchased or leased and software licensed from third parties to offer our cloud services. Any defects in, or unavailability of, our software that cause interruptions to the availability of our cloud services or that otherwise impact our business could, among other things:

- require us to issue refunds or credits to our customers or expose us to claims for damages,
- cause us to lose existing customers and make it more difficult to attract new customers,
- divert our development resources or require us to make extensive changes to our cloud services or software, and

- harm our reputation and brand.

***If we fail to effectively manage our growth, our business would be harmed.***

We have recently experienced, and continue to experience, a period of rapid growth. For example, our headcount grew from 82 employees as of December 31, 2018, to 126 employees as of December 31, 2019, to 188 employees as of December 31, 2020 and to 270 employees as of December 31, 2021. Also, in just the last two years the amount of storage deployed by us has more than doubled. The number of customers and customer requests on our network has also increased rapidly in recent years. While we expect to continue to expand our operations and to increase our headcount, network, and product offerings significantly in the future, our growth may not be sustainable. Our growth has placed, and future growth will continue to place, a significant strain on our management, corporate culture, quality of our cloud services, and administrative, operational, security, and financial infrastructure. Our success will depend in part on our ability to manage this growth effectively, which will require that we, among other things, continue to improve our administrative, operational, financial, and management systems and controls.

***Our business depends on our ability to retain and increase revenue from customers, and if we are unable to do so, our revenue and operating results would be adversely affected.***

It is important for our business that our customers continue to use, and even increase their use of, our cloud services. Many of our customers can terminate their use of our cloud services at will with little-to-no advance notice. Even though some of our customers enter into longer-term agreements of up to two years, they generally have no obligation to renew their subscriptions or increase usage. Due to our varied customer base and lack of long-term customer and usage commitments, it can be difficult to accurately predict our customer retention rate on a quarterly basis or long-term basis. Our customer retention and the amount of data that they store with us may decline or fluctuate as a result of a number of factors, including potential customer dissatisfaction with our cloud services and offerings; pricing plans; our customers' own business conditions; customer decisions to delete unneeded or redundant data; the perception, whether or not accurate, that competitive products provide better options; changes in our brand or reputation; and overall general economic conditions. Our future financial performance also depends in part on our ability to continue to increase revenue from our customers through additional paid products, such as Extended Version History and multi-region selection. Our customers' decision whether to opt for additional paid products is driven by a number of factors. If our customers do not perceive the value in such additional paid offerings, we may not realize the anticipated benefits of our investments in such additional features, and our financial results could be harmed. If we cannot successfully retain our existing customers and add new customers consistent with historical rates, including maintaining or growing the amount of data that our customers store with us, our revenue and ability to grow may be adversely affected.

***To the extent we target different types of customers, we may face increased demands and challenges that adversely impact our business and operations.***

Historically, most of our customers consisted of small-to-medium sized businesses and individuals. To the extent we target other types of customers or customers with different needs, we may face greater demand for certain service enhancements or features that we do not currently offer, or additional performance, availability, durability, and security requirements. Certain types of customers may also have longer sales cycles, less predictability or higher volatility in the amount of data they store with us, increased pricing or negotiation leverage, and increased customer education and overall customer engagement needs. In addition, some customers may demand more customization, integration, and support services. Any of these factors could require us to devote greater sales, engineering, operations, and support services as well as make significant infrastructure changes, which could increase our costs, divert key resources from other current and prospective customers, and otherwise adversely affect our business and operating results. These increased demands and challenges may also be for the benefit of a limited number of customers. Moreover, we cannot assure you that any such efforts will be successful or justify the additional investments in a timely manner, or at all.

***The material stored using our cloud services may subject us to negative publicity, legal liability, and harm our business.***

We are not aware of the contents of the data that customers store using our cloud services. While we do have a detailed process to address any third-party complaint regarding illegal or other inappropriate use of our cloud services by a customer that would violate our terms of service, for security and privacy reasons we do not actively monitor the content of data that is being stored with us. To the extent that sensitive, personally identifiable, illegal, or controversial data is stored in our servers and that becomes known publicly, particularly given the highly volatile nature of the political

landscape throughout the world and immediate access by individuals to social media platforms with a broad outreach, it may create negative publicity and adversely impact our reputation and harm our business.

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

Our quarterly results of operations may vary significantly in the future. Accordingly, the results of any one quarter should not be relied upon as an indication of future performance. Our quarterly results of operations may fluctuate as a result of a variety of factors, many of which are outside of our control, and as a result may not fully reflect the underlying performance of our business. Fluctuation in quarterly results may negatively impact the trading price of our Class A common stock. Factors that may cause fluctuations in our quarterly results of operations include, without limitation:

- our ability to attract new customers;
- the amount of customer churn;
- fluctuations in the amount of data customers store with us;
- the amount and timing of operating expenses and equipment purchases related to the maintenance and expansion of our business;
- interruptions or loss of service of our offerings;
- the timing and success of new product feature and service introductions by us or our competitors;
- our ability to retain and increase revenue from customers;
- the impact of COVID-19 or other pandemics on our business or that of our customers and partners;
- changes in the competitive dynamics of our industry, including consolidation among competitors;
- security breaches of our systems;
- our involvement in litigation, or the threat thereof;
- the length of the sales cycle;
- the timing of expenses and receipt of perceived benefits related to any acquisitions;
- outbreaks of war or other hostilities, such as the Russia-Ukraine hostilities;
- inflation in the United States and other regions;
- changes in laws and regulations that impact our business; and
- general economic and market conditions.

For example, in addition to the risks from sanctions and other restrictions discussed elsewhere in these Risk Factors in connection with the Russian attack on Ukraine that began in February 2022, in order to help the people of Ukraine facing a humanitarian crisis, we have agreed to waive charges for our services until June 1, 2022 for customers based in Ukraine. Although we do not have a significant amount of customers located in Ukraine, such actions will have some impact our business. The Russian-Ukraine conflict has also caused oil prices to rise and increased the risk of disruption to the supply chain for oil, which could result in higher energy costs for our business and data centers, which could negatively impact our results of operations.

Further, as we continue to grow and scale our business to meet the needs of our customers, we may overestimate or underestimate our infrastructure capacity requirements, which could adversely affect our results of

operations. The costs associated with leasing and maintaining our custom-built infrastructure in co-location facilities and third-party data centers already constitute a significant portion of our capital and operating expenses. We continuously evaluate our short and long-term infrastructure capacity requirements and seek to ensure adequate capacity for new and existing users while minimizing unnecessary excess capacity costs. However, we may not be able to sufficiently predict future demand, or the availability of hardware or infrastructure necessary to support increased demand on a timely basis. If we overestimate the demand for our platform and therefore secure excess infrastructure capacity or equipment, our gross margins could be reduced. If we underestimate our infrastructure capacity requirements or availability of necessary hardware or infrastructure, we may not be able to service the needs of new and existing customers; durability, reliability, and performance could suffer; our costs could rise; and our business could be harmed.

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

We believe our success has depended, and continues to depend, on the efforts and talents of senior management, including our founders and other key personnel. All of our employees, including our senior management, are employed on an at-will basis. Furthermore, our founders and other key personnel hold shares or equity awards that are largely vested, and as result, they may not be incentivized to remain with our company once there is a trading market for our Class A common stock. We cannot ensure that we will be able to retain the services of any member of our senior management or other key employees or that we would be able to timely replace members of our senior management or other key employees should any of them depart. The loss of one or more members of our senior management or other key employees could harm our business.

***The failure to attract and retain additional qualified personnel could prevent us from executing our business strategy.***

To execute our business strategy, we must attract and retain highly qualified personnel. For example, we are planning for aggressive hiring of new employees in sales, marketing, cloud operations and engineering to, among other things, support key new growth initiatives. Competition for executive officers, software developers, sales personnel, operational personnel, and other key employees in our industry is intense. In particular, we compete with many other companies for software developers with high levels of experience in designing, developing, and managing cloud-based software, as well as for skilled sales and operations professionals. In addition, we believe that the success of our business and corporate culture depends on employing a diverse workforce, and the competition for such personnel is significant. The market for such talented personnel is particularly competitive in the San Francisco Bay Area, where our headquarters is located. Many of the companies with which we compete for experienced personnel have greater resources than we do and can frequently offer such personnel substantially greater compensation than we can offer. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business would be harmed. In addition, if we are unable to hire new employees on a timely basis or reach productive levels in a short time frame, new growth initiatives and other projects may be delayed or otherwise disrupted, which could cause us to miss our performance goals and negatively impact our business.

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

We have a culture that encourages employees to be open, collaborate, strive to do the right thing, and develop and launch new and innovative solutions, which we believe is essential to attracting customers and partners and serving the best, long-term interests of our company. As our business grows and becomes more complex, and as we become a public company, it may become more difficult to maintain this cultural emphasis. Any failure to preserve our culture could negatively affect our ability to retain and recruit personnel, which is critical to our growth, and to effectively focus on and pursue our strategies. If we fail to maintain our company culture, our business and competitive position may be harmed.

***As we expand our operations outside the United States, we may be subject to increased business, regulatory and economic risks that could impact our results of operations.***

In 2021, we derived approximately 28% of our revenue from customers outside of the United States. We may also expand our international operations, which may include hiring employees, building out technical infrastructure, and opening offices in foreign jurisdictions. Any new markets or countries into which we attempt to market and sell our cloud services may not be receptive. For example, we may be unable to expand further in some markets if we are unable to satisfy various government- and region-specific requirements. Sanctions imposed by the United States and other countries with respect to Russia and Ukraine in February 2022 may impact our ability to offer services in the region, and additional



sanctions or retaliatory measures could be imposed in the future. Further instability or tension in Russia, Ukraine, and the surrounding region could also cause us to adjust our operating model, which would increase our costs of operations, and could also impact or delay our international expansion plans. In addition, our ability to manage our business and conduct our operations internationally requires considerable management attention and resources and is subject to the particular challenges and complexities of deploying infrastructure internationally and supporting a rapidly growing business in an environment of multiple languages, cultures, customs, legal and regulatory systems, alternative dispute systems, and commercial markets. International expansion has required, and will continue to require, investment of significant funds and other resources. Growth in our international operations will subject us to new risks and may increase risks that we currently face, including risks associated with:

- higher costs of doing business internationally, including increased infrastructure, accounting, travel, and legal compliance costs;
- providing our platform, building out the necessary infrastructure and operating our business across a significant distance, in different languages and among different cultures, including the potential need to modify our platform and features to ensure that they are culturally appropriate and relevant in different countries;
- compliance with applicable international laws and regulations, including laws and regulations with respect to privacy, data protection, consumer protection, and unsolicited email, and the risk of penalties to our users and individual members of management or employees if our practices are deemed to be out of compliance, and additional laws and regulations in the United States that are applicable to international operations;
- recruiting and retaining talented and capable employees outside the United States, and maintaining our company culture across all of our offices;
- management of an employee base in jurisdictions that may not give us the same employment and retention flexibility as does the United States;
- operating in jurisdictions that do not protect intellectual property rights to the same extent as does the United States;
- compliance by us and our business partners with anti-corruption laws, anti-bribery, anti-money laundering, and similar laws; import and export control laws; tariffs and trade barriers; economic sanctions; and other regulatory limitations on our ability to provide our cloud services in international markets;
- foreign exchange controls that might require significant lead time in setting up operations in certain geographic territories;
- restrictions that might prevent us from repatriating cash earned outside the United States;
- double taxation of our international earnings and potentially adverse tax consequences due to changes in the income and other tax laws of the United States or the international jurisdictions in which we operate; and
- political and economic instability in various jurisdictions.

Expanding our international operations and complying with applicable laws and regulations may substantially increase our cost of doing business in international jurisdictions. We may also be unable to keep current with changes in laws and regulations as they develop, and we or our employees, contractors, partners, and agents may fail to maintain compliance with applicable laws and regulations. Any violations could result in enforcement actions, fines, civil and criminal penalties, damages, injunctions, or reputational harm. If we are unable to comply with these laws and regulations or manage the complexity of our global operations successfully, our business, results of operations, and financial condition could be adversely affected.

***We store personal information and other customer data, which subjects us to various data privacy laws, governmental regulations, and other related legal obligations, and any actual or perceived failure to comply with such requirements could harm our business.***

We store personal information and other customer data, as well as use certain cookies on our website, that are subject to numerous federal, state, local, and foreign laws regarding privacy and the storing and protection of personal information and other customer data, and disclosure requirements regarding the use and certain breaches of such laws. For example, we are subject to the General Data Protection Regulation (GDPR), the California Consumer Privacy Act (CCPA) and the California Privacy Rights Act of 2020 (CPRA), among other laws and regulations around the world. Other comprehensive data privacy or data protection laws or regulations requiring local data residency and/or restricting the international transfer of data have been passed or are under consideration in other jurisdictions. In addition, some industries have industry-specific requirements relating to compliance with certain security and regulatory standards, such as those required by the Health Insurance Portability and Accountability Act (HIPAA). For example, HIPAA imposes privacy, security, and breach reporting obligations with respect to individually identifiable health information upon “covered entities” (e.g., health plans, health care clearinghouses, and certain health care providers), and their respective business associates, individuals, or entities that create, receive, maintain or transmit protected health information in connection with providing a service for or on behalf of a covered entity. Such laws give rise to an increasingly complex set of compliance obligations on us regarding our ability to gather, use, and store customer data and customer account data.

These laws are subject to rapid change, differing interpretations, and can be inconsistent among regulatory frameworks or conflict with other rules or our business practices. We strive to comply with all applicable laws, policies, legal obligations, and industry codes of conduct relating to privacy and data protection to the extent possible. Our efforts to comply with the complex matrix of data privacy laws around the world subjects us to increasing costs to review and comply with such laws, including updating our policies, procedures, and business practices to address such evolving privacy laws. We also make public statements and commitments regarding our use and disclosure of personal information through our privacy policy, information provided on our website, and data processing agreements with customers and other third parties. Because the interpretation and application of data protection laws, regulations, standards, and other obligations are often uncertain and in flux, and sometimes contradictory, it is possible that the scope and requirements of these laws and other obligations may be interpreted and applied in a manner that is inconsistent with our practices, and our efforts to comply with rapidly evolving data protection laws and obligations may be unsuccessful. For example, we previously relied on the EU-US Privacy Shield framework, which was invalidated by a European court in July 2020. As a result of such a decision, we have had to take additional steps to comply with applicable EU data protection requirements, including implementation of standard contractual clauses.

Any failure, or perceived failure, by us to comply with applicable privacy and security laws, policies, or related contractual obligations, or any compromise of security that results in unauthorized access, or the use or transmission of personal information or other customer data, could result in a variety of claims against us, including governmental enforcement actions and investigations, audits, inquiries, whistleblower complaints, class action privacy litigation in certain jurisdictions, and proceedings by data protection authorities. For example, under the GDPR we may be subject to fines of up to €20 million or up to 4% of the total worldwide annual group turnover of the preceding financial year, as well as potentially face claims from individuals. The CCPA provides for civil penalties for violations, as well as a private right of action for certain data breaches that result in the loss of personal information. This private right of action may increase the likelihood of, and risks associated with, data breach litigation. The CPRA added new requirements and consumer privacy rights as well as the creation of the California Privacy Protection Agency as a dedicated agency to implement and enforce California state privacy laws, investigate violations and assess penalties. The CPRA also imposes July 1, 2022 as the deadline for the adoption of final regulations, which means the additional requirements from the CPRA may be subject to further changes that may impact our compliance efforts. Any non-compliance with data privacy requirements could subject us to significant fines and penalties, adverse media coverage, reputational damage, the loss of current and potential customers, loss of export privileges, or criminal or other civil sanctions, any of which could materially adversely affect our business and financial condition.

***The ongoing COVID-19 pandemic, and resulting global economic downturn, has impacted how we, our customers, and our partners are operating, and could result in a material adverse effect on our business.***

The ongoing COVID-19 pandemic and its inherent uncertainty, and measures taken to control its spread such as travel restrictions, shelter-in-place orders, and business shutdowns, have affected all of the regions in which we conduct business and in which our customers, partners, and suppliers are located; have adversely impacted global economic activity; and have contributed to volatility in financial markets. As the situation around the spread of the COVID-19 pandemic evolves, we have continued to operate in a modified manner—employing precautionary measures

designed to protect the health of our employees while enabling us to support our customers and partners. Among other modifications, we generally required our employees to work remotely; instituted business-related travel restrictions; and virtualized, postponed, or cancelled various sales and marketing, employee, and industry events. The remote work measures that we implemented have generally allowed us to provide uninterrupted service to our customers and partners, but have also introduced additional challenges and operational risks, including increased supply chain risks and cybersecurity risks, and have affected the way we conduct various other activities. For example, starting in April 2020, we began to acquire additional hard drives and related infrastructure through capital lease agreements in order to minimize the impact of potential supply chain disruptions. The additional leased hard drives resulted in a higher balance of capital equipment and related lease liability, an increase in cash used in financing activities from principal payments, as well as a higher ongoing interest and depreciation expense related to these lease agreements. The supply chain for other infrastructure and related equipment essential to our business may also become constrained or unavailable on favorable terms or at all.

The COVID-19 pandemic has been challenging and a hardship on many of our employees, and required us to operate under substantially novel constraints. It has also been challenging to comply with rapidly changing, and sometimes conflicting, guidance or mandates from different governmental, regulatory and legal authorities, including national, state and local regulations across multiple jurisdictions in which we operate. The pandemic has resulted in various inefficiencies, delays, and additional costs across our company, which may continue or worsen as the pandemic continues. In addition, work from home and related business practice modifications present significant challenges to maintaining our corporate culture, including employee engagement and productivity, both during the immediate pandemic crisis and as we make additional adjustments in the eventual transition from it.

The duration and severity of the COVID-19 pandemic, including variants of COVID-19 such as the delta variant or omicron variant, that may be more transmissible, more likely to result in severe illness or death, or less susceptible to treatments or protection from existing vaccines, and the degree of its impact on our business remains uncertain and difficult to predict. Our customers or partners could experience delays, downturns or uncertainty in their own business operations or revenue due to COVID-19, which may result in supply chain disruption or decreased revenue for our business, especially as it may disproportionately adversely affect mid-market businesses on which we are especially dependent. As a result, we may experience customer losses due to customer bankruptcy or cessation of operations, or otherwise.

If the COVID-19 pandemic worsens or is prolonged, especially in regions where we have material operations or sales, our business operations in affected areas, including sales-related and customer support activities, could be adversely affected by continued or additional business closures, travel restrictions impacting employees and partners, and other precautionary measures. While we have developed and continue to develop plans to help mitigate the negative impact of the pandemic on our business, these efforts may not be effective and a protracted economic downturn may limit the effectiveness of our mitigation efforts. The COVID-19 pandemic may also have the effect of heightening many of the other risks described in this “Risk Factors” section.

***Our business is substantially dependent on mid-market organizations, which may be more vulnerable to market fluctuations and other economic factors, and their vulnerability to such factors could negatively impact our business.***

If we are unable to successfully market and sell our cloud services to mid-market organizations, our ability to grow our revenue and achieve profitability will be harmed. We expect it will be more difficult and expensive to attract and retain mid-market organization customers than other customers because mid-market organizations are more frequently forced to curtail or cease operations due to the sale or failure of their business; can be more difficult to identify and may require more expensive, targeted sales campaigns; and generally have lesser amounts of data to store than larger organizations, thus requiring us to successfully sell to and support more mid-market organizations for meaningful revenue impact. In addition, mid-market organizations frequently have limited budgets and are more likely to be significantly affected by economic downturns than larger, more established companies. As a result, mid-market organizations may choose to spend funds on items other than our cloud services, particularly during difficult economic times. If we do not achieve continued success among mid-market organizations, our business, operating results, and future growth would be adversely affected.

***We are dependent on a small number of service offerings, and any reduced market adoption of these offerings would result in lower revenue and harm our business.***

As a pure-play cloud vendor, we are dependent on a small number of offerings focused on cloud storage and computer backup, and a limited number of corresponding use cases. Our B2 Cloud Storage and Computer Backup offerings have accounted for substantially all of our total revenue to date and we anticipate that they will continue to do so for the

foreseeable future. As a result, our revenue could be reduced as a result of any general or industry decline in demand for cloud-based storage solutions, particularly given that we would not have meaningful revenue from other market sectors to offset any temporary or longer-term downturn in demand for cloud-based storage solutions.

***Adverse economic conditions may adversely impact our revenue and profitability.***

Our operations and financial performance depend in part on worldwide economic conditions and the impact these conditions have on levels of spending on cloud storage solutions. Our business depends on the overall demand for these products and on the economic health and general willingness of our current and prospective customers to purchase our cloud services. Some of our paying customers may view use of cloud storage services as a discretionary purchase and may reduce their discretionary spending on our cloud services during an economic downturn. Weak economic conditions, whether due to COVID-19, uncertainty relating to Russian acts in Ukraine and the potential escalation of tensions in the region or other factors, could cause a reduction in spending on products and solutions storage, which could reduce sales, lengthen sales cycles, increase customer churn, and lower demand for our cloud services, any of which could adversely affect our business, results of operations, and financial condition.

***Our ability to maintain customer adoption and satisfaction depends in part on the ease of use of our cloud services, and any such failure could have an adverse effect on our business.***

Our success in retaining existing customers and obtaining new customers is dependent in part on the ease of use of our cloud services. If our platform and cloud services, including new service offerings and features as they become available, become more complicated and less easy-to-use, customers could experience increased difficulties or disruption with storing or accessing their data, and we may lose existing customers or experience increased challenges obtaining new customers or existing customers may not choose to use additional features of our cloud services. In addition, our customers sometimes depend on our technical support services to resolve issues relating to our platform. If we do not succeed in helping our customers quickly resolve issues or provide effective ongoing education related to our platform, our reputation and business may be harmed.

***Future acquisitions and investments could disrupt our business and harm our financial condition and operating results.***

Our success will depend, in part, on our ability to grow our business in response to changing technologies, customer demands, and competitive pressures. In some circumstances, we may choose to do so through the acquisition of complementary businesses and technologies rather than through internal development. The identification of suitable acquisition candidates can be difficult, time-consuming, and costly, and we may be unable to successfully complete proposed acquisitions. The risks we face in connection with acquisitions include:

- diversion of management time and focus from operating our business to addressing acquisition integration challenges;
- coordination of research and development, operational, and sales and marketing functions;
- retention of key employees from the acquired company;
- cultural challenges associated with integrating employees from the acquired company into our organization;
- integration of the acquired company's accounting, management information, human resources, and other administrative systems;
- the need to implement or improve controls, procedures, and policies at a business that prior to the acquisition may have lacked effective controls, procedures, and policies;
- liability for activities of the acquired company prior to our acquisition of them, including intellectual property infringement claims, violations of laws, commercial disputes, tax liabilities, and other known and unknown liabilities;
- unanticipated write-offs or charges; and

- litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former stockholders, or other third parties.

Future acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expenses, incremental operating expenses, or the write-off of goodwill, any of which could harm our financial condition or operating results.

***We may require additional capital to support our operations or the growth of our business, and we cannot be certain that this capital will be available on reasonable terms when required, or at all.***

We may need additional financing to operate or grow our business. Our ability to obtain additional financing, if and when required, will depend on investor and lender demand, our operating performance, the condition of the capital markets, and other factors. For example, we often use capital leases to finance the equipment we use to provide our cloud-based services. Without additional access to this kind of capital on commercially reasonable terms, or at all, we may not be able to respond to increased demand for our cloud services on a timely or cost-effective basis. We cannot guarantee that additional financing will be available to us on favorable terms when required, or at all. If we raise additional funds through the issuance of equity, equity-linked, or debt securities, those securities may have rights, preferences, or privileges senior to the rights of our Class A common stock, and our existing stockholders may experience dilution. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support the operation or growth of our business could be significantly impaired and our operating results may be harmed.

***We are an emerging growth company, and any decision on our part to comply only with certain reduced reporting and disclosure requirements applicable to emerging growth companies could make our Class A common stock less attractive to investors.***

We are an emerging growth company, and for as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to “emerging growth companies,” including: not being required to have our independent registered public accounting firm audit our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, as amended (the Sarbanes Oxley Act), reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a non-binding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. Under the JOBS Act, emerging growth companies can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have elected to avail ourselves of this accommodation allowing for delayed adoption of new or revised accounting standards, and therefore, we will not be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies. We could be an emerging growth company for up to five years following the completion of our IPO or until we reach certain thresholds. Investors may find our Class A common stock less attractive due to our election to rely on these exemptions and there may be a less active trading market for our Class A common stock and the market price of our Class A common stock may be more volatile.

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

All of our sales contracts, and substantially all of our operations and related financial arrangements, are currently denominated in U.S. dollars and therefore, our revenue and business operations are not directly subject to significant foreign currency risk. However, a strengthening of the U.S. dollar could increase the real cost of our cloud services to our customers outside of the United States, which could reduce demand for our cloud services and adversely affect our financial condition and results of operations. In addition, as we expand our international operations, we may become more exposed to foreign currency risk and may have some of our sales and other operations denominated in one or more currencies other than the U.S. dollar. If we become more exposed to currency fluctuations and are unable to successfully hedge against the risks associated with currency fluctuations, our results of operations could be materially and adversely affected.

***Certain of our market opportunity estimates, growth forecasts, and other metrics included in this Annual Report on Form 10-K could prove to be inaccurate, and any real or perceived inaccuracies may harm our reputation and negatively affect our business.***

Certain estimates and information contained in this Annual Report on Form 10-K, including general expectations concerning our industry and the market in which we operate, market opportunity, and market size, are subject

to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. Moreover, much of this information is based on information provided by third-party providers. Although we believe the information from such third-party sources is reliable, we have not independently verified the accuracy or completeness of the data contained in such third-party sources or the methodologies for collecting such data, and such information may also not prove to be accurate. If there are any limitations or errors with respect to such data or methodologies, our business opportunities may be limited, which could negatively affect our shares of Class A common stock. Even if the markets in which we compete meet the size estimates and growth forecasted in this Annual Report on Form 10-K, our business could fail to grow at similar rates, if at all.

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

We may become subject to legal proceedings, investigations, and claims that arise in the ordinary course of business. For example, we may be subject to claims brought by customers in connection with various types of disputes, including relating to commercial or contract matters, or privacy or other data breaches, or employment claims made by our current or former employees. Litigation can often be expensive, even when there is a successful outcome, and can divert management's attention and resources, which could harm our business and financial condition. Any adverse outcome could also result in significant monetary damages or other types of unfavorable relief, which could harm our business as well as our reputation. Although we may have various insurance policies, insurance might not cover such claims or provide sufficient payments to cover all the costs to resolve one or more such claims, and might not continue to be available on terms acceptable to us, including premium increases or the imposition of large deductible or co-insurance requirements. In addition, we may also be subject to subpoena requests from third parties as well as governmental agencies from time to time that require us to provide certain information relating to matters targeted against other third parties, which can be time consuming.

**Risks Related to Reliance on Infrastructure and Third Parties**

***We rely on third-party vendors and suppliers, including data center and hard drive providers, which may have limited sources of supply, and this reliance exposes us to potential supply and service disruptions that could harm our business.***

We depend on a limited number of third-party data centers and other providers to safely house our equipment and provide sufficient power, bandwidth, and other infrastructure needs to support our operations and cloud services. We also rely on key components for our platform, including hard drives and semiconductors, which come from limited sources of supply. For example, the 2011 Thailand floods decreased hard drive supply globally due to related manufacturing stoppages. A similar decrease in hard drive availability could negatively impact our operations. The COVID-19 pandemic as well as fluctuating demands in the cryptocurrency mining markets also have impacted, and could continue to impact, our ability to source components in a timely and cost-effective manner from third-party suppliers. For example, starting in April 2020, we began to acquire additional hard drives and related infrastructure through capital lease agreements in order to minimize the impact of potential supply chain disruptions due to the COVID-19 pandemic. The additional leased hard drives resulted in a higher balance of capital equipment and related lease liability, an increase in cash used in financing activities from principal payments, as well as a higher ongoing interest and depreciation expense related to these lease agreements. The semiconductor industry is also experiencing a global chip shortage due to the COVID-19 pandemic and various other factors. Current or future supply chain interruptions that could be exacerbated by global political tensions, such as the situation in Ukraine, could negatively impact our ability to acquire hard drives and semiconductors. Any shortage of key components, including hard drives, could materially and adversely affect our ability to provide our cloud services, as well as negatively impact our financial results by increasing our costs, lease liabilities, interest and depreciation expenses, and inventory levels. Shortages or pricing fluctuations could be material in the future. In the event of a shortage, supply interruption, or material pricing change from our suppliers, we may be unable to develop alternate sources in a timely manner or at all. Developing alternate sources of supply for these infrastructure needs, and transitioning our customers' data from provider to another, may be time-consuming, difficult, and costly and we may be unable to source them on terms that are acceptable to us, or at all, which may undermine our ability to scale our platform and harm our business.

***Our business depends, in part, on the success of our strategic relationships with third parties.***

To maintain and grow our business, we anticipate that we will continue to depend on relationships with third parties, such as channel partners and integrators. Identifying partners and negotiating and building relationships with them requires significant time and resources. Our competitors may be effective in providing incentives to third parties to favor their services over us. In addition, any industry consolidation of such partners or integrators by our competitors or others

could result in a decrease in the number of our current and potential customers, as these partners or integrators may no longer facilitate the adoption of our applications by potential customers. Interoperability between our platform and other third-party platforms is also important to our business. Further, some of our partners or integrators are or may become competitive with certain aspects of our cloud services and may elect to no longer integrate with, or support, our platform and cloud services. If we are unsuccessful in establishing or maintaining our relationships with such third parties and maintaining interoperability, our ability to compete in the marketplace or to grow our revenue could be impaired, and our business may suffer. Even if we are successful, we cannot assure you that these relationships will result in increased customer usage of our cloud services or increased revenue.

***Our business is exposed to risks associated with online payment processing methods.***

Many of our customers pay for our cloud services and products using credit cards. We rely on internal systems as well as those of third parties, including Stripe, to process payments. Acceptance and processing of these payment methods are subject to certain rules and regulations and require payment of interchange and other fees. To the extent there are increases in payment processing fees, material changes in the payment ecosystem, such as large re-issuances of payment cards, delays in receiving payments from payment processors, changes to rules or regulations concerning payment processing, loss of payment partners, and/or disruptions or failures in our payment processing systems or payment products, including products we use to update payment information, our revenue, operating expenses, and results of operation could be adversely impacted. For example, in response to the Russian attack on Ukraine that began in February 2022, the United States and many other countries began imposing sanctions on Russia, including goods and services imported and exported to Russia and certain other regions. In addition, various banking institutions and companies, including Stripe and credit card companies, began prohibiting any payments from persons located in Russia, which impacts our ability to receive payments from, and transact certain types of business operations with, our customers, and potential new customers, that are located in those regions. Although we do not have a significant number of customers located in those regions, such actions will have some impact our business. It is also difficult to predict how long the conflict may last, how the conflict could escalate, and how the sanctions may evolve, which could cause a greater adverse impact on our business and operations than we expect.

***We rely on third-party software for certain essential financial and operational services, and a failure or disruption in these services could materially and adversely affect our ability to manage our business effectively.***

We rely on third-party software to provide many essential financial and operational services to support our business, including HubSpot, NetSuite, PagerDuty, and Zendesk. Some of these vendors are less established and have shorter operating histories than traditional software vendors. Moreover, many of these vendors provide their services to us via a cloud-based model instead of software that is installed on our premises. As a result, we depend upon these vendors to provide us with services that are always available and are free of errors or defects that could cause disruptions in our business processes. Any failure by these vendors to do so, or any disruption in our ability to access the internet, would materially and adversely affect our ability to manage our operations, disrupt the delivery of our cloud services to customers, and affect other areas such as our ability to timely provide required financial reporting.

**Risks Related to Accounting and Tax Matters**

***We have identified material weaknesses in our internal controls over financial reporting, and the failure to achieve and maintain effective internal controls over financial reporting could harm our business and negatively impact the value of our Class A common stock.***

We have identified material weaknesses in our internal controls over financial reporting, and if we are not able to effectively remediate our material weaknesses or are otherwise unable to maintain an effective system of internal controls over financial reporting, we may not be able to accurately report our financial results or timely file our periodic reports. As a result, investors may lose confidence in the accuracy and completeness of our financial reports, and the market price of our Class A common stock may be materially impacted.

Our management determined that as of December 31, 2019 we did not maintain effective internal controls over financial reporting, and identified four material weaknesses, specifically related to control activities, as follows:

- our controls were not operating effectively to allow sufficient and timely review of significant accounting transactions and reconciliations. These deficiencies resulted in errors in certain financial statement areas,

such as cash and cash equivalents, prepaid expenses and other current assets, property and equipment, capitalized internal-use software, capital lease liability and sale leaseback transactions;

- our controls were not adequately designed to consider certain revenue recognition criteria, specifically related to the timing of revenue recognition, appropriate presentation and satisfaction of criteria for revenue recognition, which could have resulted in a material misstatement;
- our controls over certain equity transactions were not operating effectively to allow management to timely identify errors related to the recording of those transactions. Specifically, we did not have sufficient technical resources to appropriately identify errors in the accounting for equity awards and preferred stock transactions, resulting in misstatements relating to completeness and accuracy of stock-based compensation and classification of equity instruments; and
- our controls were not adequately designed to consider the accurate recording of value added taxes and sales and use taxes, resulting in misstatements.

Additionally, as of December 31, 2021, we determined a material weakness existed relating to ineffective information technology general controls in the areas of user access and segregation of duties related to certain information technology systems that support our financial reporting process specifically related to expenditures. Although these control weaknesses did not result in any material misstatement of our financial statements for the periods presented, they could have led to a material misstatement of account balances or disclosures.

Our management also determined that the above material weaknesses had not been remediated as of December 31, 2021 and as a result, we did not maintain effective internal control over financial reporting as of December 31, 2021.

We are working to remediate these material weaknesses through the development and implementation of additional processes and controls, as well as hiring additional personnel in our finance and accounting group. Specifically, we have:

- strengthened our internal controls over financial reporting and the design of our internal-control framework through enhanced accounting policies, control activities, and monitoring;
- user access review of systems that support financial reporting and a preliminary review of segregation of duties;
- implemented a new enterprise resource planning (ERP) system and other systems and processes related to revenue recognition and equity administration to increase capabilities over our financial statement recording and reporting processes;
- hired additional full-time accounting personnel with appropriate levels of experience to increase our accounting and technical expertise, including a new Chief Financial Officer, a Corporate Controller, an Internal Controls Manager, and a Director of IT who was hired shortly after December 31, 2021; and
- reallocated responsibilities across our accounting organization so that the appropriate level of knowledge and experience is applied based on complexity of transactions.

While we have made progress to enhance our internal controls over financial reporting, we are still in the process of implementing, documenting, and testing these additional processes, procedures, and controls. Additional time is required to complete implementation and to assess and evaluate the sufficiency of these procedures and related actions. We will continue to devote significant time and attention to these remediation efforts. However, these material weaknesses cannot be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

We cannot assure you that the measures we have taken to date will be sufficient to remediate the material weaknesses we identified or prevent additional material weaknesses in the future. Although we plan to complete this remediation, if the steps we take do not remediate the material weakness in a timely or sufficient manner, there could



continue to be a reasonable possibility that these control deficiencies or others could result in a material misstatement of our annual or interim financial statements that would not be prevented or detected on a timely basis.

Our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal controls over financial reporting until after we are no longer an “emerging growth company” as defined in the JOBS Act. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our internal controls over financial reporting is documented, designed, or operating. Any failure to maintain effective disclosure controls and internal controls over financial reporting could materially and adversely affect our business, results of operations, and financial condition and could cause a decline in the trading price of our Class A common stock.

***If we fail to maintain an effective system of disclosure controls and internal control over financial reporting, we may be unable to produce timely and accurate financial statements or comply with applicable regulations, which could negatively impact the price of our Class A common stock.***

As a public company, we will be subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), the Sarbanes-Oxley Act, and the rules and regulations of the NASDAQ Global Market. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting, and financial compliance costs, make some activities more difficult, time-consuming, and costly, and place significant strain on our personnel, systems, and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal controls over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures and internal controls over financial reporting and expect that we will need to continue to expend significant resources, including accounting-related costs, and significant management oversight, to meet such requirements. However, our current controls and any new controls that we develop may not be adequate, and weaknesses in our disclosure controls may be discovered in the future. Additionally, we have identified material weaknesses in our internal controls over financial reporting, and additional such weaknesses may be discovered in the future. See “—We have identified material weaknesses in our internal controls over financial reporting, and the failure to achieve and maintain effective internal controls over financial reporting could harm our business and negatively impact the value of our Class A common stock.” Any failure to develop or maintain effective controls or any difficulties encountered in their implementation or improvement could harm our results of operations or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal controls over financial reporting also could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal controls over financial reporting that we will eventually be required to include in our periodic reports that will be filed with the SEC. Ineffective disclosure controls and procedures and internal controls over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our Class A common stock.

***Because we recognize revenue from our subscription services over the term of the subscription, downturns or upturns in new business may not be immediately reflected in our operating results.***

We generally recognize revenue from customers of our subscription agreements related to data backup services ratably over the terms of their subscription agreements, a majority of which are one or two-year agreements. Accordingly, the corresponding revenue we report in each quarter from such arrangements is the result of subscription agreements entered into during previous quarters. Consequently, a decline in new or renewed subscriptions in any one quarter may only be partially reflected in our revenue results for that quarter. However, any such decline will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales and market acceptance of our cloud services, and potential changes in our retention rate may not be fully reflected in our operating results until future periods. This subscription model also makes it difficult for us to rapidly increase our revenue through additional subscription sales in any period as part of new growth initiatives or otherwise, as revenue from new customers must be recognized over the applicable subscription term.

***Our operating results may be harmed if we are required to collect sales or other related taxes for our cloud services in jurisdictions where we have not historically done so.***

We collect sales and value-added tax in connection with our cloud services in a number of jurisdictions. One or more states or countries may seek to impose incremental or new sales, use, or other tax collection obligations on us, including for past sales by us or our resellers and other partners. Online sellers can be required to collect sales and use tax despite not having a physical presence in the buyer's state. A successful assertion by a state, country, or other jurisdiction that we should have been or should be collecting additional sales, use, or other taxes on our cloud services could, among other things, result in substantial tax liabilities for past sales, create significant administrative burdens for us, discourage users from purchasing our platform, or otherwise harm our business, results of operations, and financial condition.

***Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.***

As of December 31, 2021 we had net operating loss carryforwards for U.S. federal income tax purposes of \$53.0 million available to offset future U.S. federal taxable income. Also, as of December 31, 2021, we had net operating loss carryforwards for state income tax purposes of \$16.9 million available to offset future state taxable income. If not utilized, both the federal and state tax credit carryforwards will begin to expire in 2034.

Utilization of our net operating loss carryforwards and other tax attributes, such as research and development tax credits, may be subject to annual limitations, or could be subject to other limitations on utilization or benefit due to the ownership change limitations provided by Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the Code), and other similar provisions. Under Sections 382 and 383 of the Code, if a corporation undergoes an "ownership change," our ability to use pre-change net operating loss carryforwards and other pre-change attributes, such as research tax credits, to offset post-change income may be limited. Similar rules may apply under state tax laws. At this time, we have not completed a study to assess whether such an ownership change has occurred, or whether there have been multiple ownership changes since our formation. We may experience ownership changes in the future as a result of subsequent changes in our stock ownership, some of which may be outside our control. Accordingly, our ability to utilize the aforementioned carryforwards may be limited.

Further, legislation enacted in 2017, informally titled the Tax Cuts and Jobs Act (Tax Act), as modified by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) changed the federal rules governing net operating loss carryforwards. For net operating loss carryforwards arising in tax years beginning after December 31, 2017, the Tax Act limits a taxpayer's ability to utilize such carryforwards to 80% of taxable income. In addition, net operating loss carryforwards arising in tax years ending after December 31, 2017 can be carried forward indefinitely, but carryback is generally prohibited. Net operating loss carryforwards generated before January 1, 2018 (which represent the substantial majority of our net operating losses) will not be subject to the Tax Act's taxable income limitation and will continue to have a twenty-year carryforward period. Nevertheless, our net operating loss carryforwards and other tax assets could expire before utilization and could be subject to limitations, which could harm our business, revenue, and financial results.

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

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes appearing elsewhere in this Annual Report on Form 10-K. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates." The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities, and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Significant estimates and judgments involve those related to costs to be capitalized as internal-use software and their useful life; the useful lives of other long-lived assets; impairment considerations for long-lived assets; expected lease term for capital leases; calculation of the sales reserve; valuation of our common stock and stock options and accounting for taxes, including estimates for sales tax and value-added tax liability; deferred tax assets; valuation allowance; and uncertain tax positions among others. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions.

## Risks Related to Intellectual Property

***Assertions by a third party that our cloud services infringe, misappropriate, or otherwise violate their intellectual property could subject us to costly and time-consuming litigation and adversely impact our business.***

There is frequent litigation in the software and technology industries based on allegations of infringement, misappropriation, or other violations of intellectual property rights. Some software and technology companies, including some of our competitors, as well as non-practicing entities, own patents, trademarks, copyrights and other intellectual property rights that they may use to assert claims against us. In our case, third parties have asserted, and may in the future assert, that we have infringed, misappropriated, or otherwise violated their patents or other intellectual property rights. For example, we have faced patent infringement claims from other non-practicing entities in the past. There may be intellectual property rights held by others, including issued or pending patents, that cover significant aspects of our technologies or solutions, and we cannot assure you that we are not infringing, misappropriating, or violating, and have not infringed, misappropriated, or violated, any third-party intellectual property rights or that we will not be held to have done so or be accused of doing so in the future. In addition, as we face increasing competition and become increasingly visible as a publicly-traded company, or if we become more successful, the possibility of new third-party claims may increase.

Any claim that we have violated intellectual property or other proprietary rights of third parties, with or without merit, could be time-consuming and costly to address and resolve, could divert the time and attention of management and technical personnel from our business, could place limitations on our ability to use our current websites and technologies, and could result in an inability to market or provide all or a portion of our cloud services. Furthermore, we could be required to pay substantial monetary damages, including treble damages and attorneys' fees if we are found to have willfully infringed a party's intellectual property rights. We may also be required to enter into a royalty or licensing agreement that could include significant upfront and future licensing fees or expend significant resources to redesign our technologies or solutions, which efforts may not be timely or prove successful at all and require us to indemnify customers or other third parties. Royalty or licensing agreements may be unavailable on terms acceptable to us, or at all. If we cannot develop or license technology for any allegedly infringing aspect of our business, we could be forced to limit our cloud services and may be unable to compete effectively. Any of these events could have a material adverse effect on our business.

***If we are unable to adequately establish, maintain, protect, and enforce our intellectual property and proprietary rights, our reputation may be harmed, we may be subject to litigation, and our business may be adversely affected.***

Our future success and competitive position depend in large part on our ability to establish, maintain, protect, and enforce our intellectual property and proprietary rights. We do not own any issued patents and rely on a combination of trademark, copyright, and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights, all of which provide only limited protection and may not now or in the future provide us with a competitive advantage. The steps we have taken and will take may not prevent unauthorized use, reverse engineering, or misappropriation of our technologies and we may be unable to detect any of the foregoing. Furthermore, effective trademark, copyright, and trade secret protection may not be available in every country in which our cloud services are available. Our lack of patent protection may restrict our ability to protect our technologies and processes from competition. Defending and enforcing our intellectual property rights may result in litigation, which can be costly and divert management attention and resources. If our efforts to protect our technologies and intellectual property are inadequate, the value of our brand and other intangible assets may be diminished and competitors may be able to mimic our cloud services. Any of these events could have a material adverse effect on our business.

With respect to our technology platform, we consider trade secrets and know-how to be one of our primary sources of intellectual property. However, trade secrets and know-how can be difficult to protect. We seek to protect these trade secrets and other proprietary technology, in part, by entering into non-disclosure and confidentiality agreements with parties who have access to them, such as our employees, outside contractors, consultants, advisors, and other third parties. We also enter into confidentiality and invention assignment agreements with our employees and consultants. The confidentiality agreements are designed to protect our proprietary information and, in the case of agreements or clauses containing invention assignment, to grant us ownership of technologies that are developed through a relationship with employees or third parties. We cannot guarantee that we have entered into such agreements with each party that may have or has had access to our trade secrets or proprietary information, including our technology and processes. Despite these efforts, no assurance can be given that the confidentiality agreements we enter into will be effective in controlling access to such proprietary information and trade secrets. The confidentiality agreements on which we rely to protect certain technologies may be breached, may not be adequate to protect our confidential information, trade secrets, and proprietary

technologies and may not provide an adequate remedy in the event of unauthorized use or disclosure of our confidential information, trade secrets or proprietary technology. Further, these agreements do not prevent our competitors or others from independently developing the same or similar technologies and processes, which may allow them to provide a service similar or superior to ours, which could harm our competitive position.

***Our use of “open-source” software could negatively affect our ability to sell our cloud services and subject us to possible litigation.***

A portion of the technologies used by us incorporates “open-source” software, and we may incorporate open-source software in the future. Such open-source software is generally licensed by its authors or other third parties under open-source licenses. Companies that incorporate open-source software into their solutions have, from time to time, faced claims challenging the use of open-source software and compliance with open-source license terms. These licenses may subject us to certain unfavorable conditions, including requirements that we offer all or parts of our technology or services that incorporate the open-source software at no cost, that we make publicly available source code for modifications or derivative works we create based upon, incorporating, or using the open-source software, and/or that we license such modifications or derivative works under the terms of the particular open-source licensor other license granting third parties certain rights of further use. Although we monitor our use of open-source software, we cannot assure you that all open-source software is reviewed prior to use in our cloud services, that our developers have not incorporated open-source software into our technology platform or services, or that they will not do so in the future. In the event that we become subject to such claims, we could be subject to significant damages, enjoined from the sale of our solutions that contained the open-source software, and required to comply with onerous conditions. In addition, the terms of open-source software licenses may require us to provide software that we develop using such open-source software to others on unfavorable license terms. As a result of our current or future use of open-source software, we may face claims or litigation, be required to release our proprietary source code, pay damages for breach of contract, re-engineer our solutions, discontinue making our solutions available in the event re-engineering cannot be accomplished on a timely basis or take other remedial action. Any such re-engineering or other remediation efforts could require significant additional research and development resources, and we may not be able to successfully complete any such re-engineering or other remediation efforts on a timely basis, or at all. Any of these risks could be difficult to eliminate or manage, and, if not addressed, could disrupt the distribution and sale of our solutions and have a material adverse effect on our business and operating results.

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

***The dual class structure of our common stock has the effect of concentrating voting control with those stockholders who held our capital stock prior to the completion of our IPO, including our executive officers, employees, and directors and their affiliates, which will limit your ability to influence the outcome of important transactions, including a change in control.***

Our Class B common stock has 10 votes per share, and our Class A common stock has one vote per share. As of the completion of our initial public offering, stockholders who hold shares of our Class B common stock, including our executive officers, employees, and directors and their affiliates, collectively held approximately 96% of the voting power of our outstanding capital stock. Because of the ten-to-one voting ratio between our Class B common stock and Class A common stock, the holders of our Class B common stock collectively control a majority of the combined voting power of our capital stock and therefore are able to control all matters submitted to our stockholders for approval so long as the shares of our Class B common stock represent at least 10% of all outstanding shares of our Class A common stock and Class B common stock. This concentrated control may have the effect of delaying, preventing, or deterring a change in control of our company, could deprive our stockholders of an opportunity to receive a premium for their capital stock as part of a sale of our company and might ultimately affect the market price of our Class A common stock.

Future transfers by holders of our Class B common stock will generally result in those shares converting into shares of our Class A common stock, subject to limited exceptions, such as certain transfers effected for estate planning or charitable purposes. The conversion of shares of our Class B common stock into shares of our Class A common stock will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term. If, for example, any of our founders or other large existing stockholders that hold significant shares of Class B common stock retain a significant portion of their holdings of our Class B common stock for an extended period of time, they could control a significant portion of the voting power of our capital stock for the foreseeable future. For a description of the dual class structure, see the section titled “Description of Capital Stock” within Exhibit 4.1 attached to this Annual Report on Form 10-K.

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

We cannot predict whether our dual class structure, combined with the concentrated control of our stockholders who hold our Class B common stock, including our executive officers, employees, and directors and their affiliates, will result in a lower or more volatile market price of our Class A common stock or in adverse publicity or other adverse consequences. For example, certain index providers have announced restrictions on including companies with multiple class share structures in certain of their indices. In July 2017, FTSE Russell and Standard & Poor's announced that they would cease to allow most newly public companies utilizing dual or multi-class capital structures to be included in their indices. Under the announced policies, our dual class capital structure would make us ineligible for inclusion in any of these indices. Given the sustained flow of investment funds into passive strategies that seek to track certain indexes, exclusion from stock indexes would likely preclude investment by many of these funds and could make our Class A common stock less attractive to other investors. As a result, the market price of our Class A common stock could be adversely affected.

***Anti-takeover provisions contained in our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws, as well as provisions of Delaware law, could impair a takeover attempt.***

Our Amended and Restated Certificate of Incorporation, Amended and Restated Bylaws, and Delaware law contain provisions which could have the effect of rendering more difficult, delaying, or preventing an acquisition deemed undesirable by our Board of Directors. Among other things, our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws include provisions:

- creating a classified Board of Directors whose members serve staggered three-year terms;
- authorizing "blank check" preferred stock, which could be issued by our Board of Directors without stockholder approval and may contain voting, liquidation, dividend, and other rights superior to our common stock;
- limiting the liability of, and providing indemnification to, our directors and officers;
- limiting the ability of our stockholders to call and bring business before special meetings;
- requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our Board of Directors;
- controlling the procedures for the conduct and scheduling of Board of Directors and stockholder meetings; and
- authorizing two classes of common stock, as discussed above.

These provisions, alone or together, could delay or prevent hostile takeovers and changes in control or changes in our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation law, which prevents certain stockholders holding more than 15% of our outstanding capital stock from engaging in certain business combinations without approval of the holders of at least two-thirds of our outstanding common stock not held by such stockholder. Any provision of our Amended and Restated Certificate of Incorporation, Amended and Restated Bylaws, or Delaware law that has the effect of delaying, preventing, or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our capital stock, and could also affect the price that some investors are willing to pay for our Class A common stock.

***The market price of our Class A common stock has been, and will likely continue to be, volatile, and you could lose all or part of your investment.***

Prior to the listing of our Class A common stock, there was no public market for shares of our Class A common stock. Since our IPO, the stock price of our Class A common stock has experienced very high volatility and the market prices of securities of other newly public companies have historically been highly volatile. The market price of our

Class A common stock could be subject to wide fluctuations in response to various factors, including those listed in this Annual Report on Form 10-K, some of which are beyond our control and may not be related to our operating performance.

Fluctuations in the price of our Class A common stock could cause you to lose all or part of your investment because you may be unable to sell your shares at or above the price you paid. Factors that could cause fluctuations in the market price of our Class A common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of technology stocks;
- the impact of the COVID-19 pandemic;
- changes in operating performance and stock market valuations of other technology companies generally or those in our industry in particular;
- sales of shares of our Class A common stock by us or our stockholders;
- failure of securities analysts to maintain coverage of us, changes in financial estimates by securities analysts who follow us, or our failure to meet these estimates or the expectations of investors;
- the financial projections we may provide to the public, any changes in those projections or our failure to meet those projections;
- announcements by us or our competitors of new products or services;
- the public's reaction to our press releases, other public announcements, and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our operating results or fluctuations in our operating results;
- actual or anticipated developments in our business, our competitors' businesses, or the competitive landscape generally;
- litigation involving us, our industry, or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations, or principles;
- outbreaks of war or other hostilities;
- any significant change in our management; and
- general economic conditions and slow or negative growth of our markets.

***We may be subject to securities litigation, which is expensive and could divert our management's attention.***

In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. This litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

***We may fail to meet our publicly announced guidance or other expectations about our business, which could cause our stock price to decline.***

We may provide from time to time guidance regarding our expected financial and business performance, which may include projections regarding sales and production, as well as anticipated future revenues, gross margins, profitability, and cash flows. Correctly identifying key factors affecting business conditions and predicting future events is inherently an uncertain process, and our guidance may not ultimately be accurate and has in the past been inaccurate in certain respects, such as the timing of new products. Our guidance is based on certain assumptions such as those relating to anticipated production and sales, average sales prices, supplier and commodity costs, and planned cost reductions. If our guidance is not accurate or varies from actual results due to our inability to meet our assumptions or the impact on our financial performance that could occur as a result of various risks and uncertainties, the market value of our Class A common stock could decline significantly.

***Sales of a substantial number of our Class A common stock in the public market could cause our share price to fall.***

The market price of our Class A common stock could decline as a result of sales of a large number of shares of our Class A common stock in the market, and the perception that these sales could occur may also depress the market price of our Class A common stock. In addition, our daily trading volume may be limited and significantly less than the amount of shares available for sale. In the event that the number of our Class A common stock shares offered for sale on any given day exceeds the existing demand for our shares, it may cause our stock price to fall.

In connection with our IPO in November 2021, our executive officers, directors, employees and the holders of substantially all of our capital stock and securities convertible into or exchangeable for our capital stock have entered into market standoff agreements with us entered into lock-up agreements with the underwriters of our IPO under which they have agreed, subject to specific exceptions, not to sell any of our capital stock for 180 days following November 10, 2021, other than in the case of shares of Class A common stock to be issued upon the automatic conversion of our convertible notes (which we also refer to as a Simple Agreement for Future Equity agreement (SAFE)), without first obtaining the written consent of Oppenheimer & Co. Inc., subject to certain exceptions. As a result of these agreements and the provisions of Rule 144 or Rule 701 under the Securities Act of 1933, as amended (the Securities Act), a substantial number of shares of our capital stock will be, or have become, available for sale in the public market as follows:

- beginning 90 days after November 10, 2021, two-thirds of the shares of Class A common stock to be issued upon automatic conversion of our convertible notes became eligible for sale in the public market (or approximately 482,000 shares);
- at the commencement of trading on the second day following our earnings announcement for the fourth quarter and year ended December 31, 2021, up to 15% of the vested shares held by our founders, executive officers, directors and greater than 10% stockholders, and up to 20% of the vested shares held by our other employees, consultants and independent contractors, will be eligible for sale in the public market, subject, in each case to meeting certain stock price performance requirements and notification requirements set forth in the lock-up agreements; and
- beginning 181 days after November 10, 2021, if not earlier released, the remainder of the shares of our capital stock will be eligible for sale in the public market from time to time thereafter, subject in some cases to the volume and other restrictions of Rule 144 and our insider trading policy.

All of the shares of Class A common stock sold in our IPO are freely tradable without restrictions or further registration under the Securities Act of 1933, except for any shares held by our affiliates as defined in Rule 144 under the Securities Act.

Following the expiration of the lock-up agreements referred to above, stockholders owning an aggregate of up to 4,066,595 shares of our Class B common stock can also require us to register shares of our capital stock owned by them for public sale in the United States. In addition, we have filed a registration statement on Form S-8 in November of 2021, which was immediately effective upon filing, to register approximately 19,000,000 shares of our capital stock reserved for future issuance under our equity compensation plans. Subject to the satisfaction of applicable exercise periods and expiration of the market standoff agreements and lock-up agreements referred to above, the shares of our capital stock

issued upon exercise of outstanding options to purchase shares of our Class B common stock or that settle upon vesting of restricted stock units will be available for immediate resale in the United States in the open market.

Furthermore, in connection with our IPO, we agreed with the underwriters, subject to certain exceptions set forth in the section titled “Underwriting” in the Final Prospectus for our IPO dated as of November 10, 2021 and filed with the SEC pursuant to Rule 424(b)(4) under the Securities Act on November 12, 2021, without the prior written consent of Oppenheimer & Co. Inc., not to issue, sell or register with the Commission (other than on Form S-8 or on any successor form), or otherwise dispose of, directly or indirectly, any of our equity securities (or any securities convertible into, exercisable for or exchangeable for our equity securities), for 180 days following November 10, 2021. Subject to the foregoing, we may issue additional shares of our Class A common stock, convertible securities or other equity. Such issuances could be dilutive to investors and could cause the price of shares of our Class A common stock to decline. New investors in such issuances could also receive rights senior to those of holders of shares of our Class A common stock.

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

***If securities or industry analysts do not publish or cease publishing research or reports about us, our business, our market, or our competitors, or if they adversely change their recommendations regarding our Class A common stock, the market price of our Class A common stock and trading volume could decline.***

The trading market for our Class A common stock will be influenced by the research and reports that securities or industry analysts may publish about us, our business, our market, or our competitors. If any of the analysts who may cover us adversely change their recommendations regarding our Class A common stock or provide more favorable recommendations about our competitors, the market price of our Class A common stock would likely decline. If any of the analysts who may cover us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the market price of our Class A common stock or trading volume to decline.

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

We do not anticipate declaring any cash dividends to holders of our Class A common stock in the foreseeable future. Consequently, investors may need to rely on sales of our Class A common stock after price appreciation, which may never occur, as the only way to realize any future gains on their investment. Investors seeking cash dividends should not purchase shares of our Class A common stock.

***Our Amended and Restated Certificate of Incorporation provides that the Court of Chancery of the State of Delaware and the federal district courts of the United States of America are the exclusive forums for substantially all disputes between us and our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees.***

Our Amended and Restated Certificate of Incorporation provides that the Court of Chancery of the State of Delaware and the federal district courts of the United States of America are the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees. Specifically, our Amended and Restated Certificate of Incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum provision for: (i) any derivative action or proceeding brought on behalf of us; (ii) any action asserting a claim of breach of a fiduciary duty; (iii) any action arising pursuant to any provision of the DGCL, our Amended and Restated Certificate of Incorporation or Amended and Restated Bylaws (as either may be amended from time to time); (iv) any action to interpret, apply, enforce, or determine the validity of our Amended and Restated Certificate of Incorporation or our Amended and Restated Bylaws; (v) any action asserting a claim against us that is governed by the internal affairs doctrine; or (vi) any action asserting an “internal corporate claim” as defined in the DGCL.

These exclusive forum provisions would not apply to suits brought to enforce a duty or liability created by the Exchange Act.



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

These exclusive-forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees. If a court were to find any of the exclusive forum provisions of our Amended and Restated Certificate of Incorporation to be inapplicable to or unenforceable in an action, we may incur further significant additional costs associated with resolving the dispute in other jurisdictions, all of which could seriously harm our business.

***The requirements of being a public company, particularly after we are no longer an "emerging growth company", may strain our resources, require us to incur substantial costs and will require substantial management attention.***

As a public company, and particularly after we cease to be an "emerging growth company", we have incurred and will continue to incur substantial legal, accounting, and other expenses that we did not incur as a private company. For example, we are subject to the reporting requirements of the Exchange Act, the applicable requirements of the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the rules and regulations of the SEC, and the listing standards of the NASDAQ Global Market. For example, the Exchange Act requires, among other things, we file annual, quarterly, and current reports with respect to our business, financial condition, and results of operations. Compliance with these rules and regulations has increased and will continue to increase our legal and financial compliance costs, and increase demand on our systems, particularly after we are no longer an emerging growth company. In addition, as a public company, we may be subject to stockholder activism, which can lead to additional substantial costs, distract management, and impact the manner in which we operate our business in ways we cannot currently anticipate. As a result of disclosure of information in filings required of a public company, our business and financial condition has become more visible, which may result in threatened or actual litigation, including by competitors.

Some members of our management team also have limited experience managing a publicly traded company, interacting with public company investors, and complying with the increasingly complex laws pertaining to public companies. Our management team may not successfully or efficiently manage our transition to being a public company subject to significant regulatory oversight and reporting obligations under the federal securities laws and the continuous scrutiny of securities analysts and investors. These new obligations and constituents will require significant attention from our senior management and could divert their attention away from the day-to-day management of our business, which could adversely affect our business, financial condition, and results of operations.

***Our failure to timely and effectively implement controls and procedures required by Section 404(a) of the Sarbanes-Oxley Act could have a material adverse effect on our business.***

As a public company, we are required to provide management's assessment regarding internal control over financial reporting as early as in our second Annual Report on Form 10-K. Even though we are working towards implementing controls and procedures, the standards required for a public company under Section 404(a) of the Sarbanes-Oxley Act are significantly more stringent than those required of us as a private company. Management may not be able to effectively and timely implement controls and procedures that adequately respond to the increased regulatory compliance and reporting requirements that became applicable after transitioning from a private company. If we are not able to implement the additional requirements of Section 404(a) in a timely manner or with adequate compliance, we may not be able to assess whether our internal controls over financial reporting are effective, which may subject us to adverse regulatory consequences and could harm investor confidence and the market price of our securities.

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

None.

**Item 2. Properties**

Our corporate headquarters is located in San Mateo, California and consists of approximately 22,000 square feet of space under lease agreements, the first of which expires in 2022 and include options for renewal. We also lease space in multiple data centers located domestically in California and Arizona, and one data center located internationally in Amsterdam, in the Netherlands. We lease all of our facilities and do not own any real property. We expect to add facilities as we grow our employee base, our Storage Cloud platform and expand geographically, and may also elect to consolidate the locations of the data centers we use as well as other operation centers from time to time to address our needs. We believe that our facilities are sufficient to meet our needs for the immediate future, and that, should it be needed, suitable additional space will be available to accommodate expansion of our operations.

**Item 3. Legal Proceedings**

From time to time we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. We are not presently a party to any legal proceedings that in the opinion of our management, if determined adversely to us, individually or taken together, would have a material adverse effect on our business, financial condition, operating results, or cash flows. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

**Item 4. Mine Safety Disclosures**

None.

## Part II

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

#### *Market information*

Our Class A common stock has been listed on The Nasdaq Stock Market LLC under the symbol "BLZE" since November 11, 2021. Prior to that date, there was no public trading market for our common stock.

#### *Holders of Record*

As of February 28, 2022, there were 15 stockholders of record of our Class A common stock and 80 stockholders of record of our Class B common stock. Because many of our shares of Class A common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

#### *Dividend Policy*

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

#### *Recent Sales of Unregistered Securities*

Not applicable.

#### *Securities Authorized for Issuance under Equity Compensation Plans*

The information concerning our equity compensation plans is incorporated by reference herein to the section of the Proxy Statement entitled "Equity Compensation Plan Information."

#### *Issuer Repurchases of Securities*

None.

#### *Use of Proceeds*

In November 2021, we completed our initial public offering ("IPO"), in which we issued and sold an aggregate of 7,187,500 shares of our Class A common stock at a public offering price of \$16.00 per share, which resulted in gross proceeds of \$115.0 million. The net proceeds to us after deducting underwriting discounts and commissions were approximately \$103.0 million. All of the shares issued and sold in our IPO were registered under the Securities Act pursuant to a registration statement on Form S-1 (File No. 333- 260333), which was declared effective by the SEC on November 10, 2021.

There has been no material change in the planned use of proceeds from our IPO from those disclosed in the Final Prospectus for our IPO dated as of November 10, 2021 and filed with the SEC pursuant to Rule 424(b)(4) under the Securities Act, as amended, on November 12, 2021.

### Item 6. Reserved

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

*The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes to those statements included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. You should review the section titled "Special Note Regarding Forward-Looking Statements" for a discussion of forward-looking statements and in Part I, Item 1A, "Risk Factors", for a discussion of factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis and elsewhere in this Annual Report on Form 10-K. Our historical results are not necessarily indicative of the results that may be expected for any period in the future.*

### Overview

We are a leading storage cloud platform, providing businesses and consumers cloud services to store, use, and protect their data in an easy and affordable manner. We provide these cloud services through a purpose-built, web-scale software infrastructure built on commodity hardware. We believe that by substantially reducing the complexity and frustration of storing, using, and protecting data, we can empower customers to focus on their core business operations. Through our blog and culture of transparency, we have built a community of millions of readers and brand advocates. Referrals from our community of brand advocates, combined with our highly efficient and primarily self-serve customer acquisition model and an ecosystem of thousands of partners, have allowed us to attract approximately 500,000 customers as of December 31, 2021. These customers use our Storage Cloud platform across more than 175 countries to grow and protect their business data on our approximately 2 exabytes, or 2 trillion megabytes, of data storage under management.

Our Backblaze Storage Cloud provides a platform that is the foundation for our B2 Cloud Storage Infrastructure-as-a-Service (IaaS) consumption-based offering and our Backblaze Computer Backup Software-as-a-Service (SaaS) subscription-based offering. B2 Cloud Storage enables customers to store data, developers to build applications, and partners to expand their use cases. The amount of data stored in this cloud service can scale up and down as needed on a pay-as-you-go basis. Backblaze Computer Backup automatically backs up data from laptops and desktops for businesses and individuals. This cloud backup service offers easily understood flat-rate pricing to continuously back up a virtually unlimited amount of data.

Our operations have historically been efficient with limited outside investment. Prior to issuing \$10.0 million of convertible notes (which we also refer to as a Simple Agreement for Future Equity agreement (SAFE)) in a private financing round in August 2021, we had raised less than \$3.0 million in outside equity since our founding in 2007. This has helped create a historical focus on operational efficiency, creativity, and collaborative problem solving. We believe that focusing on storage use cases and promoting an open ecosystem allows us to integrate well with a broad range of partners. We have consistently invested in our technology platform and highly efficient content-driven and primarily self-serve go-to-market strategy, allowing us to achieve customer, community, and product milestones.

### Initial Public Offering

On November 15, 2021, our IPO had its first closing, in which we issued and sold 6,250,000 shares of our Class A common stock at a public offering price of \$16.00 per share. On November 17, 2021, our IPO had its second closing, in which we issued and sold 937,500 additional shares at the same per-share price pursuant to the exercise by the underwriters of their option to purchase such shares from us for the purpose of covering over-allotments. Together, these two closings resulted in net proceeds of approximately \$103.0 million after deducting the underwriting discounts and commissions and offering expenses. In connection with the IPO and with the filing of our Amended and Restated Certificate of Incorporation in Delaware and the adoption of our Amended and Restated Bylaws, the following occurred, (i) the reclassification of all outstanding shares of our common stock into an equivalent number of shares of our Class B common stock, (ii) all shares of the convertible preferred stock then outstanding automatically converted into 3,359,195 shares of Class B common stock (iii) the SAFE notes automatically converted into 722,860 shares of Class A common stock.

## Our Business Model

Our solutions are designed for individuals and businesses of all sizes and across all industries but have a particularly strong appeal to mid-market organizations (which we define as organizations with 10 to 999 employees) due to their desire for easy-to-use solutions. We generate revenue primarily from our two cloud services:

- B2 Cloud Storage, which enables customers to store data for any use case, and for developers to embed our platform into their applications. In both cases, our customers use this offering in a consumption-based model, and
- Backblaze Computer Backup, which provides virtually unlimited backup to businesses and consumers in a SaaS subscription model.

Our pricing is simple and straightforward, with fees and terms that are shared transparently on our website.

We have maintained our per-gigabyte B2 Cloud Storage pricing for five years, and we announced price increases to our unlimited subscription Computer Backup pricing in February 2019 and July 2021 with no material impact on customer retention as of December 31, 2021.

We provide simple pricing for usage of our cloud services and increase revenue per customer through our customers' natural data growth or employee growth. Additionally, we provide customers with additional value through cross-sell, upsell, and use case expansion that result in additional revenue per customer. These options for cross-selling and upselling include the following:

- **Cross-Sell:** After adopting any of our products, customers may expand to other products as their use cases grow, including Computer Backup customers who adopt B2 Cloud Storage to facilitate broader use cases. Adopting additional products expands usage of our platform.
- **Upsell:** Customers can choose to use various features and services for additional fees, such as Extended Version History, Snapshots, cloud replication (anticipated to be available in the first half of 2022), and enhanced support tiers. For example, our Computer Backup cloud service includes 30-day file version history with all subscriptions; with Extended Version History customers can keep versions as long as they wish, for an additional cost. B2 Cloud Storage offers Snapshots that allow customers to create moment-in-time versions of their data, and we also allow customers to keep their data in multiple geographic regions, both of which provide more customer value. Additionally, customers receive email and chat support for free, but can also opt for enhanced support tiers for an additional cost, which provide dedicated customer support contacts and 24/7 response.
- **Use Case Expansion:** B2 Cloud Storage customers may adopt the service for one business need, but can expand their use cases as their business evolves. One such example would be a business using B2 Cloud Storage for media asset management storage, which decides to also use the service as an origin store for content distribution; another would be a business that adopts B2 Cloud Storage for backup and archive purposes, which decides to also enable Object Lock for ransomware protection. Use case expansion enables the opportunity to deepen our relationship with our customers and increase revenue.

For prospective customers interested in B2 Cloud Storage, we offer a free tier and a simple, intuitive sign-up process, allowing them to quickly on-board and start using our solutions. Once prospective customers grow beyond the free storage limit, they have the flexibility to only pay for what they need and pay as they go, without any lock-in or long-term commitments. This is delivered via a consumption-based model, and we charge a fixed price per month per gigabyte of data stored on our platform.

For prospective customers interested in Computer Backup, we offer a free 15-day trial and automatically start to back up all their files securely to our Storage Cloud. Prospective customers can then choose to sign up on a per computer basis. The service is delivered via a SaaS model where revenue is recognized ratably over the subscription term. Subscriptions are offered to customers on a monthly, annual, or biennial basis, providing customers flexibility to choose their commitment lengths. We charge a flat rate for this solution and provide virtually unlimited backup capabilities to customers. There are no storage limits or tiers. Customers also have the option to subscribe to Extended Version History,

which enables them to extend retention of old file versions and deleted files, which are typically saved for 30 days, to a year or perpetually.

We have a highly efficient go-to-market model that is built on a self-serve selling motion. Prospective customers find us through a variety of channels including our website, partners, and brand advocates. We have fostered community engagement with content we share on our blog, which includes millions of readers viewing the content we shared in 2021 alone. Our content is intended to encourage organic, inbound traffic that we believe serves as our greatest source of advocates and referrals. Our free trial and self-serve sign-up processes help convert our blog readers and referrals from our brand advocates into customers, with over 80% of our revenue in 2021 coming from self-serve customers. In addition to generating customers, a community of thousands of partners has arisen as a result of our efforts. Our developer, alliance, and managed service provider (MSP) partners expand use cases and attract customers, thereby increasing usage of our Storage Cloud and helping to drive revenue growth. In addition to our self-serve selling motion, we have a sales-assisted selling motion to identify opportunities to increase business with existing customers and to assist larger customers in adopting our services. Our sales-assisted selling motion helps customers that, in 2021, generally were more than 20 times larger in terms of average revenue per customer than our self-serve customers.

Substantially all of our revenue is recurring in nature. We employ a land-and-expand model that drives additional revenue from existing customers. As customers generate, store, and back up more data, their use of our platform increases, creating natural opportunities for revenue expansion. We are able to further expand our relationships with our customers when they adopt new features and use cases that lead to increased usage of our platform. Our land-and-expand strategy is evidenced by our overall net revenue retention rate of 110% and 114% as of December 31, 2021 and 2020, respectively.

### **Factors Affecting Our Performance**

We believe that the future growth and performance of our business will depend on several factors, including the following:

#### ***Scale Self Service Customer Acquisition***

Our business depends, in part, on our ability to add new customers. We believe there is a significant opportunity to further grow our customer base by continuing to make investments in sales and marketing. We plan to continue investing in our customer acquisition and inbound demand generation activities, which is driven predominantly by our blog content, our case studies, social sharing, earned media, and our self-serve sign up model. We intend to leverage this model as an efficient approach to attract new customers, turning them into brand advocates, partners, and more referrals. Furthermore, we plan to continue to build and scale our paid lead generation and to increasingly grow in the mid-market.

We also plan to continue to build our ecosystem of partners. We believe that delivering our Storage Cloud solutions through our alliance, developer, and MSP partnerships is an area of opportunity for us. By adding more partners and deepening our relationships with them, we can expand our use cases and help drive new customer acquisition.

#### ***Scale Sales-Assisted Efforts***

We believe an increasingly important complement to our self-serve customer acquisition model is our targeted inside Sales team that is focused on a low-touch “sales-assisted” model that supports our larger customers if the need arises. This team focuses on inbound inquiries, outbound prospecting targeting specific use cases, and volume expansion of our self-serve customers.

#### ***Expansion Within Existing Customers***

Our future success will depend in part on our ability to increase usage and adoption of our solutions with existing customers. We intend to increase revenue from existing customer relationships through the development of additional features and use cases, expanding our Customer Success initiatives, and natural customer data growth. We have developed add-on services, such as Extended Version History and multi-region selection, which customers pay for on top of existing offerings. Examples of expanding use cases include utilizing Backblaze for additional purposes such as media storage, hybrid cloud support, analytics repositories, and others. We also plan to grow our Customer Success initiatives to ensure customers avail themselves of the full benefits of our platform, thus resulting in increased adoption. As these

customers continue to generate, store, and back up data, their use of our platform increases, creating natural opportunities for revenue expansion.

***Continued Platform Investment and New Product Launches***

We are committed to delivering market-leading products that continue to make cloud storage and backup easy. We believe we must maintain our product quality and strength of our brand in order to retain the current customer base as well as drive further revenue growth in our business. We intend to continue investing in our research and development activities to build upon our strong position in the technology community. We also plan to launch new products that are adjacent to our current offerings, which will provide us with the ability to further cross-sell and upsell.

***Investments for Continued Scaling***

We are focused on our long-term revenue potential and building out our infrastructure to sustain that growth. On a routine basis, we plan to focus resources on optimizing the efficiency of our data storage. In some scenarios, we may choose to pass on potential cost savings to the customer, but in other scenarios we may choose to reinvest cost savings back into infrastructure and design.

***International Expansion***

While our sales and marketing efforts have primarily focused on the United States, our existing customer base spans more than 175 countries, with 28% of our revenue originating outside of the United States for the year ended December 31, 2021. We believe international expansion represents a meaningful opportunity to generate further demand for our solutions in international geographies. We plan to invest in our operations internationally to reach new customers by expanding in targeted key geographies where we believe there are opportunities for significant return on investment.

## Key Business Metrics

We monitor the key business metrics set forth below to help us evaluate our business and growth trends, establish budgets, measure the effectiveness of our sales and marketing efforts, and assess operational efficiencies. The calculation of the key metrics discussed below may differ from other similarly titled metrics used by other companies, securities analysts, or investors.

	As of December 31,	
	2021	2020
<b>B2 Cloud Storage</b>		
Net revenue retention rate (NRR) <sup>(1)</sup>	130%	136%
Gross customer retention rate <sup>(1)</sup>	89%	89%
Annual recurring revenue (in millions)	\$26.80	\$17.10
Number of customers (in thousands) <sup>(2)</sup>	74,318	59,112
Annual average revenue per user	\$348	\$292
<b>Computer Backup</b>		
Net revenue retention rate (NRR) <sup>(1)</sup>	102%	107%
Gross customer retention rate <sup>(1)</sup>	91%	90%
Annual recurring revenue (in millions)	\$48.60	\$42.10
Number of customers (in thousands) <sup>(2)</sup>	439,249	419,209
Annual average revenue per user	\$108	\$97
<b>Total Company</b>		
Net revenue retention rate (NRR) <sup>(1)</sup>	110%	114%
Gross customer retention rate <sup>(1)</sup>	91%	90%
Annual recurring revenue (in millions)	\$75.40	\$59.20
Number of customers (in thousands) <sup>(2)</sup>	498,933	466,298
Annual average revenue per user	\$147	\$124

(1) The calculation methodology for NRR and gross customer retention rate metrics has been adjusted to improve accuracy with respect to customers that use both our B2 Cloud Storage and Computer Backup solutions. The calculation methodology for these metrics on a total company basis remains unchanged. Corresponding NRR and gross customer retention rate metrics for all quarters between Q1'20 and Q4'21 under this adjusted methodology have been provided in the table below:

	As of							
	December 31, 2021	September 30, 2021	June 30, 2021	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
<b>B2 Cloud Storage</b>								
Net revenue retention rate (NRR)	130 %	131 %	132 %	133 %	136 %	141 %	146 %	150 %
Gross customer retention rate	89 %	89 %	89 %	89 %	89 %	89 %	89 %	89 %
<b>Computer Backup</b>								
Net revenue retention rate (NRR)	102 %	101 %	102 %	104 %	107 %	108 %	109 %	109 %
Gross customer retention rate	91 %	91 %	91 %	90 %	90 %	90 %	90 %	90 %
<b>Total Company</b>								
Net revenue retention rate (NRR)	110 %	110 %	110 %	111 %	114 %	116 %	116 %	116 %
Gross customer retention rate	91 %	91 %	91 %	91 %	90 %	90 %	90 %	90 %



- (2) The number of customers for each of B2 Cloud Storage and Computer Backup solutions include customers that use both our B2 Cloud Storage and Computer Backup solutions.

### ***Net Revenue Retention Rate***

We believe the growth in use of our platform by our existing customers is an important measure of the health of our business and our future growth prospects. We measure this growth by monitoring our overall net revenue retention rate, which measures our ability to retain and expand revenue from existing customers. We believe that we can drive this metric by continuing to focus on our customers and by adding additional products and functionality to our platform.

Our overall NRR is a trailing four-quarter average of the recurring revenue from a cohort of customers in a quarter as compared to the same quarter in the prior year. We calculate our overall net revenue retention rate for a quarter by dividing (i) recurring revenue in the current quarter from any accounts that were active at the end of the same quarter of the prior year by (ii) recurring revenue in the current corresponding quarter from those same accounts. Our overall net revenue retention rate includes any expansion of revenue from existing customers and is net of revenue contraction and customer attrition, and excludes revenue from new customers in the current period. Our net revenue retention rate for B2 Cloud Storage and Computer Backup is calculated in the same manner as our overall net revenue retention rate based on the revenue from our B2 Cloud Storage and Computer Backup solutions, respectively.

### ***Gross Customer Retention Rate***

We use gross customer retention rate to measure our ability to retain our customers. Our gross customer retention rate reflects only customer losses and does not reflect the expansion or contraction of revenue we earn from our existing customers. We believe our high gross customer retention rates demonstrate that we serve a vital service to our customers, as the vast majority of our customers tend to continue to use our platform from one period to the next. To calculate our gross customer retention rate, we take the trailing four-quarter average of the percentage of cohort of customers who were active at the end of the quarter in the prior year that are still active at the end of the current quarter. We calculate our gross customer retention rate for a quarter by dividing (i) the number of accounts that generated revenue in the last month of the current quarter that also generated recurring revenue during the last month of the corresponding quarter in the prior year, by (ii) the number of accounts that generated recurring revenue during the last month of the corresponding quarter in the prior year.

### ***Annual Recurring Revenue***

We define annual recurring revenue (ARR) as the annualized value of all B2 Cloud Storage and Computer Backup arrangements as of the end of a period. Given the renewable nature of our business, we view ARR as an important indicator of our financial performance and operating results, and we believe it is a useful metric for internal planning and analysis. ARR is calculated based on multiplying the monthly revenue from all B2 Cloud Storage and Computer Backup arrangements, which represent greater than 98% of our revenue for the periods presented (and excludes Physical Media revenue), for the last month of a period by 12. Our annual recurring revenue for B2 Cloud Storage and Computer Backup is calculated in the same manner as our overall annual recurring revenue based on the revenue from our Computer Backup and B2 Cloud Storage solutions, respectively. See Notes to our financial statements included elsewhere in this Annual Report on Form 10-K for more information on revenue from B2 Cloud Storage and Computer Backup arrangements.

ARR does not have a standardized meaning and is therefore unlikely to be comparable to similarly titled measures presented by other companies. ARR should be viewed independently of revenue and is not intended to be combined with or to replace that item. ARR is not a forecast and the active contracts at the end of a reporting period used in calculating ARR may or may not be extended or renewed by our customers.

While ARR is not a guarantee of future revenue, we consider over 98% of our revenue recurring for the periods presented. As noted above, our gross customer retention rate has been consistent over the periods presented at approximately 90%. Although B2 Cloud Storage is paid for by customers in arrears, we recognize revenue in the month these storage services are delivered, and consider this revenue recurring as customers are charged as long as their data is stored with us. Further, during the periods presented, customers who store data with us generally increase the amount of their data stored over time, as evidenced by our B2 Cloud Storage net revenue retention rate of 130% as of December 31, 2021. Fees from B2 Cloud Storage (consumption-based arrangements) are recognized as services are delivered. Computer Backup (subscription-based arrangements) revenue is recognized on a straight-line basis over the contractual term of the arrangement beginning on the date that the service commences, provided that all other revenue recognition criteria have

been met. See Notes to the financial statements for details on our revenue recognition policy. Additional limitations of ARR include the fact that consumption-based revenue is not guaranteed for future periods, although we believe that our high historic gross customer retention rate is indicative of ARR, and the fact that our subscription terms can be on a monthly basis, although the significant majority of our customers have subscription terms of one year or longer during the periods presented above.

### ***Number of Customers***

We define a customer at the end of any period as a distinct account, as identified by a unique account identifier, that has paid for our cloud services, which makes up substantially all of our user base.

### ***Annual Average Revenue Per User***

We define annual average revenue per user (Annual ARPU) as the annualized value for the average revenue per customer. Annual ARPU is calculated by dividing our revenue for the last month of a period by the total number of customers as of the last day of the same period, and then multiplying the resulting quotient by 12. Our annual average revenue per user for B2 Cloud Storage and Computer Backup is calculated in the same manner based on the revenue and number of customers from our B2 Cloud Storage and Computer Backup solutions, respectively.

### ***Additional Key Business Metrics Calculation Notes***

The metrics for Net Revenue Retention Rate, Gross Customer Retention Rate, Number of Customers and Annual Average Revenue Per User are currently calculated using only those customers paying by credit card and exclude customers paying by invoice utilizing a different system. The amounts related to the number of customers paying by invoice has historically been immaterial.

## **Impact of COVID-19**

The worldwide spread of COVID-19 has created significant uncertainty in the global economy. There have been no comparable recent events that provide guidance as to the effect the spread of COVID-19 as a global pandemic may have, and, as a result, the ultimate impact of COVID-19 and the extent to which COVID-19 continues to impact our business will depend on future developments, which are highly uncertain and difficult to predict.

While the full impact of the pandemic to our business remains unknown and we believe that our results of operations and financial condition have not been materially adversely impacted to date, we also believe that the pandemic has had some impact on our business. Our potential customers, customers, or partners may have experienced, or in the future could experience, downturns or uncertainty in their own business operations due to COVID-19, which may have affected or could affect purchasing and operating decisions. For example, although we believe our ability to retain customers has not been materially impacted by the pandemic, we also believe that the pandemic may have caused some customers to reduce their use of cloud storage with us or to delay increasing their use of our cloud storage offerings. In addition, the pandemic may have caused potential customers to delay their purchasing decisions or to store less data with us. We may also experience customer losses due to customer bankruptcy or cessation of operations, or otherwise.

In addition to the impact on customers, the pandemic has had some impact to our supply chain. For example, starting in April 2020, we began to acquire additional hard drives and related infrastructure through capital lease agreements in order to minimize the impact of potential supply chain disruptions due to the pandemic. The additional leased hard drives resulted in a higher balance of capital equipment and related lease liability, an increase in cash used in financing activities from principal payments, as well as a higher ongoing interest and depreciation expense related to these lease agreements. Accordingly, our supply chain in the future may be disrupted, or we may be unable to obtain infrastructure and related equipment essential to our business on favorable terms or at all. However, based on the impact from the pandemic to date, we believe we have sufficient reserves to minimize any material impact to our business operations should such a disruption occur.

In response to the COVID-19 pandemic, in the first quarter of 2020, we temporarily and periodically closed our office, enabled our non-essential workforce to work remotely, and implemented travel restrictions for non-essential business. These changes remain in effect in 2021 and could extend into future quarters. The changes we have implemented to date have not affected and are not expected to materially affect our ability to maintain operations, including financial reporting systems, internal controls over financial reporting, and disclosure controls and procedures. Furthermore,

after the outbreak of COVID-19, we have seen slower growth in certain operating expenses due to reduced business travel and the virtualization or cancellation of customer and employee events.

In April 2020, we applied for and received a \$2.3 million loan from the Small Business Administration's Paycheck Protection Program (PPP). We submitted our PPP forgiveness application in July 2020, and in June 2021 we received notification from the SBA that our forgiveness application of the PPP loan and accrued interest, totaling \$2.3 million, was approved in full, and we had no further obligations related to the PPP loan. Accordingly, we recorded a gain on the forgiveness of the PPP loan as gain on extinguishment of debt on our statement of operations as of December 31, 2021.

The full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations, cash flows, and financial condition will depend on future developments that are highly uncertain and cannot be accurately predicted. The global impact of COVID-19 continues to rapidly evolve, and we will continue to monitor the situation and the effects on our business and operations.

### **Key Components of Results of Operations**

#### ***Revenue***

We generate revenue primarily from our B2 Cloud Storage and Backblaze Computer Backup cloud services offered on our platform. Our platform is offered to our customers through either a consumption or a subscription-based arrangement through B2 Cloud Storage and Backblaze Computer Backup, respectively. Our subscription arrangements range in duration from one month to 24 months, for which we bill our customers up front for the entire period. Our consumption-based arrangements do not have a contractual term and are billed monthly in arrears.

For our subscription arrangements, we provide our cloud services evenly over the contractual period, for which revenue is recognized on a straight-line basis over the contract term beginning on the date that the service is made available to the customer. Consumption-based revenue is variable and is related to fees charged for our customers' use of our platform and is recognized as revenue in the period in which the consumption occurs.

In support of our platform, we also derive revenue from products offered to our customers for the ability to securely restore data using a USB drive (USB Restore) and for migrating large data sets to our platform using our proprietary Fireball device. Revenue from USB Restore is recognized as our products are delivered to our customers. Revenue recognized from customer rentals of our Fireball device is time-based.

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

Cost of revenue consists of expenses for providing our platform and cloud services to our customers. These expenses include operating in co-location facilities, network and bandwidth costs, and depreciation of our equipment and capital lease equipment in co-location facilities. Personnel-related costs associated with customer support and maintaining service availability, including salaries, benefits, bonuses, and stock-based compensation are also included. Cost of revenue also includes credit card processing fees, amortization of capitalized internal-use software development costs, and allocated overhead costs.

We intend to continue to invest additional resources in our infrastructure and related personnel, and our customer support organization, to support the growth of our business. Some of these investments, including costs of infrastructure equipment (including related depreciation) and expansion, are incurred in advance of generating revenue, and either the failure to generate anticipated revenue or fluctuations in the timing of revenue could affect our gross margin from period to period.

#### ***Operating Expenses***

The most significant components of our operating expenses are personnel costs, which consist of salaries, benefits, bonuses, and stock-based compensation. We also incur other non-personnel costs related to our general overhead expenses. We expect that our operating expenses will increase in absolute dollars as we grow our business.

### *Research and Development*

Research and development expenses consist primarily of personnel costs, consultant fees, costs related to technical operations, subscription services for use by our research and development organization and an allocation of our general overhead expenses. We capitalize the portion of our software development costs that meets the criteria for capitalization.

We expect our research and development expenses to increase in absolute dollars for the foreseeable future as we continue to focus our research and development efforts on adding new features to our platform, improving our cloud service offerings, and increasing the functionality of our existing features. Our research and development expenses may fluctuate as a percentage of revenue from period to period due to the timing and extent of these expenses.

### *Sales and Marketing*

Sales and marketing expenses consist primarily of personnel costs. Sales and marketing expenses also include expenditures related to advertising, marketing, our brand awareness activities, commissions paid to marketing partners, and an allocation of our general overhead expenses.

We plan to continue investing in sales and marketing by increasing our sales and marketing headcount, supplementing our self-serve model with a direct sales approach, expanding our partner ecosystem, driving our go-to-market strategies, building our lead generation and brand awareness, and sponsoring additional marketing events. As a result, we expect our sales and marketing expenses to increase in absolute dollars for the foreseeable future. Sales and marketing expenses may fluctuate as a percentage of revenue from period to period because of the timing and extent of these expenses.

### *General and Administrative*

General and administrative expenses consist primarily of personnel costs for our accounting, finance, legal, IT, security, human resources, and administrative support personnel and executives. General and administrative expenses also include costs related to legal and other professional services fees, sales, and other taxes; depreciation and amortization; and an allocation of our general overhead expenses. We expect our general and administrative expenses to increase in absolute dollars as our business grows. Following the completion of this offering, we will incur additional general and administrative expenses as a result of operating as a public company, including increased expenses for insurance, costs to comply with the rules and regulations applicable to companies listed on a national securities exchange, costs related to compliance and reporting obligations pursuant to the rules and regulations of the SEC, investor relations, and professional services expenses.

### *Interest Expense*

Interest expense consists primarily of interest related to our capital lease agreements.

### *Income Tax Provision*

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

**Results of Operations**

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

	<b>For the Years Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in thousands)</b>	
Revenue	\$ 67,479	\$ 53,784
Cost of revenue <sup>(1)</sup>	33,138	25,801
Gross profit	34,341	27,983
Operating expenses:		
Research and development <sup>(1)</sup>	20,536	13,069
Sales and marketing <sup>(1)</sup>	19,698	11,924
General and administrative <sup>(1)</sup>	12,901	6,722
Total operating expenses	53,135	31,715
Loss from operations	(18,794)	(3,732)
Interest expense	(3,677)	(2,886)
Gain on extinguishment of debt	2,299	—
Realized loss on SAFE	(1,436)	—
Loss before provision for income taxes	(21,608)	(6,618)
Income tax provision	96	5
Net loss	<u>\$ (21,704)</u>	<u>\$ (6,623)</u>

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

	<b>For the Years Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
	<b>(in thousands)</b>	
Cost of revenue	\$ 509	\$ 100
Research and development	2,129	750
Sales and marketing	1,652	670
General and administrative	1,339	359
Total stock-based compensation expense	<u>\$ 5,629</u>	<u>\$ 1,879</u>

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

	For the Years Ended December 31,	
	2021	2020
Revenue	100 %	100 %
Cost of revenue	49	48
Gross profit	51	52
Operating expenses:		
Research and development	30	24
Sales and marketing	29	22
General and administrative	19	12
Total operating expenses	78	59
Loss from operations	(27)	(7)
Interest expense	(5)	(5)
Gain on extinguishment of debt	3	—
Realized loss on SAFE	(2)	—
Loss before provision for income taxes	(32)	(12)
Income tax provision	—	—
Net loss	(32)%	(12)%

#### Comparison of the Years Ended December 31, 2021 and 2020

##### Revenue

	For the Years Ended December 31,		Change	% Change
	2021	2020		
	(in thousands)			
B2 Cloud Storage revenue	\$ 22,632	\$ 14,240	\$ 8,392	59 %
Computer Backup revenue	44,117	38,926	5,191	13 %
Physical Media revenue	730	618	112	18 %
Revenue	\$ 67,479	\$ 53,784	\$ 13,695	25 %

Total revenue increased by \$13.7 million, or 25%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. Consumption-based revenue (B2 Cloud Storage) increased by \$8.4 million, which primarily increased due to expansion of existing customers. The remaining increase of \$5.2 million was due to subscription-based revenue (Computer Backup), which increased primarily due to the addition of new customers and a price increase for Computer Backup that went into effect in September 2021.

##### Cost of Revenue and Gross Margin

	For the Years Ended December 31,		Change	% Change
	2021	2020		
	(in thousands, except percentages)			
Cost of revenue	\$ 33,138	\$ 25,801	\$ 7,337	28 %
Gross margin	51 %	52 %		

Total cost of revenue increased by \$7.3 million, or 28%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. The increase was primarily attributable to an increase of \$3.3 million for depreciation of our infrastructure equipment, which was mainly a result of purchasing additional hard drives and related infrastructure to

support our growing business and in order to minimize the impact of potential supply chain disruptions caused by COVID-19, and an increase of \$4.0 million related to managing and operating our co-location facilities.

Gross margin decreased to 51% for the year ended December 31, 2021 compared to 52% for the year ended December 31, 2020. The decrease in gross margin was primarily due to cost of revenue increasing at a higher rate as compared to our revenue due primarily to investment in our infrastructure, as described above.

### **Operating Expenses**

	For the Years Ended December 31,		Change	% Change
	2021	2020		
	(in thousands)			
Research and development	\$ 20,536	\$ 13,069	\$ 7,467	57 %
Sales and marketing	19,698	11,924	7,774	65 %
General and administrative	12,901	6,722	6,179	92 %

#### *Research and Development*

Research and development expense increased by \$7.5 million, or 57%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. The increase was primarily attributable to an increase of \$4.9 million in personnel-related expenses as a result of increased headcount, an increase of \$0.5 million related to facilities and IT overhead allocation, and an increase of \$1.4 million related to stock-based compensation expense. We expect these expenses to increase in the future as we continue to add new features and functionality to our offerings. The extent to which these expenses are able to be capitalized related to the development of internal-use software may impact the amount of research and development expenses in future periods.

#### *Sales and Marketing*

Sales and marketing expense increased by \$7.8 million, or 65%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. The increase in sales and marketing expense was primarily attributable to an increase of \$4.0 million in personnel-related expenses as a result of increased headcount, an increase of \$1.0 million related to stock-based compensation and an increase of \$2.0 million due to increased advertising expenses. We expect these expenses to increase in the future as we expand sales and marketing efforts to support our growing business.

#### *General and Administrative*

General and administrative expense increased by \$6.2 million, or 92%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. The increase was primarily attributable to an increase of \$3.1 million in personnel-related expenses as a result of increased headcount, an increase of \$0.5 million in professional fees for accounting and tax services, and an increase of \$1.0 million related to stock-based compensation expense. We expect these expenses to increase in the future as we expand efforts to support our growing business.

### **Interest Expense**

	For the Years Ended December 31,		Change	% Change
	2021	2020		
	(in thousands)			
Interest expense	\$ (3,677)	\$ (2,886)	\$ (791)	27 %

Interest expense increased by \$0.8 million, or 27%, for the year ended December 31, 2021 compared to the year ended December 31, 2020. The increase was primarily due to interest expense from capital lease agreements and lease financing obligations we entered into during the second half of 2020 and during 2021, which increased our capital lease liability significantly to \$33.2 million as of December 31, 2021. The capital lease agreements and lease financing obligations were for additional hard drives and related infrastructure that we purchased in response to the COVID-19 pandemic, in order to minimize the impact of potential supply chain disruptions, and in support of our growing business.

### Income Tax Provision

	For the Years Ended December 31,		Change	% Change
	2021	2020		
	(in thousands)			
Income tax provision	\$ 96	\$ 5	\$ 91	1820 %

Our provision for income taxes increased by \$0.1 million for the year ended December 31, 2021 compared to the year ended December 31, 2020 due to a charge related to the limitation on post-2017 federal net operating losses which are limited to 80% beginning in years after December 31, 2020.

### Non-GAAP Financial Measures

To supplement our financial statements, which are prepared and presented in accordance with generally accepted accounting principles in the United States, or GAAP, we provide investors with non-GAAP financial measures including adjusted gross margin and adjusted EBITDA, each as defined below. These measures are presented for supplemental informational purposes only, have limitations as analytical tools and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. In addition, other companies, including companies in our industry, may calculate similarly-titled non-GAAP financial measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of these measures as tools for comparison. Because of these limitations, when evaluating our performance, you should consider each of these non-GAAP financial measures alongside other financial performance measures, including the most directly comparable financial measure calculated in accordance with GAAP and our other GAAP results. A reconciliation of each of our non-GAAP financial measures to the most directly comparable financial measure calculated in accordance with GAAP is set forth below.

#### Adjusted Gross Margin

We believe adjusted gross margin, when taken together with our GAAP financial results, provides a meaningful assessment of our performance, and is useful to us for evaluating our ongoing operations and for internal planning and forecasting purposes.

We define adjusted gross margin as gross profit, exclusive of stock-based compensation expense, depreciation expense of our property and equipment, and amortization expense of capitalized internal-use software included within cost of revenue, as a percentage of adjusted gross profit to revenue. We exclude stock-based compensation, which is a non-cash item, because we do not consider it indicative of our core operating performance. We exclude depreciation expense of our property and equipment and amortization expense of capitalized internal-use software, because these may not reflect current or future cash spending levels to support our business. We believe adjusted gross margin provides consistency and comparability with our past financial performance and facilitates period-to-period comparisons of operations, as this metric eliminates the effects of depreciation and amortization.

The following table presents a reconciliation of gross profit, the most directly comparable financial measure stated in accordance with GAAP, to adjusted gross profit, for each of the periods presented:

	For the Years Ended December 31,	
	2021	2020
	(in thousands)	
Gross profit	\$ 34,341	\$ 27,983
Adjustments:		
Stock-based compensation	509	100
Depreciation and amortization	15,684	12,402
Adjusted gross profit	\$ 50,534	\$ 40,485
Gross margin	51 %	52 %
Adjusted gross margin	75 %	75 %



**Adjusted EBITDA**

Our management uses adjusted EBITDA to assess our operating performance. We define adjusted EBITDA as net loss adjusted to exclude depreciation and amortization, stock-based compensation, interest expense, income tax provision, and gain on extinguishment of debt. We use adjusted EBITDA to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that adjusted EBITDA, when taken together with our GAAP financial results, provides meaningful supplemental information regarding our operating performance by excluding certain items that may not be indicative of our business, results of operations or outlook. We consider adjusted EBITDA to be an important measure because it helps illustrate underlying trends in our business and our historical operating performance on a more consistent basis.

Our calculation of adjusted EBITDA may differ from the calculations of adjusted EBITDA by other companies and therefore comparability may be limited. Because of these limitations, when evaluating our performance, you should consider adjusted EBITDA alongside other financial performance measures, including our net loss and other GAAP results. The following table presents a reconciliation of net loss, the most directly comparable financial measure stated in accordance with GAAP, to adjusted EBITDA for each of the periods presented:

	For the Years Ended December 31,	
	2021	2020
	(in thousands)	
Net loss	\$ (21,704)	\$ (6,623)
Adjustments:		
Depreciation and amortization	16,322	12,951
Stock-based compensation	5,629	1,879
Interest expense	3,677	2,886
Income tax provision	96	5
Realized loss on SAFE	1,436	—
Gain on extinguishment of debt	(2,299)	—
Adjusted EBITDA	<u>\$ 3,157</u>	<u>\$ 11,098</u>

**Liquidity and Capital Resources**

Since inception, we have financed operations primarily through payments received from our customers. As of December 31, 2021 and December 31, 2020, our principal sources of liquidity were cash and cash equivalents of \$104.8 million and \$6.1 million, respectively.

In November 2021, we completed our IPO which resulted in net proceeds of approximately \$103.0 million, after underwriting discounts and commissions and other offering costs of approximately \$12.0 million.

We believe that our existing cash and cash equivalents, together with cash provided by operations and our revolving credit facility, will be sufficient to support our working capital and capital expenditure requirements for at least the next 12 months. Our future capital requirements will depend on many factors, including our revenue growth rate, the timing and the amount of cash received from customers, the expansion of sales and marketing activities, the timing and extent of spending to support development efforts, the price at which we are able to purchase or lease infrastructure equipment, the introduction of platform enhancements, and the continuing market adoption of our platform. In the future, we may enter into arrangements to acquire or invest in complementary businesses, products, and technologies. We may be required or choose to seek additional equity or debt financing. In the event that we require additional financing, we may not be able to raise such financing on terms acceptable to us or at all. If we are unable to raise additional capital or generate cash flows necessary to expand our operations and invest in continued innovation, we may not be able to compete successfully, which would harm our business, results of operations, and financial condition.

In October 2021, we entered into a revolving credit agreement with City National Bank. Under this agreement, among other things, (i) amounts available to be borrowed are \$9.5 million and (ii) advances on the line of credit bear interest payable monthly at the average SOFR rate plus 2.75%. The revolving credit agreement matures in September 2024. In connection with this agreement, we fully repaid and subsequently terminated our 2017 revolving credit agreement

with HomeStreet Bank. During December 2021, we entered into the first amendment to the revolving credit agreement with City National Bank. The amendment removed the financial covenants under the agreement and added a requirement to hold collateral in the form of a lien prior to any advance.

In August 2021, we issued \$10.0 million of convertible notes in a private financing round to continue investing in our growth initiatives and for general corporate purposes. We also refer to these convertible notes security as a Simple Agreement for Future Equity agreement (SAFE). As of November 2021, the convertible note and the accrued interest have been fully converted to Class A common stock upon the completion of the initial public offering. On November 10, 2021, in connection with the IPO, the SAFE notes automatically converted into 722,860 shares of Class A common stock. We valued the notes on the settlement date of November 10, 2021 based on the Class A common stock price of \$16.00, which was the price of the Class A common stock sold in the IPO. This valuation resulted in a realized loss of \$1.4 million that the Company recorded in its statement of operations. The accrued interest of \$0.1 million was added to the purchased amount upon conversion into equity.

In April 2020, we applied for and received a \$2.3 million loan from the Small Business Administration's Paycheck Protection Program (PPP). We submitted our PPP forgiveness application in July 2020, and in June 2021 we received notification from the SBA that our forgiveness application of the PPP loan and accrued interest, totaling \$2.3 million, was approved in full, and we had no further obligations related to the PPP loan. Accordingly, we recorded a gain on the forgiveness of the PPP loan as gain on extinguishment of debt on statement of operations as of June 30, 2021.

We enter into capital lease arrangements to obtain hard drives and related equipment for our data center operations. We also enter into leases for our facilities for data centers and office space under non-cancelable operating leases with various expiration dates. As of December 31, 2021, our future minimum payments were \$38.2 million and \$21.0 million under our capital and operating lease arrangements, respectively. For further information, *see Note 10* to our financial statements included elsewhere in this Annual Report on Form 10-K.

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

	For the Years Ended December 31,	
	2021	2020
	(in thousands)	
Net cash provided by operating activities	\$ 3,520	\$ 12,819
Net cash (used in) investing activities	(11,190)	(4,973)
Net cash provided by (used in) financing activities	106,606	(8,748)

### Operating Activities

Our largest source of operating cash is payments received from our customers. Our primary uses of cash from operating activities are for personnel-related expenses, sales and marketing expenses, infrastructure expenses, and overhead expenses.

Cash provided by operating activities mainly consists of our net loss adjusted for certain non-cash items, including stock-based compensation, depreciation, and amortization of property and equipment, amortization of capitalized internal-use software, net, and changes in operating assets and liabilities during each period.

For the year ended December 31, 2021, cash provided by operating activities was \$3.5 million, which resulted from a net loss of \$21.7 million, adjusted for non-cash charges of \$22.0 million and a net cash inflow of \$3.2 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of \$16.3 million for depreciation and amortization expense, \$5.6 million for stock-based compensation expense, \$1.6 million for realized loss and accrued interest from the SAFE transaction, \$0.8 million for amortization of deferred contract cost and \$2.3 million for the gain on extinguishment of the PPP loan. The net cash inflow from changes in operating assets and liabilities was primarily the result of a \$5.5 million increase in deferred revenue, which increased due to our growing customer base and timing of collections from our customers, in addition to a \$1.3 million increase in accrued expenses and other current liabilities, which increased due to timing of payment of our expenses, offset by \$3.9 million decrease in prepaid and other current assets. Cash provided by operations decreased during the year ended December 31, 2021, as compared to the same period

in 2020 primarily due to increased spending in support of our expanded research and development and sales and marketing spending to support business growth.

For the year ended December 31, 2020, cash provided by operating activities was \$12.8 million, which resulted from a net loss of \$6.6 million, adjusted for non-cash charges of \$15.5 million and a net cash inflow of \$3.9 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of \$13.0 million for depreciation and amortization expense and \$1.9 million for stock-based compensation expense. The net cash inflow from changes in operating assets and liabilities was primarily the result of a \$2.0 million increase in deferred revenue, which increased due to our growing customer base and timing of collections from our customers, in addition to a \$2.3 million increase in accrued expenses and other current liabilities, which increased due to timing of payment of our expenses.

### ***Investing Activities***

Cash used in investing activities during the year ended December 31, 2021 was \$11.2 million, resulting primarily from capital expenditures of \$7.6 million in support of infrastructure deployments to support our growing business, and \$3.6 million related to the development of software mainly for adding new features and enhanced functionality to our platform. We expect cash used in our investing activities to continue to increase in the future as we increase our infrastructure footprint and enhance our platform, in support of our growing business.

Cash used in investing activities during the year ended December 31, 2020 was \$5.0 million, resulting primarily from capital expenditures of \$2.1 million in support of infrastructure deployments to support our growing business, and \$2.9 million related to the development of software mainly for adding new features and enhanced functionality to our platform.

### ***Financing Activities***

Cash provided by financing activities for the year ended December 31, 2021 was \$106.6 million, resulting from \$107.0 million in proceeds from the initial public offering in November 2021, \$10.0 million in proceeds from the SAFE transaction entered in September 2021, \$4.3 million in proceeds from the four lease financing transactions, and \$0.5 million in proceeds from the exercise of employee stock options, offset by \$12.2 million principal payments on our capital lease agreements and lease financing obligations of related to hard drives and other infrastructure equipment used in our co-location facilities and \$3.0 million in payments of deferred offering expense related to our initial public offering.

Cash used in financing activities for the year ended December 31, 2020 was \$8.7 million. Cash used in financing activities was from principal payments on our capital lease agreements of \$10.9 million related to hard drives and other infrastructure equipment used in our co-location facilities, offset by \$2.3 million in proceeds received from the PPP loan.

## **Critical Accounting Policies and Estimates**

Our financial statements and the related notes thereto included elsewhere in this Annual Report on Form 10-K are prepared in accordance with U.S. GAAP. The preparation of financial statements also requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from the estimates made by management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations, and cash flows will be affected.

We believe that the accounting policies described below involve a substantial degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our financial condition and results of operations. For further information, see *Note 2* to our financial statements included elsewhere in this Annual Report on Form 10-K.

### ***Revenue Recognition***

The Backblaze Storage Cloud provides the core platform for our B2 Cloud Storage consumption-based offering and our Backblaze Computer Backup subscription-based offering. We derive our revenue primarily from fees

earned from customers accessing these offerings through our platform, paid monthly in arrears for consumption-based arrangements for B2 Cloud Storage, or charged upfront for subscription-based arrangements for Backblaze Computer Backup. We provide services to our customers under subscription-based arrangements of one month, one year and two years, which automatically renew at the end of the respective term.

We also recognize revenue from products offered to our customers for the ability to securely restore data using a USB drive (USB Restore) and for migrating large data sets to our platform using our proprietary Fireball device. We refer to these products as our Physical Media revenue. Physical Media revenue was approximately 1% of our revenue for the years ended December 31, 2021 and 2020.

Our monthly subscription arrangements do not provide customers with refund rights. One- and two-year subscription arrangements are eligible for a full refund for up to 30 days after subscribing. For Physical Media revenue, we offer a full refund to our customers restoring data using USB drives, if the drives are returned to us within 30 days of receipt. We recognize revenue net of our estimate of expected customer cancellations and returns. These estimates involve inherent uncertainties and use of management's judgment.

As we provide our offerings as a hosted service, we do not provide customers the contractual right to take possession of the software at any time, do not incur set up costs, nor charge an installation fee to new customers.

We determine revenue recognition in accordance with ASC 606 through the following five steps, which include inherent estimates:

1. *Identify the contract with a customer.* We apply judgment in determining the customer's ability and intent to pay, which is based on a variety of factors, including the customer's payment history; however, as approximately 98% of our revenue was generated from customers paying via credit card during the years ended December 31, 2021 and 2020, the risk of non-payment is reduced.

2. *Identify the performance obligations in the contract.* Performance obligations promised in a contract are identified based on the services and products that will be transferred to the customer that are both capable of being distinct and are distinct in the context of the contract. Our contracts typically contain a single distinct performance obligation representing our Backblaze Storage Cloud platform offerings, which includes Computer Backup and B2 Cloud Storage services and customer support.

3. *Determine the transaction price.* The transaction price is determined based on the consideration we expect to receive in exchange for transferring services to the customer. Variable consideration, which contains estimates made by us, is included in the transaction price if, in our judgment, it is probable that a significant future reversal of cumulative revenue recognized under the contract will not occur. Certain fees that are considered consideration payable to a customer are accounted for as a reduction of the transaction price.

4. *Allocate the transaction price to performance obligations in the contract.* We determine the relative standalone selling price for performance obligations based on the price we sell a good or service for separately.

5. *Recognize revenue when or as we satisfy a performance obligation.* Revenue is recognized when control of the services is transferred to the customers, in an amount that reflects the consideration that we expect to receive in exchange for those services. Performance obligations are satisfied over time as the customer simultaneously receives and consumes the benefits as the entity performs. Revenue is generally recognized over the common measure of progress (i.e., time-based or consumption-based) for the entire performance obligation.

For revenue generated from arrangements that involve third-parties, we evaluate whether we are the principal or the agent based on maintaining control over the services being provided and maintaining the relationship with the end-customer. Substantially all of our revenue is reported on a gross basis, as we are the principal.

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

All stock-based compensation to employees is measured on the grant date based on the fair value of the awards on the date of grant. We recognize compensation cost for awards on a straight-line basis over the requisite service period, which is generally the four-year vesting period. For grants made after our IPO, we use our publicly traded Class A

common stock price to determine the fair value of our Class A common stock. Fluctuations in our Class A common stock price may have a significant impact on the amount of stock-based compensation recognized.

If an award contains a provision whereby vesting is accelerated upon a change in control, we recognize stock-based compensation expense on a straight-line basis, as a change in control is considered to be outside of our control and is not considered probable until it occurs. Forfeitures are accounted for in the period in which they occur.

We use the Black-Scholes option pricing model to estimate the fair value of our stock options. The Black-Scholes option pricing model requires the use of complex assumptions, which determine the fair value of stock-based awards. Our option-pricing model requires the input of certain assumptions, including the expected term of the option, the expected volatility of the price of our common stock, risk-free interest rates, and the expected dividend yield of our common stock. The assumptions used in our option-pricing model represent our best estimates. These estimates involve inherent uncertainties and the application of judgment. If factors change and different assumptions are used, our stock-based compensation expense could be materially different in the future.

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

### ***Capitalized Internally-Developed Software, Net***

We capitalize qualifying software development costs related to new features and enhancements to the functionality of our platform and related products, as well as implementation. The costs consist of personnel costs (including related benefits and stock-based compensation) that are incurred during the application development stage.

We review capitalization criteria for each project individually, which requires us to exercise judgement as to what costs are capitalizable. Capitalized costs are amortized over the estimated useful life of the software, which is five years, on a straight-line basis, which represents the manner in which the expected benefit will be derived. We determine the useful lives of identifiable project assets after considering the specific facts and circumstances related to each project. The amortization of costs related to the platform applications is included in cost of revenue in the statement of operations.

Significant judgments related to the capitalization of internal use software costs include determining whether it is probable that projects will result in new or additional functionality, concluding on when the application development phase starts and ends, and estimating which costs, especially employee compensation costs, should be capitalized.

### **Recently Adopted Accounting Pronouncements**

See the sections titled “Basis of Presentation and Summary of Significant Accounting Policies—Accounting Pronouncements Recently Adopted” and “Basis of Presentation and Summary of Significant Accounting Policies—Accounting Pronouncements Not Yet Adopted” in Note 2 to our financial statements included elsewhere in this Annual Report on Form 10-K for more information.

### **JOBS Act Accounting Election**

We are an emerging growth company, as defined in the Jumpstart Our Business Startups (JOBS) Act. For so long as we continue to be an emerging growth company, we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation. The JOBS Act also provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards applicable to public companies. This provision allows an emerging growth company to delay the adoption of some accounting standards unless and until those standards would otherwise apply to private companies. We have elected to use the extended transition period under the JOBS Act for the adoption of accounting standards until the earlier of the date we (i) are no longer an emerging growth company or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

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

We are exposed to market risk in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily the result of fluctuations in interest rates and foreign currency exchange rates.

***Interest Rate Risk***

Our exposure to interest rate risk primarily relates to our capital lease arrangements and lease financing obligations for obtaining hard drives and related equipment for our data center operations, which may be impacted by interest rate changes for any future agreements we enter in to. We also earn interest income generated by cash and cash equivalents held at City National Bank, which is relatively insensitive to interest rate changes. The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. We do not believe that an increase or decrease in interest rates of 100 basis points would have a material effect on our operating results or financial condition.

Our credit facility with City National Bank is at a variable interest rate.

***Foreign Currency Exchange Rate Risk***

Our sales are currently denominated in the U.S. dollar and we have minimal foreign currency risk related to our revenue. In addition, most of our operating expenses are denominated in the U.S. dollar, resulting in minimal foreign currency risks. The volatility of exchange rates depends on many factors that we cannot accurately forecast. In the future, if our international sales increase or more of our expenses are denominated in currencies other than the U.S. dollar, our operating results may be adversely affected by fluctuations in the exchange rates of the currencies in which we do business. At this time we do not, but we may in the future, enter into derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk. It is difficult to predict the impact hedging activities could have on our results of operations.

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

**BACKBLAZE, INC.**

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## **Report of Independent Registered Public Accounting Firm**

Shareholders and Board of Directors  
Backblaze, Inc.  
San Mateo, California

### **Opinion on the Financial Statements**

We have audited the accompanying balance sheets of Backblaze, Inc. (the “Company”) as of December 31, 2021 and 2020, the related statements of operations, changes in convertible preferred stock and stockholders’ equity (deficit), and cash flows for each of the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

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

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

/s/ BDO USA, LLP  
We have served as the Company’s auditor since 2020.  
San Jose, California  
March 28, 2022



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

	December 31,	
	2021	2020
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 104,843	\$ 6,076
Accounts receivable, net	309	209
Prepaid expenses and other current assets	5,930	2,947
Total current assets	111,082	9,232
Property and equipment, net	43,068	38,746
Capitalized internally-developed software, net	7,637	5,682
Other assets	1,794	809
Total assets	\$ 163,581	\$ 54,469
<b>Liabilities, Convertible Preferred Stock and Stockholders' Equity (Deficit)</b>		
Current liabilities:		
Accounts payable	\$ 2,075	\$ 1,710
Accrued expenses and other current liabilities	5,109	3,596
Accrued value-added tax ("VAT") liability	2,511	1,533
Capital lease liability and lease financing obligation, current	13,645	11,320
Deferred revenue, current	21,722	17,587
Debt, current	—	628
Total current liabilities	45,062	36,374
Capital lease liability and lease financing obligation, non-current	19,603	17,886
Deferred revenue, non-current	3,132	1,801
Other long-term liabilities	298	820
Debt, non-current	—	1,644
Total liabilities	\$ 68,095	\$ 58,525
Commitments and contingencies (Note 10)		
<b>Convertible Preferred Stock</b>		
Convertible preferred stock, \$0.0001 and \$0.001 par value as of December 31, 2021 and 2020; 10,000,000 and 9,000,000 shares authorized as of December 31, 2021 and 2020, respectively; zero and 3,359,195 shares issued and outstanding with no aggregate liquidation preference and \$2,852 as of December 31, 2021 and 2020, respectively.	—	2,784
<b>Stockholders' Equity (Deficit)</b>		
Class A common stock, \$0.0001 par value; 113,000,000 and zero shares authorized as of December 31, 2021 and 2020, respectively; 8,227,992 and zero shares issued and outstanding as of December 31, 2021 and 2020, respectively.	1	—
Class B common stock, \$0.0001 and \$0.001 par value as of December 31, 2021 and 2020, respectively; 37,000,000 and 36,000,000 shares authorized as of December 31, 2021 and 2020, respectively; 22,156,842 and 18,614,905 shares issued and outstanding as of December 31, 2021 and 2020, respectively.	2	5
Additional paid-in capital	131,826	7,794
Accumulated deficit	(36,343)	(14,639)
Total stockholders' equity (deficit)	95,486	(6,840)
Total liabilities, convertible preferred stock and stockholders' equity (deficit)	\$ 163,581	\$ 54,469

*See accompanying notes, which are an integral part of these financial statements.*

**BACKBLAZE, INC.**  
**STATEMENTS OF OPERATIONS**  
**(in thousands, except share and per share data)**

	<b>For the Years Ended December 31,</b>	
	<b>2021</b>	<b>2020</b>
Revenue	\$ 67,479	\$ 53,784
Cost of revenue	33,138	25,801
Gross profit	34,341	27,983
Operating expenses:		
Research and development	20,536	13,069
Sales and marketing	19,698	11,924
General and administrative	12,901	6,722
Total operating expenses	53,135	31,715
Loss from operations	(18,794)	(3,732)
Interest expense	(3,677)	(2,886)
Gain on extinguishment of debt	2,299	—
Realized loss on SAFE	(1,436)	—
Loss before provision for income taxes	(21,608)	(6,618)
Income tax provision	96	5
Net loss	\$ (21,704)	\$ (6,623)
Net loss per share attributable to Class A and Class B common stockholders, basic and diluted	\$ (1.07)	\$ (0.36)
Weighted average shares used in computing net loss per share attributable to Class A and Class B common stockholders, basic and diluted	20,345,655	18,609,422

*See accompanying notes, which are an integral part of these financial statements.*

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

	Convertible Preferred Stock		Class A and Class B Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
<b>Balance as of December 31, 2019</b>	3,359,195	\$ 2,784	18,596,772	\$ 5	\$ 5,684	\$ (8,283)	\$ (2,594)
Net loss	—	—	—	—	—	(6,623)	(6,623)
Adoption of new accounting standard (Topic 606)	—	—	—	—	—	267	267
Issuance of common stock upon exercise of stock options	—	—	18,133	—	19	—	19
Stock-based compensation	—	—	—	—	2,091	—	2,091
<b>Balance as of December 31, 2020</b>	3,359,195	\$ 2,784	18,614,905	\$ 5	\$ 7,794	\$ (14,639)	\$ (6,840)
Net loss	—	—	—	—	—	(21,704)	(21,704)
Conversion of convertible preferred stock to Class B common stock upon initial public offering	(3,359,195)	(2,784)	3,359,195	(3)	2,784	—	2,781
Issuance of Class A common stock upon initial public offering, net of underwriting discounts and commissions and other offering costs	—	—	7,187,500	1	103,142	—	103,143
Issuance of Class A common stock upon settlement of SAFE notes	—	—	722,860	—	11,566	—	11,566
Issuance of Class A and Class B common stock upon exercise of stock options	—	—	500,374	—	478	—	478
Stock-based compensation	—	—	—	—	6,062	—	6,062
<b>Balance as of December 31, 2021</b>	—	\$ —	30,384,834	\$ 3	\$ 131,826	\$ (36,343)	\$ 95,486

*See accompanying notes, which are an integral part of these financial statements.*

**BACKBLAZE INC.**  
**STATEMENTS OF CASH FLOWS**  
(in thousands)

	For the Years Ended December 31,	
	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (21,704)	\$ (6,623)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Gain on extinguishment of Paycheck Protection Program ("PPP") loan	(2,299)	—
Realized loss and interest expense on SAFE	1,566	—
Depreciation and amortization	16,322	12,951
Stock-based compensation	5,629	1,879
Amortization of deferred contract costs	783	664
(Gain) loss on disposal of assets and other	(4)	42
Changes in operating assets and liabilities:		
Accounts receivable	(100)	(128)
Prepaid expenses and other current assets	(3,914)	(1,173)
Other assets	(541)	170
Accounts payable	502	143
Accrued expenses and other current liabilities	1,333	2,302
Accrued VAT liability	978	(191)
Deferred revenue	5,464	1,963
Other long-term liabilities	(495)	820
Net cash provided by operating activities	3,520	12,819
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of property and equipment	17	2
Purchases of property and equipment, net	(7,579)	(2,125)
Capitalized internally-developed software costs	(3,628)	(2,850)
Net cash used in investing activities	(11,190)	(4,973)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments on capital lease and lease financing obligations	(12,153)	(10,863)
Proceeds from initial public offering, net of underwriting discounts and commissions and other offering costs	106,950	—
Payments of deferred offering costs	(2,977)	(176)
Proceeds from PPP	—	2,272
Proceeds from debt facility	3,500	—
Repayment of debt facility	(3,500)	—
Proceeds from SAFE	10,000	—
Proceeds from lease financing	4,308	—
Proceeds from exercises of stock options	478	19
Net cash provided by (used in) financing activities	106,606	(8,748)
Net increase (decrease) in cash, cash equivalents and restricted cash	98,936	(902)
Cash, cash equivalents and restricted cash at beginning of period	6,076	6,978
Cash, cash equivalents and restricted cash at end of period	\$ 105,012	\$ 6,076
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$ 3,526	\$ 2,882
Cash paid for income taxes	\$ 14	\$ 11
<b>SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Stock-based compensation capitalized internal-use software	\$ 433	\$ 212
Equipment acquired through capital lease obligations	\$ 16,499	\$ 23,083
Accruals related to purchases of property and equipment	\$ 164	\$ 731
Extinguishment of PPP loan	\$ 2,299	\$ —
Settlement of SAFE notes	\$ 11,566	\$ —
<b>RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>		
Cash and cash equivalents	\$ 104,843	\$ 6,076
Restricted cash - included in prepaid expenses and other current assets	\$ 169	\$ —
Total cash, cash equivalents and restricted cash	\$ 105,012	\$ 6,076

*See accompanying notes, which are an integral part of these financial statements.*

**BACKBLAZE INC.**

**NOTES TO FINANCIAL STATEMENTS**

**Note 1. Organization and Description of Business**

***Description of Business***

Backblaze, Inc. (“Backblaze” or the “Company”) is a storage cloud platform, providing businesses and consumers with solutions to store and use their data. Backblaze provides these cloud services through purpose-built, web-scale software built on commodity hardware. Backblaze was incorporated in the state of Delaware on April 20, 2007 and is headquartered in San Mateo, California.

***Initial Public Offering (“IPO”)***

On November 15, 2021, the Company’s IPO had its first closing, in which it issued and sold 6,250,000 shares of our Class A common stock at a public offering price of \$16.00 per share. On November 17, 2021, the IPO had its second closing, in which the Company issued and sold 937,500 additional shares at the same per-share price pursuant to the exercise by the underwriters of their option to purchase such shares from us for the purpose of covering over-allotments. Together, these two closings resulted in net proceeds of approximately \$103.0 million after deducting the underwriting discounts and commissions and offering expenses. In connection with the IPO and with the filing of our Amended and Restated Certificate of Incorporation in Delaware and the adoption of its Amended and Restated Bylaws, the following occurred, (i) the reclassification of all outstanding shares of the Company’s common stock into an equivalent number of shares of its Class B common stock, (ii) all shares of the convertible preferred stock then outstanding automatically converted into 3,359,195 shares of Class B common stock and (iii) the SAFE notes automatically converted into 722,860 shares of Class A common stock.

**Note 2. Basis of Presentation and Summary of Significant Accounting Policies**

***Basis of Presentation***

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

***Stock Split***

During October 2021, the Company effected a 3.6-for-1 stock split of its outstanding common stock and convertible preferred stock. Upon the effectiveness of the stock split, all issued and outstanding shares of common stock and convertible preferred stock and related per share amounts contained in the accompanying financial statements were retroactively revised to reflect this stock split for all periods presented. The par value of the authorized stock was not adjusted as a result of the stock split.

***Emerging Growth Company***

The Company is an emerging growth company (“EGC”), as defined in the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”). Under the JOBS Act, EGCs can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. The Company has elected to use this extended transition period for complying with new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date that it (i) is no longer an EGC or (ii) affirmatively and irrevocably opts out of the extended transition period provided in the JOBS Act. As a result, these financial statements may not be comparable to companies that comply with the new or revised accounting pronouncements as of public company effective dates. The Company expects to use the extended transition period for any other new or revised accounting standards during the period in which it remains an EGC.

***Segment Information***

The Company has a single operating and reportable segment. In reaching this conclusion, management considers the definition of the chief operating decision maker (“CODM”), how the business is defined by the CODM, the

nature of the information provided to the CODM and how that information is used to make operating decisions, allocate resources and assess performance. The Company's chief operating decision maker is its Chief Executive Officer, who reviews financial information presented on an aggregated basis for purposes of making operating decisions, assessing financial performance and allocating resources.

### ***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Such estimates and assumptions include the costs to be capitalized as internal-use software and their useful life, the useful lives of other long-lived assets, impairment considerations for long-lived assets, expected lease term for capital leases, estimates related to variable consideration, valuation of the Company's common stock prior to the IPO and stock options and accounting for taxes, including estimates for sales tax and VAT liability, deferred tax assets, valuation allowance and uncertain tax positions. The Company bases its estimates on historical experience and on assumptions that management considers reasonable. Future actual results could differ materially from these estimates.

### ***Risks and Uncertainties***

#### *COVID-19*

The worldwide spread of coronavirus ("COVID-19") has created significant uncertainty in the global economy. There have been no comparable recent events that provide guidance as to the effect the spread of COVID-19 as a global pandemic may have, and as a result, the ultimate impact of COVID-19 and the extent to which COVID-19 continues to impact Backblaze's business will depend on future developments, which are highly uncertain and difficult to predict.

Starting in April 2020, Backblaze began to acquire additional hard drives and related infrastructure equipment through capital lease agreements in order to minimize the impact of potential supply chain disruptions. The additional leased hard drives resulted in a higher balance of capital equipment and related lease liability, an increase in cash used in financing activities from principal payments, as well as higher ongoing interest and depreciation expense related to these lease agreements. While the Company has not yet experienced a supply chain disruption, such a disruption may occur in the future.

The Company may also experience other impacts of the COVID-19 pandemic such as the lack of availability of the Company's key personnel, additional temporary closures of the Company's office or the facilities of the Company's business partners, customers, third party service providers or other vendors, the inability to travel to markets and sell its products, and the interruption of the Company's access to liquidity and capital or financial markets.

The Company does not yet know the full extent of potential impacts on its business or operations or on the global economy as a whole, particularly if the COVID-19 pandemic continues and persists for an extended period of time. As of the date of these financial statements, the Company is not aware of any specific event or circumstance that would require it to update its estimates, judgments or the carrying value of its assets or liabilities.

### ***Concentrations***

*Credit risk.* Financial instruments that potentially subject the Company to credit risk primarily consist of cash, cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents with high-quality financial institutions with investment-grade ratings. Deposits with these financial institutions may exceed the amount of insurance provided on such deposits. For accounts receivable, the Company is exposed to credit risk in the event of nonpayment by customers to the extent of the amount recorded on the balance sheets.

*Vendors.* The Company acquires infrastructure equipment from third party vendors. Vendors may have limited sources of equipment and supplies which may expose the Company to potential supply and service disruptions that could harm the Company's business. Two vendors represented in aggregate 24% of total cash disbursements during the year ended December 31, 2021, while three vendors represented 40% of the accounts payable balance as of December 31, 2021. Two vendors represented in aggregate 31% of total cash disbursements during the year ended December 31, 2020, while three vendors represented 20% of the accounts payable balance as of December 31, 2020.

*Revenue.* The Company derives substantially all of its revenue from the services operating on its Backblaze Storage Cloud platform: its Backblaze B2 Cloud Storage (“B2 Cloud Storage”) and Backblaze Computer Backup (“Computer Backup”) offerings. The potential for severe impact to the Company’s business could result if the Company was unable to operate its platform or serve customers through its platform, for an extended period of time.

### **Revenue Recognition**

The Backblaze Storage Cloud provides the core platform for the Company’s B2 Cloud Storage consumption-based offering and its Computer Backup subscription-based offering. The Company derives its revenue primarily from fees earned from customers accessing these offerings through its platform, paid monthly in arrears for consumption-based arrangements for B2 Cloud Storage, or charged upfront for subscription-based arrangements for Computer Backup. The Company provides services to its customers under subscription-based arrangements of one month, one-year and two-years, which automatically renew at the end of the respective term.

The Company also recognizes revenue from products offered to its customers for the ability to securely restore data using a USB drive (“USB Restore”) and for migrating large data sets to its platform using its proprietary Fireball device. The Company refers to these products as its “Physical Media revenue”. Physical Media revenue was approximately 1% of the Company’s revenue for the years ended December 31, 2021 and 2020.

The Company’s monthly subscription arrangements do not provide customers with refund rights. One and two-year subscription arrangements are eligible for a full refund up to 30 days after subscribing. For its Physical Media revenue, the Company offers a full refund to its customers restoring data using a USB drive, if the drives are returned to the Company within 30 days of receipt. The Company recognizes revenue net of its estimate of expected customer cancellations and returns. These estimates involve inherent uncertainties and use of management’s judgment.

While the majority of the Company’s customers pay via credit card, amounts that have been invoiced are recorded in accounts receivable and in revenue, or deferred revenue, depending on whether appropriate revenue recognition criteria have been met. As the Company provides its offerings as a hosted service, it does not provide customers the contractual right to take possession of the software at any time, does not incur set up costs, nor does it charge an installation fee for its new customers.

The Company adopted Accounting Standards Codification (“ASC”) 606 on January 1, 2020 using the modified retrospective method and determines revenue recognition through the following five steps:

1. *Identify the contract with a customer.* The Company considers the terms and conditions of the contracts and its customary business practices in identifying its contracts under ASC 606. The Company determines it has a contract with a customer when the contract has been approved by both parties, it can identify each party’s rights regarding the services to be transferred and the payment terms for the services, it has determined the customer to have the ability and intent to pay, and the contract has commercial substance. The Company applies judgment in determining the customer’s ability and intent to pay, which is based on a variety of factors; however, as approximately 98% and 99% of the Company’s revenue was generated from customers paying via credit card during the year ended December 31, 2021 and 2020, respectively, the risk of non-payment is reduced.

2. *Identify the performance obligations in the contract.* Performance obligations promised in a contract are identified based on the services and products that will be transferred to the customer that are both capable of being distinct and are distinct in the context of the contract. The Company’s contracts typically contain a single distinct performance obligation representing one of its Backblaze Storage Cloud platform offerings, which includes either B2 Cloud Storage and Computer Backup services and related customer support. Customers also have the option to purchase a USB device for USB Restore and rental of its Fireball device at the standalone selling price (“SSP”).

3. *Determine the transaction price.* The transaction price is determined based on the consideration the Company expects to receive in exchange for transferring services to the customer. Variable consideration is included in the transaction price if, in the Company’s judgment, it is probable that a significant future reversal of cumulative revenue recognized under the contract will not occur. The Company’s variable consideration includes consumption-based revenue and revenue arrangements that offer the right of return. The Company offers a 30 day right of return for its 1 and 2-year subscription-based arrangements and records a refund liability based on historical return data. Certain fees that are considered consideration payable to a customer are accounted for as a reduction of the transaction price. None of the



Company's contracts contain a significant financing component. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental entities (e.g., sales and other indirect taxes).

4. *Allocate the transaction price to performance obligations in the contract.* Contracts that contain multiple distinct performance obligations require an allocation of the transaction price to each performance obligation based on a relative SSP. The Company determines relative standalone selling price for performance obligations based on the price it sells a good or service separately.

5. *Recognize revenue when or as the Company satisfies a performance obligation.* Revenue is recognized when control of the services is transferred to the customers and in an amount that reflects the consideration the Company expects to receive in exchange for those services. Performance obligations are satisfied over time when the customer simultaneously receives and consumes the benefits as the entity performs. Revenue is generally recognized over the common measure of progress (i.e., time-based or consumption-based) for the entire performance obligation. Revenue from subscription-based arrangements is recognized on a straight-line basis over the contractual term beginning on the date that the service commences, as customers are entitled to the same benefits throughout the contractual term. Fees from consumption-based arrangements are recognized as services are delivered based on the amount of daily storage consumed. Revenue for USB Restore is recognized as USB devices are delivered to customers, and recognition of the Company's Fireball device rental is time-based.

The Company also offers a 15-day free trial period for its subscription-based arrangements. The Company does not enter into a contract with the customer during this trial period. Under its consumption-based arrangements, the Company does not charge customers until at least 10 gigabytes of data have been stored.

The Company applied the optional exemption of not disclosing the transaction price allocated to the remaining performance obligations for its consumption-based contracts and contracts with original duration of one year or less. The non-current deferred revenue balance of \$3.1 million on the Company's balance sheet as of December 31, 2021 will be recognized in 2023. As of December 31, 2020, the Company's non-current deferred revenue balance was \$1.8 million, which will be recognized in 2022.

For revenue generated from arrangements that involve third-parties, the Company evaluates whether it is the principal or the agent based on maintaining control over the services being provided and maintaining the relationship with the end-customer. Substantially all of the Company's revenue is reported on a gross basis, as the Company is the principal.

### **Cost of Revenue**

Cost of revenue includes costs directly associated with the delivery of services and products, which consists of expenses for providing Backblaze's platform to its customers. These expenses include rent and utilities for operating in co-location facilities, network and bandwidth costs, shipping and handling for Physical Media revenue, depreciation of the Company's equipment and capital lease assets in co-location facilities and other infrastructure expenses incurred in connection with its customers' use of its services. Personnel-related costs associated with customer support and maintaining service availability include salaries, benefits, bonuses and stock-based compensation. Cost of revenue also includes credit card processing fees, amortization of capitalized internal-use software development costs and allocated overhead costs.

### **Research and Development Costs**

Research and development costs consist primarily of personnel-related expenses associated with the Company's research and development staff, including salaries, benefits, bonuses and stock-based compensation. Research and development costs also include consultants or professional services fees, costs related to the support and maintenance of systems used in product development, subscription services for use by its research and development organization and an allocation of its overhead costs. Research and development costs are generally expensed as incurred, unless they qualify as capitalized internal-use software.

### **Advertising Costs**

Advertising costs are expensed as incurred and are included in sales and marketing expenses in the statements of operations. These costs were approximately \$3.3 million and \$1.3 million for the years ended December 31, 2021 and 2020, respectively.

### ***Income Taxes***

The Company accounts for income taxes using the asset and liability method. Deferred income taxes are recognized by applying the enacted statutory tax rates applicable to future years to differences between the carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss and tax credit carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. The measurement of deferred tax assets is reduced, if necessary, by a valuation allowance to amounts that are more likely than not to be realized.

Where interpretation of the tax law may be uncertain, the Company recognizes, measures and discloses income tax uncertainties. The Company accounts for interest expense and penalties related to unrecognized tax benefits as income tax expense in its statements of operations. The Company is subject to periodic audits by the Internal Revenue Service and other taxing authorities, which may challenge tax positions taken by the Company.

### ***Stock-based Compensation***

All stock-based compensation to employees is measured on the grant date, based on the fair value of the awards on the date of grant. The Company recognizes compensation cost for its awards on a straight-line basis over the requisite service period, which is generally a vesting period of four years.

The Company uses the Black-Scholes option pricing model to measure the fair value of its stock options. The Black-Scholes option pricing model requires the use of complex assumptions, which determine the fair value of stock-based awards. If an award contains a provision whereby vesting is accelerated upon a change in control, the Company recognizes stock-based compensation expense on a straight-line basis, as a change in control is considered to be outside of its control and is not considered probable until it occurs. Forfeitures are accounted for in the period in which they occur.

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

Cash and cash equivalents include cash and certain highly liquid investments with original maturities of 90 days or less at the date of purchase. Cash equivalents are primarily recorded at cost, which approximates fair value due to their generally short maturities.

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

The Company measures financial assets and liabilities at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are reported under a three-level valuation hierarchy. The classification of the Company's financial assets within the hierarchy is as follows:

Level 1—Inputs to the valuation methodology are unadjusted quoted prices in active markets for identical assets or liabilities. The Company's Level 1 assets include money market funds.

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

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

The carrying amounts reflected in the balance sheets for accounts receivable, prepaid expenses and other current assets, accounts payable, accrued liabilities and other liabilities and deferred revenue approximate their respective fair values due to the short maturities of those instruments.

### ***Accounts Receivable, Net***

Accounts receivable are recorded net of an allowance for doubtful accounts, when the Company has an unconditional right to payment. The allowance for doubtful accounts is estimated based on the Company's assessment of its ability to collect on customer accounts receivable and was not material as of December 31, 2021 and 2020. The

Company regularly reviews the allowance by considering certain factors such as historical experience, credit quality, age of accounts receivable balances and other known conditions that may affect a customer's ability to pay. In cases where the Company is aware of circumstances that may impair a specific customer's ability to meet its financial obligations, a specific allowance is recorded against amounts due from the customer which reduces the net recognized receivable to the amount the Company reasonably believes will be collected. The Company writes-off accounts receivable against the allowance when a determination is made that the balance is uncollectible and collection of the receivable is no longer being actively pursued.

#### ***Unbilled Accounts Receivable***

Unbilled accounts receivable represents revenue recognized on contracts for which billings have not yet been presented to customers due to consumption-based usage that is billed monthly in arrears. Substantially all of the Company's unbilled accounts receivable is charged via a credit card upon billing. Unbilled accounts receivable is included in prepaid expenses and other current assets on the balance sheets. The balance of unbilled accounts receivable as of December 31, 2021 and 2020 is presented in Note 6.

#### ***Deferred Offering Costs***

Deferred offering costs, which consist of direct incremental legal, accounting and consulting fees relating to the Company's IPO, are capitalized in other assets on the balance sheet. The deferred offering costs were offset against IPO proceeds upon the consummation of the IPO.

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

Commissions paid to affiliates for new customers or customer renewals are considered incremental and recoverable costs of obtaining a contract with a customer. These costs are recorded when earned and are amortized over the expected benefit period using the straight-line method. As renewal commission is commensurate with a commission in an initial sale, such amounts are capitalized and amortized over the stated contract term. Capitalized commission amounts expected to be recognized within one year of the balance sheet date are recorded as prepaid expenses and other current assets, and the remaining portion is recorded as other assets, on the Company's balance sheets. Expense for commissions are included in sales and marketing expenses in the statements of operations.

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

Property and equipment, both owned and under capital leases, are stated at cost, less accumulated depreciation, which is computed on a straight-line basis over the asset's estimated useful life. Leasehold improvements are depreciated over the shorter of the useful life of the asset or expected lease term. Improvements that increase functionality of the asset are capitalized and depreciated over the asset's remaining useful life. Construction-in-progress is not depreciated. Fully depreciated assets are retained in property and equipment until removed from service.

The following table presents the estimated useful lives of property and equipment:

<b>Property and Equipment</b>	<b>Useful life</b>
Data center equipment	3 - 5 years
Machinery and equipment	3 - 5 years
Computer equipment	3 - 5 years
Leasehold improvements	Shorter of useful life or expected lease term

#### ***Capitalized Internally-Developed Software, Net***

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

The Company reviews its capitalization criteria for each project individually. Capitalized costs are amortized over the estimated useful life of the software, which is generally five years, on a straight-line basis, and represents the manner in which the expected benefit will be derived. The Company determines the useful lives of identifiable project assets after considering the specific facts and circumstances related to each project. The amortization of costs related to the platform applications is included in cost of revenue in the statements of operations.

Significant judgments related to the capitalization of software costs include determining whether it is probable that projects will result in new or additional functionality, concluding on when the application development phase starts and ends and estimating which costs, especially employee compensation costs, should be capitalized.

### ***Impairment of Long-lived Assets***

Long-lived assets with finite lives include property and equipment, capitalized internally-developed software, and certain implementation costs incurred for cloud computing arrangements. The Company evaluates these long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets held and used is measured by comparison of the carrying amount of an asset or an asset group to estimated undiscounted future net cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset exceeds these estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the assets exceeds the fair value of the asset or asset group during the quarter in which the determination is made.

### ***Deferred Revenue***

The Company records deferred revenue when customer payments are received in advance of satisfying the performance obligations on the Company's contracts. Subscription-based arrangements are generally billed and paid in advance of satisfaction of these performance obligations. Deferred revenue relating to the Company's subscription-based arrangements that have a contractual expiration date of less than 12 months are classified as current. The Company classifies deferred revenue from services that will be provided in more than 12 months as non-current on its balance sheets.

### ***Leases***

The Company enters into capital lease arrangements for hard drives and related equipment, and operating leases for rental of co-location space in data centers and offices. The Company determines if an arrangement is or contains a lease at inception by evaluating various factors, including if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration and other facts and circumstances. The lease term begins on the date of initial possession of the leased asset. The Company does not assume renewals in its determination of the lease term unless the renewals are deemed to be reasonably assured at lease inception. Lease classification is determined at the lease commencement date. Capital leases are included in property and equipment, net, on the Company's balance sheets.

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

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by this new guidance. The Company adopted this standard effective January 1, 2021 on a prospective basis. The adoption did not have a material impact on the financial statements. See Note 8 for further details.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which simplifies the accounting for income taxes by eliminating some exceptions to the general approach in ASC 740, Income Taxes, in order to reduce cost and complexity of its application. The Company adopted this standard effective January 1, 2021. The adoption did not have a material impact on the financial statements.

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

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which requires the recognition of lease assets and lease liabilities arising from operating leases on the balance sheet. Subsequently, the FASB also issued a

series of amendments to this new lease standard that address the transition methods available and clarify the guidance for lessor costs and other aspects of the new lease standard. The Company will adopt the standard effective January 1, 2022 and expects to adopt using the modified retrospective transition method without restating comparative periods. The Company is currently evaluating the impact of the adoption of this guidance on its financial statements for operating leases outstanding as of December 31, 2021 and the impact of recognition of lease assets and lease liabilities arising from operating leases on its balance sheet.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected, with further clarifications made more recently. For trade receivables, loans and other financial instruments, the Company will be required to use a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses which reflects losses that are probable. Credit losses relating to available-for-sale debt securities are required to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. This guidance is effective for the Company for its fiscal year beginning January 1, 2023 and interim periods within that fiscal year. The Company is currently evaluating the impact of the adoption of this guidance on its financial statements.

### Note 3. Revenues

#### Impact of the New Revenue Standard, ASC 606

The Company recorded a net reduction to accumulated deficit of \$0.3 million, as of January 1, 2020 due to the cumulative impact of adopting ASC 606 and ASC 340-40, *Other Assets and Deferred Costs—Contracts with Customers*. Prior to the adoption, the Company had not capitalized contract costs on its December 31, 2020 balance sheet. The following table summarizes the cumulative transition adjustments for the adoption of the new revenue standard recorded on the January 1, 2020 balance sheet to reflect the aggregate impact of capitalizing eligible contract costs under ASC 340-40 from all contracts not completed as of January 1, 2020 (in thousands).

	December 31, 2019 balance sheet	Cumulative transition adjustment for the new revenue standard	January 1, 2020 balance sheet
<b>Assets</b>			
Prepaid expenses and other current assets	\$ 2,023	\$ 236	\$ 2,259
Other assets	835	31	866
<b>Equity</b>			
Accumulated deficit	(8,283)	267	(8,016)

The following tables summarize the impact of the new revenue standard on the Company's statement of operations for the year ended December 31, 2020 and the balance sheet as of December 31, 2020. The impact noted in the tables below is a result of the Company's adoption of accounting for deferred contract costs under ASC 340-40 in conjunction with its adoption of ASC 606 (in thousands).

	As reported	For the Year Ended December 31, 2020 Impact of the new revenue standard	Results under the prior revenue standard
<b>Operating Expenses</b>			
Sales and marketing	\$ 11,924	\$ 66	\$ 11,990

	As reported	December 31, 2020	
		Impact of the new revenue standard	Results under the prior revenue standard
<b>Assets</b>			
Prepaid expenses and other current assets	\$ 2,947	\$ (387)	\$ 2,560
Other assets	809	(42)	767

#### **Deferred Contract Costs**

The Company's amortization of deferred contract costs was \$0.8 million and \$0.7 million during the year ended December 31, 2021 and 2020, respectively. The amount of capitalized contract costs was \$0.4 million as of December 31, 2021 and 2020, respectively.

#### **Deferred Revenue**

Deferred revenue was \$24.9 million and \$19.4 million as of December 31, 2021 and 2020, respectively. Revenue recognized during the year ended December 31, 2021 and 2020 was approximately \$17.6 million and \$15.8 million, respectively, which was included in each deferred revenue balance at the beginning of each respective period. The Company's deferred revenue as stated on the balance sheets presented approximate its contract liability balance as of December 31, 2021 and 2020.

#### **Disaggregation of Revenues**

The following table presents the Company's revenues disaggregated by timing of revenue recognition (in thousands):

	For the Years Ended December 31,	
	2021	2020
Consumption-based arrangements (B2 Cloud Storage)	\$ 22,632	\$ 14,240
Subscription-based arrangements (Computer Backup)	44,117	38,926
Physical Media	730	618
Total revenue	\$ 67,479	\$ 53,784

Revenue by geographic area, based on the location of the Company's customers, was as follows (in thousands):

	For the Years Ended December 31,	
	2021	2020
United States	\$ 48,346	\$ 38,869
Other	19,133	14,915
Total	\$ 67,479	\$ 53,784

#### **Note 4. Cash Equivalents**

The Company's cash equivalents on its balance sheets included money market funds with an amortized cost and estimated fair value of \$2.7 million as of December 31, 2020. The Company had no money market funds as of December 31, 2021.

**Note 5. Fair Value Measurements**

The following table presents the fair value hierarchy for the Company's assets measured at fair value on a recurring basis as of December 31, 2021 and 2020 (in thousands):

	Level 1		Level 2		Level 3	
	December 31,		December 31,		December 31,	
	2021	2020	2021	2020	2021	2020
<b>Assets</b>						
Cash equivalents:						
Money market funds	\$ —	\$ 2,651	\$ —	\$ —	\$ —	\$ —
Total	\$ —	\$ 2,651	\$ —	\$ —	\$ —	\$ —

Fair values determined by Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets.

The following table summarizes the total carrying value of the Company's Level 3 instruments held as of December 31, 2021 including cumulative realized gains and losses recognized during the year months ended December 31, 2021 (in thousands):

	Year Ended December 31, 2021
Beginning balance as of December 31, 2020	\$ —
Sale of SAFE notes	10,000
Total realized loss	1,436
Conversion of SAFE notes	(11,436)
Ending balance as of December 31, 2021	\$ —

Level 3 instruments are characterized by unobservable inputs that are supported by little or no market activity, which require management judgment or estimation. The fair value of the SAFE notes was determined in interim periods during 2021 using unobservable inputs. In valuing the SAFE notes, the Company used a Monte Carlo simulation to forecast a range of probability-weighted settlement paths in combination with income, market, and cost-based valuation approaches. The settlement paths used probabilities ranging from 5% to 65%. The Company used a discount rate of approximately 30% to adjust the probability-weighted settlement paths to their present value. An increase in the discount rate would decrease the fair value of the instrument, and an increase in probabilities of certain settlement paths would increase the fair value of the instrument.

The fair value of the SAFE notes, upon conversion, was determined using the Company's Class A common stock valuation of \$16.00 as of the settlement date of November 10, 2021, which is also the Company's IPO date. See Note 11 for further details on the SAFE Notes.

**Note 6. Prepaid Expenses and Other Current Assets**

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

	December 31,	
	2021	2020
Unbilled accounts receivable	\$ 1,220	\$ 841
Prepaid expenses	2,403	643
Prepaid subscriptions	730	276
Prepaid flash drives	378	—
Capitalized commissions	345	315
Receivable from payment processor	289	268
Prepaid data migration fees	93	71
Other	472	533
Total prepaid expenses and other current assets	\$ 5,930	\$ 2,947

**Note 7. Property and Equipment, Net**

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

	December 31,	
	2021	2020
Data center equipment	\$ 25,338	\$ 10,538
Leased and financed data center equipment	50,419	51,852
Machinery and equipment	7,803	4,369
Computer equipment	1,631	1,176
Leasehold improvements	956	876
Construction-in-process	—	2,358
Total property and equipment	86,147	71,169
Less: accumulated depreciation	(43,079)	(32,423)
Total property and equipment, net	\$ 43,068	\$ 38,746

Depreciation expense was \$14.6 million and \$11.7 million for the years ended December 31, 2021 and 2020, respectively. For the Company's equipment under capital leases and collateralized financing obligations, accumulated depreciation was \$13.5 million and \$19.6 million as of December 31, 2021 and 2020, respectively. The carrying value of the Company's equipment under capital lease agreements and collateralized financing obligations was \$36.9 million and \$32.3 million as of December 31, 2021 and 2020, respectively.

During the years ended December 31, 2021 and 2020, the Company recorded a gain and a loss of less than \$0.1 million, respectively, as a result of disposing of certain hard drives. These disposals occurred in the ordinary course of business, as the Company continuously evaluates its requirements for operating its data centers. The loss and gains are recorded as general and administrative expenses in the Company's statements of operations.

As of December 31, 2021 and 2020, substantially all of the Company's assets were held in the United States.



**Note 8. Capitalized Internally-Developed Software, Net**

Capitalized internally-developed software, net consisted of the following (in thousands):

	December 31,	
	2021	2020
Developed software	\$ 12,535	\$ 8,593
General and administrative software	144	466
Total capitalized internal-use software	12,679	9,059
Less: accumulated amortization	(5,042)	(3,377)
Total capitalized internal-use software, net	<u>\$ 7,637</u>	<u>\$ 5,682</u>

In accordance with the adoption of ASU 2018-15, during 2021 the Company aligned its capitalization of implementation costs for cloud computing arrangements with its accounting for the underlying software license included in such arrangements. Accordingly, the Company reclassified these implementation costs on its balance sheet in prepaids expenses and other current assets and other assets as of December 31, 2021, on a prospective basis.

Amortization expense of capitalized internal-use software was \$1.7 million and \$1.2 million for the years ended December 31, 2021 and 2020, respectively. Amortization of developed software and software for internal use are included in cost of revenue and general and administrative expense, respectively, in the Company's statements of operations for the years ended December 31, 2021 and 2020.

As of December 31, 2021, future amortization expense is expected to be as follows (in thousands):

Year Ending December 31,	
2022	\$ 2,050
2023	1,900
2024	1,635
2025	1,180
2026	727
Thereafter	145
Total	<u>\$ 7,637</u>

**Note 9. Accrued Expenses and Other Current Liabilities**

Accrued expenses and other current liabilities consisted of the following (in thousands):

	December 31,	
	2021	2020
Accrued compensation	\$ 1,648	\$ 1,295
Accrued sales tax	1,209	598
Accrued expenses	1,646	1,284
Accrued income tax	15	5
Other	591	414
Accrued expenses and other current liabilities	<u>\$ 5,109</u>	<u>\$ 3,596</u>

**Note 10. Commitments and Contingencies****Capital Leases and Lease Financing Obligations**

The Company enters into capital lease arrangements to obtain hard drives and related equipment for its data center operations. The terms of these agreements primarily range from three to four years and certain of these arrangements have optional renewals. Contingent rental payments are generally not included in the Company's lease agreements. The leases are generally secured by the underlying leased equipment.

The future minimum commitments for these capital leases and lease financing obligations as of December 31, 2021 were as follows (in thousands):

<b>Year Ending December 31,</b>	
2022	\$ 16,765
2023	14,123
2024	6,707
2025	617
2026	—
Thereafter	—
<b>Total future minimum lease and financing commitments</b>	<b>38,212</b>
Less imputed interest	(4,964)
<b>Total liability</b>	<b>\$ 33,248</b>

For the Company's assets acquired through capital lease agreements, depreciation expense was \$11.5 million and \$9.2 million for the years ended December 31, 2021 and 2020, respectively, which is included in cost of revenue in its statements of operations.

During the year ended December 31, 2021, the Company entered into four sale-leaseback arrangements with vendors to provide approximately \$4.3 million in cash proceeds for previously purchased hard drives and related equipment. The Company concluded the related lease arrangements would be classified as lease financing obligations as it has the option to repurchase the assets at their fair value at a future date. Therefore, the transaction was deemed a failed sale-leaseback and was accounted for as a financing arrangement. The assets continue to be depreciated over their useful lives, and payments are allocated between interest expense and repayment of the financing liability. As of December 31, 2021, the future minimum payments related to the financing agreements consisted of the following (in thousands):

<b>Year Ending December 31,</b>	
2022	\$ 1,385
2023	1,385
2024	1,240
2025	387
2026	—
Thereafter	—
<b>Total future minimum financing payments</b>	<b>\$ 4,397</b>

**Operating Leases**

The Company leases its facilities for data centers and office space under non-cancelable operating leases with various expiration dates. Certain lease agreements include options to renew or terminate the lease, which are not reasonably certain to be exercised and therefore are not factored into the determination of lease payments. Contingent rental payments are generally not included in the Company's lease agreements.

The future minimum commitments for these operating leases as of December 31, 2021 were as follows (in thousands), which also include minimum payments for services under our operating lease agreements:

<b>Year Ending December 31,</b>	
2022	\$ 4,896
2023	4,351
2024	3,098
2025	1,327
2026	1,363
Thereafter	5,977
<b>Total</b>	<b>\$ 21,012</b>

Rental expense related to the Company's operating leases was approximately \$7.1 million for the year ended December 31, 2021, of which \$6.3 million and \$0.8 million is included in cost of revenue and general and administrative expenses in its statement of operations, respectively. Rental expense related to the Company's operating leases was approximately \$5.2 million for the year ended December 31, 2020, of which \$4.6 million and \$0.6 million is included in cost of revenue and general and administrative expenses in its statement of operations, respectively.

In December 2020, the Company ceased use of an existing operating lease agreement for office space and recognized a one-time charge of \$0.6 million for the remaining payments under the agreement. The one-time loss was recorded as general and administrative expense in the Company's statement of operations. The current portion of the remaining obligation from the operating lease agreement is recorded in accrued expenses and other current liabilities and the non-current portion is recorded in other long-term liabilities on the Company's balance sheet.

#### ***Other Contractual Commitments***

Other non-cancellable commitments relate mainly to infrastructure agreements used to facilitate the Company's operations. As of December 31, 2021, the Company had future minimum payments under the Company's non-cancelable purchase commitments of \$1.8 million and \$1.5 million payable during the years ending December 31, 2022 and 2023, respectively.

#### ***401(k) Plan***

The Company sponsors a 401(k) defined contribution plan covering all eligible U.S. employees. Contributions to the 401(k) plan are discretionary. The Company contributed \$1.1 million and \$0.7 million to the 401(k) plan for the years ended December 31, 2021 and 2020, respectively.

#### ***Legal Matters***

The Company is involved from time to time in various claims and legal actions arising in the ordinary course of business. While it is not feasible to predict or determine the ultimate outcome of these matters, the Company believes that none of its current legal proceedings will have a material adverse effect on its financial position, results of operations or cash flows. However, the results of legal proceedings are inherently unpredictable and if an unfavorable ruling were to occur in any of the current legal proceedings there exists the possibility of a material adverse effect on the Company's financial position, results of operations and cash flows.

#### ***Sales Tax***

The Company undertook an analysis of its sales tax exposure based on the South Dakota vs. Wayfair case whereby the U.S. Supreme Court determined that physical presence was not required to determine the potential exposure a company has for sales tax purposes. Based on the Company's initial analysis, its total accrual for sales tax payable was \$1.2 million and \$0.6 million as of December 2021 and 2020, respectively, which includes estimated amounts for penalties and interest.

### ***Accrued VAT Liability***

The Company has calculated a liability for uncollected and unpaid VAT, which is generally assessed by various taxing authorities on services the Company provides to its customers. The Company accrues an amount that it considers probable to be collected and can be reasonably estimated. Based on the Company's analysis, its total accrual for VAT tax payable was \$2.5 million and \$1.5 million as of December 31, 2021 and 2020, respectively, which includes estimated amounts for penalties and interest.

### ***Indemnification***

The Company enters into indemnification provisions under agreements with other parties from time to time in the ordinary course of business. The Company has agreed in certain circumstances to indemnify and defend the indemnified party for claims and related losses suffered or incurred by the indemnified party from third-party claims due to the Company's activities or non-compliance with certain representations and warranties made by the Company. It is not possible to determine the maximum potential loss under these indemnification provisions due to the Company's limited history of prior indemnification claims and the unique facts and circumstances involved in each particular provision. No losses have been recorded in the statements of operations in connection with the indemnification provisions.

## **Note 11. Debt**

### ***Credit Facility***

On October 11, 2017, the Company entered into a \$15.0 million revolving credit agreement with HomeStreet Bank. Under this agreement, amounts available to be borrowed were based on the lesser of \$15.0 million or the Company's trailing four month's monthly recurring revenue multiplied by a retention rate as defined in the agreement. Advances on the line of credit bear interest at the Wall Street Journal prime rate plus 0.25%. Borrowings were secured by substantially all of the Company's assets, with limited exceptions.

During April 2021, the Company amended its revolving credit agreement with HomeStreet Bank. Under this amendment, among other things, (i) amounts available to be borrowed were based on the lesser of \$10.0 million or the Company's trailing four months monthly recurring revenue multiplied by a retention rate set forth in the amendment and (ii) advances on the line of credit bear interest at the Wall Street Journal prime rate plus 1.00%. The revolving credit agreement, as amended, matured on June 1, 2022.

During October 2021, the Company entered into a revolving credit agreement with City National Bank. Under this agreement, among other things, (i) amounts available to be borrowed are \$9.5 million and (ii) advances on the line of credit bear interest at the average Secured Overnight Financing Rate ("SOFR") rate plus 2.75%. The revolving credit agreement matures in September 2024. In connection with this agreement, the Company fully repaid and subsequently terminated its 2017 revolving credit agreement with HomeStreet Bank.

During December 2021, the Company entered into its first amendment to the revolving credit agreement with City National Bank. The amendment removed the financial covenants under the agreement and added a requirement for cash collateral to be posted prior to any advance. As of December 31, 2021, the Company had no outstanding balance and the total amount available to be borrowed was \$9.5 million.

### ***Paycheck Protection Program***

On April 22, 2020, the Company received approximately \$2.3 million in funding through the U.S. Small Business Administration's Paycheck Protection Program that was part of the CARES Act that was signed into law in March 2020. The interest rate on the loan is 1.00% per year and matured in April 2022. The note was payable in monthly installments of principal and interest, beginning in August 2021. The note was able to be repaid at any time with no payment penalty. The application for these funds required the Company to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operations of the Company.

An application to forgive the entire amount was submitted with the lender in July 2020. Any request for forgiveness would have been subject to review and approval by the lender and the SBA. Further, the SBA stated that all PPP loans in excess of \$2.0 million, and other PPP loans as appropriate, were subject to review by the SBA for compliance.

with program requirements. If the SBA determined in the course of its review that a borrower lacked an adequate basis for the required certification concerning the necessity of the loan request or the subsequent use of loan proceeds, the SBA will seek repayment of the PPP loan, including interest and potential penalties.

The Company recognized the entire loan amount as a financial liability, with interest accrued and expensed over the term of the loan.

In June 2021, the Company received notification from the SBA that the Company's forgiveness application of the PPP loan and accrued interest, totaling \$2.3 million, was approved in full, and the Company has no further obligations related to the PPP loan. Accordingly, the Company recorded the forgiveness of the PPP loan as gain on extinguishment of debt on its statement of operations as of December 31, 2021.

### **Convertible notes and related party transactions**

During August 2021, the Company issued investors convertible notes (the "Security") in the amount of \$10.0 million. The Security is classified as a Simple Agreement for Future Equity agreement ("SAFE"). The convertible notes are automatically convertible into shares of the Company's Class A common stock upon the completion of an initial public offering (or other liquidity event if sooner) at a discounted price to the value of its common stock at the time of such event. The discount shall initially be equal to 10% and shall increase by an additional 10% annually following the effective date, subject to a maximum discount of 50%. The discount shall be adjusted pro-rata on a monthly basis, increasing on the monthly anniversary of the effective date of the agreement. Interest shall accrue at the simple rate of 5% per annum of the outstanding amount commencing upon the effective date of the agreement and continuing until the outstanding principal amount has been paid in full or converted. The accrued interest shall be added to the purchased amount upon conversion into equity. If there is a change of control event, these SAFE notes will automatically convert into the securities offered in connection with such change of control event.

The Company determined that the SAFE notes should be classified as a liability based on evaluating the characteristics of the instrument, which contained both debt and equity-like features. As such, the Company recorded the carrying value of the SAFE notes and the associated accrued interest as a current liability on its balance sheet upon its issuance. On November 10, 2021, in connection with the IPO, the SAFE notes automatically converted into 722,860 shares of Class A common stock. The Company valued the notes on the settlement date of November 10, 2021 based on the Class A common stock price of \$16.00, which was the price of the Class A common stock sold in the IPO. This valuation resulted in a realized loss of \$1.4 million that the Company recorded in its statement of operations.

Furthermore, \$2 million of the SAFE notes were purchased by TMT Investments PLC, a beneficial holder of more than 5% of the Company's capital stock, and was deemed to be a related party transaction.

### **Note 12. Convertible Preferred Stock**

Convertible preferred stock is carried at its issuance price, net of issuance costs.

As of December 31, 2020, convertible preferred stock consisted of the following (in thousands, except share data):

	Shares authorized	Shares issued and outstanding	Carrying value	Aggregate liquidation preference
Preferred stock:				
Series 1	2,520,000	1,325,898	\$ 350	\$ 350
Series A	1,064,153	1,064,153	1,131	1,250
Series A-1	1,938,290	969,144	1,303	1,252
Total	<u>5,522,443</u>	<u>3,359,195</u>	<u>\$ 2,784</u>	<u>\$ 2,852</u>

In connection with the IPO on November 10, 2021, and with the filing of the Company's Amended and Restated Certificate of Incorporation in Delaware and the adoption of its Amended and Restated Bylaws, all outstanding shares of convertible preferred stock were converted into 3,359,195 shares of Class B common stock.

As of December 31, 2021 and 2020, the Company had 10,000,000 and 9,000,000 shares of preferred stock authorized. Significant rights and preferences of the above convertible preferred stock are as follows:

*Conversion.* Each share of convertible preferred stock is convertible, at the option of the holder, into one share of common stock, prior to the Company's adoption of a dual class structure upon IPO, as determined by dividing its original price per share for the relevant series, plus any accrued but unpaid dividends on such shares, by the conversion price for such series. The conversion price of the Series 1 Preferred shall be \$0.2640, the Series A Preferred shall be \$1.18 and the Series Preferred A-1 shall be \$1.29. Each share of convertible preferred stock automatically converts into the number of shares of common stock into which such shares are convertible at the then-effective conversion ratio upon (i) the written request of a majority of the outstanding shares of convertible preferred stock voting together as a single class on an as-if-converted basis or (ii) the closing of a firmly underwritten public offering of common stock with gross proceeds of at least \$50 million.

*Voting.* The holders of convertible preferred stock are entitled to one vote per share, which is the same number of votes per share as common stock into which the convertible preferred stock is convertible. The holders of convertible preferred stock vote together as one class with the holders of common stock.

*Dividends.* Holders of convertible preferred stock shall be entitled to receive, when, as, and if declared by the Board of Directors (the "Board"), but only out of funds that are legally available therefor, cash dividends. Such dividends shall be payable on a pari passu basis and only when, as, and if declared by the Board and shall be non-cumulative. No dividends on convertible preferred stock or common stock have been declared by the Board through December 31, 2021.

*Liquidation preference.* In the event of any liquidation, dissolution, or winding-up of the Company, whether voluntary or involuntary (a "Liquidation Event"), the holders of convertible preferred stock shall be entitled, before any distribution or payment shall be made to the holders of common stock, to be paid out of the assets of the Company legally available for distribution for each share of convertible preferred stock, an amount per share of convertible preferred stock equal to the sum of the original issuance price plus all declared and unpaid dividends on such convertible preferred stock. Shares of convertible preferred stock shall not be entitled to be converted into shares of common stock in order to participate in any distribution as shares of common stock without first foregoing participation in such distribution as shares of convertible preferred stock. If, upon any such Liquidation Event, the assets of the Company shall be insufficient to make payment in full to all holders of the convertible preferred stock, then the assets shall be distributed among the holders of convertible preferred stock on a pari passu basis, in proportion to the full amounts to which they would otherwise be respectively entitled.

After the payment of the full liquidation preference to convertible preferred stockholders, the remaining assets of the corporation legally available for distribution to stockholders will be distributed ratably to the holders of common stock.

*Classification.* The convertible preferred stock is contingently redeemable upon certain deemed liquidation events such as a change in control or an involuntary winding-up or dissolution of the Company. The convertible preferred stock is not mandatorily redeemable, but since a deemed liquidation event would constitute a redemption event outside of the Company's control, all shares of convertible preferred stock have been presented outside of permanent equity in mezzanine equity on the balance sheets.

### **Note 13. Stockholders' Equity (Deficit)**

*Common Stock.* In connection with the IPO, the amended and Restated Certificate of Incorporation provided for a dual class common stock structure, all outstanding shares of the Company's common stock converted into an equivalent number of shares of its Class B common stock, and all shares of the convertible preferred stock then outstanding automatically converted into 3,359,195 shares of Class B common stock. The Class B common stock on the Company's balance sheets presented is representative of its common stock prior to the inception of the dual class structure. Subsequent to the IPO, the Company has two classes of common stock, Class A common stock and Class B common stock. The rights of the holders of Class A common stock and Class B common stock are identical, except for voting, transfer, and conversion rights. Each share of Class A common stock is entitled to one vote. Each share of Class B common stock is entitled to ten votes and is convertible at any time into one share of Class A common stock.

The Company had reserved shares of common stock for future issuance as follows:

	<u>December 31,</u> <u>2021</u>
Convertible preferred stock	—
2011 Equity Incentive Plan	
Options outstanding	13,506,662
Shares available for future grants	—
2021 Equity Incentive Plan	
Options outstanding	1,433,520
RSU's outstanding	18,750
Shares available for future grants	3,880,274
<b>Total</b>	<u><u>18,839,206</u></u>

*Stock Options.* Stock options granted under the equity plans generally vest based on continued service over four years and expire ten years from the date of grant.

*Restricted Stock Units ("RSUs").* RSUs granted under the 2021 Equity Incentive Plan generally vest based on continued service over a one year period and expire ten years from the date of grant.

A summary of equity award activity under the Company's equity plans and related information is as follows (in thousands, except share, price and year data):

	Shares available for grant	Outstanding Stock Options	Weighted- average exercise Price	Weighted- average remaining contractual life (years)	Aggregate intrinsic value
<b>Balance as of December 31, 2019</b>	<u>1,043,212</u>	<u>8,549,996</u>	\$ 1.93	6.53	\$ 5,834
Shares authorized	2,700,000				
Granted	(3,317,134)	3,317,134	3.20		
Exercised	—	(18,133)	1.03		
Cancelled	439,261	(439,261)	2.67		
<b>Balance as of December 31, 2020</b>	<u>865,339</u>	<u>11,409,736</u>	\$ 2.27	6.52	\$ 36,889
Shares authorized	7,242,500				
Granted	(4,437,720)	4,437,720	12.15		
Exercised	—	(500,374)	0.96		
Cancelled	406,900	(406,900)	4.52		
2011 Equity Plan Expiration	(177,995)	—			
RSUs granted	(18,750)	—			
<b>Balance as of December 31, 2021</b>	<u>3,880,274</u>	<u>14,940,182</u>	\$ 5.19	6.69	\$ 182,843
<b>Vested and exercisable as of December 31, 2021</b>		<u>8,444,516</u>	\$ 2.13	4.80	\$ 124,616

The weighted-average grant-date fair value of options granted was \$7.10 and \$2.40 during the years ended December 31, 2021 and 2020, respectively. The aggregate grant-date fair value of options vested was \$3.7 million and \$1.5 million during the years ended December 31, 2021 and 2020, respectively. The intrinsic value of options exercised was \$5.6 million and less than \$0.1 million during the years ended December 31, 2021 and 2020, respectively. Intrinsic value represents the difference between the exercise price of the options and the fair value of the Company's underlying common stock of the option award.

#### *Promissory notes*

In June 2021, the Company issued full-recourse promissory notes to four employees of the Company for an aggregate principal amount of \$48.0 thousand with an interest rate of 0.13% per annum. All of the principal was used to exercise options for 234,526 shares of the Company's common stock. As of December 31, 2021, the promissory notes have been settled.

### **ESPP**

In October 2021, the Company's Board of Directors adopted the 2021 Employee Stock Purchase Plan ("ESPP"), which became effective on the date of the IPO. The ESPP initially reserved and authorized the issuance of up to a total of 956,800 shares of Class A common stock to participating employees. The initial offering period commenced in November 2021 and the first purchase date will occur in May 2022. Eligible employees enrolled in the offering period at the start of each purchase period, may purchase a number of shares at a price per share equal to 85% of the lesser of (1) the stock price at the employee's first participation in the offering period or (2) the fair market value of the Company's common stock on the purchase date.

## **Note 14. Stock-Based Compensation**

### **Equity Incentive Plans**

*2011 Equity Incentive Plan.* In 2011, the Company's Board of Directors approved the adoption of the 2011 Stock Plan (the "Plan"). The Plan provides for the grant of stock-based awards to employees, non-employee directors and other service providers of the Company. During April 2020, the Company's Board approved an increase to the number of authorized shares under the Plan by 2,700,000. Following the increase, the Plan had 12,420,000 shares authorized as of December 31, 2020. During March 2021, the Company's Board approved an increase to the number of authorized shares under the Plan by 1,800,000. Following the increase, the Plan had 14,220,000 shares authorized. During August 2021, the Company's Board approved an increase to the number of authorized shares under the 2011 Stock Plan by 180,000. The Plan expired in September 2021.

*2021 Equity Incentive Plan.* In October 2021, The Company's Board of Directors and stockholders adopted the 2021 Equity Incentive Plan (the "2021 Plan") and it was approved by stockholders in October 2021. The 2021 Plan replaced our 2011 Plan. However, awards outstanding under our 2011 Plan will continue to be governed by their existing terms. The 2021 Plan has the features described below.

*Share Reserve.* The number of shares of our common stock available for issuance under our 2021 Plan equals the sum of 5,262,500 shares plus up to approximately 13,719,000 shares subject to awards granted under our 2011 Plan that expire, forfeit or are repurchased following the effective date of the 2021 Plan. The number of shares reserved for issuance under our 2021 Plan will be increased automatically on the first business day of each of our fiscal years, commencing in 2022 and ending in 2031, by a number equal to the least of (i) 4,784,100 shares, (ii) 5% of the shares of common stock outstanding on the last business day of the prior fiscal year; or (iii) the number of shares determined by the Board of Directors.

In general, to the extent that any awards under the 2021 Plan are forfeited, terminate, expire or lapse without the issuance of shares, or if we reacquire the shares subject to awards granted under our 2021 Plan, those shares will again become available for issuance under our 2021 Plan, as will shares applied to pay the exercise or purchase price of an award or to satisfy tax withholding obligations related to any award.

### **Stock Options**

The following table summarizes the Black-Scholes option pricing model weighted-average assumptions used in estimating the fair value of stock options granted to employees during the years ended December 31, 2021 and 2020, inclusive of grants from the 2021 and 2011 Equity Incentive Plans:

	For the Years Ended December 31,	
	2021	2020
Expected term (in years)	6.0	5.9
Expected volatility	49.1 %	48.9 %
Risk-free interest rate	1.10 %	0.46 %



*Expected term.* For stock options considered to be “plain vanilla” options, the Company estimates the expected term based on the simplified method, which is essentially the weighted average of the vesting period and contractual term, as the Company’s historical share option exercise experience does not provide a reasonable basis upon which to estimate the expected term.

*Expected volatility.* The Company performed an analysis using the average volatility of a peer group of representative public companies with sufficient trading history over the expected term to develop an expected volatility assumption.

*Risk-free interest rate.* Based upon quoted market yields for the United States Treasury debt securities for a term consistent with the expected life of the awards in effect at the time of grant.

*Expected dividend yield.* Because the Company has never paid and has no intention to pay cash dividends on common stock, the expected dividend yield is zero.

*Fair value of underlying common stock.* Prior to the IPO, because the Company’s common stock was not yet publicly traded, the Company estimated the fair value of common stock. The Board considered numerous objective and subjective factors to determine the fair value of the Company’s common stock at each meeting in which awards are approved. The factors considered include, but are not limited to: (i) the results of contemporaneous independent third-party valuations of the Company’s common stock; (ii) the prices, rights, preferences, and privileges of the Company’s convertible preferred stock relative to those of its common stock; (iii) the lack of marketability of the Company’s common stock; (iv) actual operating and financial results; (v) current business conditions and projections; (vi) the likelihood of achieving a liquidity event, such as an initial public offering or sale of the Company, given prevailing market conditions; and (vii) precedent transactions involving the Company’s shares.

### **RSU’s**

During November 2021, in connection with the IPO, the Company granted its first RSUs under the 2021 Plan to certain of its non-employee directors. These restricted stock awards vest upon the one-year anniversary of the award. As of December 31, 2021, 18,750 RSU’s had been granted, and no RSU’s had been vested, forfeited or cancelled.

### **Stock-based compensation expense**

Stock-based compensation expense included in the statements of operations was as follows (in thousands):

	For the Years Ended December 31,	
	2021	2020
Cost of revenue	\$ 509	\$ 100
Research and development	2,129	750
Sales and marketing	1,652	670
General and administrative	1,339	359
Total stock-based compensation expense	<u>\$ 5,629</u>	<u>\$ 1,879</u>

During the years ended December 31, 2021 and 2020, the Company capitalized \$0.4 million and \$0.2 million, respectively, of stock-based compensation for the development of internal-use software. As of December 31, 2021, total compensation cost related to stock options not yet vested was \$32.8 million, which will be recognized over a weighted-average period of 3.0 years.

During the years ended December 31, 2021 and 2020, the Company’s Board approved modifications to extend the exercise period of vested options for certain terminated employees by the earlier of five years from the employee’s termination date or the option expiration date. The modification was effective upon the Board’s approvals, which resulted in incremental stock-based compensation expense during both years. As a result, the Company recognized an incremental \$0.1 million in stock-based compensation during both years ended December 31, 2021 and 2020, respectively.

**Note 15. Net Loss per Share Attributable to Common Stockholders**

The Company computes net loss per share using the two-class method required for multiple classes of common stock and participating securities. The rights of the holders of the Class A common stock and Class B common stock are identical, except with respect to voting and conversion. Accordingly, the Class A common stock and Class B common stock share equally in our net losses. Prior to the IPO, our participating securities also included convertible preferred stock. The holders of convertible preferred stock did not have a contractual obligation to share in our losses, and as a result, net losses were not allocated to these participating securities. The Company considers its convertible preferred stock to be participating securities.

Basic net loss per share attributable to common stockholders is computed by dividing the net loss attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period. The diluted net loss per share attributable to common stockholders is computed by giving effect to all potentially dilutive common stock equivalents during the period. For purposes of this calculation, the Company's convertible preferred stock and stock options are considered to be potential common stock equivalents, but have been excluded from the calculation of diluted net loss per share attributable to common stockholders as their effect is antidilutive.

The following table presents the calculation of basic and diluted net loss per share (in thousands, except share and per share data). The shares issued in the IPO, the shares issued pursuant to the exercise by the underwriters of an option to purchase additional shares, and the shares of Class A and Class B common stock issued upon conversion of the outstanding shares of convertible preferred stock and SAFE notes are included in the table below weighted for the period outstanding. For illustration purposes, Class B common stock in the table below represents the Company's common stock prior the adoption of the dual class structure in connection with the IPO.

	For the Year Ended December 31,			
	2021		2020	
	(in thousands, except share and per share amounts)			
	Class A	Class B	Class A	Class B
<b>Numerator:</b>				
Net loss attributable to common stockholders	\$ (1,137)	\$ (20,567)	N/A	\$ (6,623)
<b>Denominator for basic and diluted net loss per share:</b>				
Weighted-average shares used in computing net loss per share attributable to common stockholders – basic and diluted	1,065,955	19,279,700	N/A	18,609,422
<b>Net loss per share attributable to common stockholders – basic and diluted</b>	<b>\$ (1.07)</b>	<b>\$ (1.07)</b>	<b>N/A</b>	<b>\$ (0.36)</b>

Since the Company was in a loss position for all periods presented, basic net loss per share is the same as diluted net loss per share as the inclusion of all potential common shares outstanding would have been antidilutive. The potential shares of common stock that were excluded from the computation of diluted net loss per share attributable to common stockholders for the periods presented because including them would have been antidilutive are as follows:

	As of December 31,	
	2021	2020
Convertible preferred stock	—	3,359,195
RSU's	18,750	
Stock options	14,940,182	11,409,736
<b>Total</b>	<b>14,958,932</b>	<b>14,768,931</b>

**Note 16. Income Taxes**

The following table presents the components of net loss before income taxes (in thousands):

	For the Years Ended December 31,	
	2021	2020
United States	\$ (21,608)	\$ (6,618)
Loss before provision for income taxes	\$ (21,608)	\$ (6,618)

The provision for income taxes for the years ended were as follows (in thousands):

	As of December 31,	
	2021	2020
Current		
Federal	\$ —	\$ —
State	58	5
Total current	58	5
Deferred:		
Federal	38	—
State	—	—
Total deferred	\$ 38	\$ —
Total provision	\$ 96	\$ 5

Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Realization of net deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain.

The following table presents a reconciliation of the statutory federal rate and the Company's effective tax rate:

	For the Years Ended December 31,	
	2021	2020
Statutory federal income (benefit) rate	(21)%	(21)%
Increase (decrease) resulting from:		
State income tax rate	(6)%	(7)%
Change in valuation allowance	33 %	32 %
Permanent items	— %	— %
Tax credits	(4)%	(7)%
Stock-based compensation	2 %	6 %
Other	(1)%	3 %
Debt instruments	2 %	— %
PPP loan adjustment	(2)%	— %
Fixed assets	(3)%	(6)%
Effective tax rate	— %	— %

The components of the Company's deferred tax assets and liabilities consisted of (in thousands):

	As of December 31,	
	2021	2020
<b>Deferred tax assets:</b>		
Net operating loss carryforwards	\$ 12,149	\$ 10,006
R&D credit carryforwards	4,323	2,919
Stock-based compensation	317	287
Accruals and other	2,012	772
	<u>18,801</u>	<u>13,984</u>
Valuation allowance	(12,747)	(5,557)
Total deferred tax asset	<u>6,054</u>	<u>8,427</u>
<b>Deferred tax liability:</b>		
Fixed assets	(4,258)	(7,050)
Capitalized internal-use software	(1,834)	(1,377)
Total deferred tax liability	<u>\$ (6,092)</u>	<u>\$ (8,427)</u>
Net deferred tax asset/(liability)	<u>\$ (38)</u>	<u>\$ —</u>

Deferred income taxes reflect the net tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Realization of net deferred tax assets is dependent upon future earnings, if any, the timing and amount of which are uncertain. ASC 740 requires that the tax benefit of net operating losses ("NOLs"), temporary differences and credit carryforwards be recorded as an asset to the extent that management assesses that realization is more likely than not. Realization of the future tax benefits is dependent on the Company's ability to generate sufficient taxable income within the carryforward period. Management believes that realization of the deferred tax assets arising from the above-mentioned future tax benefits from operating loss carryforwards is currently not more likely than not and, accordingly, has provided a valuation allowance.

The valuation allowance increased by \$7.2 million and \$0.5 million during the years ended December 31, 2021 and 2020, respectively.

As of December 31, 2021, the Company had federal and state NOL carryforwards of \$53.0 million and \$16.9 million, respectively. The federal NOL carryforwards consisted of \$16.0 million generated before January 1, 2018, which will begin to expire in 2034 but are able to offset 100% of taxable income and \$37.0 million generated after December 31, 2017 that will carryforward indefinitely but will be subject to 80% taxable income limitation beginning in tax years after December 31, 2021 as provided by the CARES Act.

The Company has federal research and development ("R&D") credit carryforwards of \$3.4 million which will begin to expire in 2032 and California R&D credit carryforwards of \$2.0 million which do not expire. The Company also has \$0.1 million of California enterprise zone credits which will begin to expire in 2028.

The utilization of NOLs and tax credit carryforwards to offset future taxable income may be subject to an annual limitation as a result of ownership changes that have occurred previously or may occur in the future. Under Sections 382 and 383 of the Internal Revenue Code ("IRC"), a corporation that undergoes an ownership change may be subject to limitations on its ability to utilize its pre-change NOLs and other tax attributes otherwise available to offset future taxable income and/or tax liability. An ownership change is defined as a cumulative change of 50% or more in the ownership positions of certain stockholders during a rolling three-year period. The Company has not completed a formal study to determine if any ownership changes within the meaning of IRC Sections 382 and 383 have occurred. If an ownership change has occurred, the Company's ability to use its NOLs or tax credit carryforwards may be restricted, which could require the Company to pay federal or state income taxes earlier than would be required if such limitations were not in effect.

On March 27, 2020, the CARES Act was signed into law. Among some of the items that the CARES Act affects are changes to NOL limitations, NOL carryforward and carryback periods, changes to interest limitations, and depreciation of qualified improvement property. The tax provisions under the CARES Act do not have a material impact on the income tax provision for the year ended December 31, 2021 given the existence of the full valuation allowance.

On June 29, 2020, California State Assembly Bill 85 (the “Trailer Bill”) was enacted which suspends the use of California NOL deductions and certain tax credits, including research and development tax credits, for the 2020, 2021, and 2022 tax years. The Trailer Bill did not have a material impact on the Company’s financial statements as of December 31, 2021.

#### **Uncertain Income Tax Positions**

The total amount of unrecognized tax benefits as of December 31, 2021 was \$0.8 million which related to federal and state R&D credits. If recognized, none of the unrecognized tax benefits would affect the effective tax rate. The following table summarizes the activity related to the Company’s unrecognized tax benefits (in thousands):

	Years Ended December 31,	
	2021	2020
Balance at beginning of year	\$ 584	\$ 421
Tax positions related to the current year:		
Additions	233	163
Reductions	—	—
Tax positions related to the prior year:		
Additions	—	—
Reductions	—	—
Settlements	—	—
Lapses in statute	—	—
Balance at end of year	\$ 817	\$ 584

The Company’s policy is to account for interest and penalties as income tax expense. As of December 31, 2021, the Company had no interest related to unrecognized tax benefits. No amounts of penalties related to unrecognized tax benefits were recognized in the provision for income taxes. The Company does not anticipate any significant change within twelve months of this reporting date.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company is subject to U.S. federal and state income tax examination for calendar tax years beginning in 2007 due to NOLs that are being carried forward for tax purposes.

#### **Note 17. Subsequent Events**

Since December 31, 2021, the Company has entered into various capital lease agreements for acquiring infrastructure equipment to operate its core business. The Company’s future minimum commitment under these agreements total approximately \$3.9 million and extend through 2025.

Subsequent to receipt of IPO proceeds, during January 2022, the Company entered into investments of short-term commercial paper in the amount of approximately \$90 million.

During March 2022, the Company’s Compensation Committee approved the issuance of approximately 780,000 RSUs with service-based vesting periods that are satisfied over three or four years. The Company expects to recognize approximately \$8.7 million in stock-based compensation on a straight-line basis over the vesting period of these awards.

#### **Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosures**

None.

## Item 9A. Controls and Procedures

### *Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable assurance that the objectives of the disclosure controls and procedures are met. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this Form 10-K were not effective, due to the material weakness in our internal controls over financial reporting described below.

### *Changes in Internal Control over Financial Reporting*

As of December 31, 2019, we identified four material weaknesses in our internal control over financial reporting, as defined by the standards established by the Sarbanes-Oxley Act of 2002. Each of these material weaknesses related to control activities as follows: (1) our controls were not operating effectively to allow sufficient and timely review of significant accounting transactions and reconciliations. These deficiencies resulted in errors in certain financial statement areas, such as cash and cash equivalents, prepaid expenses and other current assets, property and equipment, capitalized internal-use software, capital lease liability and sale leaseback transactions, accrued compensation and income tax; (2) our controls were not adequately designed to consider certain revenue recognition criteria, specifically related to the timing of revenue recognition, appropriate presentation and satisfaction of criteria for revenue recognition, which could have resulted in a material misstatement; (3) our controls over certain equity transactions were not operating effectively to allow management to timely identify errors related to the recording of those transactions; specifically, we did not have sufficient technical resources to appropriately identify errors in the accounting for equity awards and preferred stock transactions, resulting in misstatements relating to completeness and accuracy of stock-based compensation and classification of equity instrument; and (4) our controls were not adequately designed to consider the accurate recording of value added taxes and sales and use taxes, resulting in misstatements.

Additionally, as of December 31, 2021, we determined a material weakness existed relating to ineffective information technology general controls in the areas of user access and segregation of duties related to certain information technology systems that support our financial reporting process specifically related to expenditures. Although these control weaknesses did not result in any material misstatement of our financial statements for the periods presented, they could have led to a material misstatement of account balances or disclosures.

During the year ended December 31, 2021, we continued implementing measures to remediate the identified material weaknesses, including: (1) strengthening our internal controls over financial reporting and the design of our internal-control framework through enhanced accounting policies, control activities, and monitoring; (2) user access review of systems that support financial reporting and a preliminary review of segregation of duties; (3) implementing a new enterprise resource planning (“ERP”) system and other systems and processes related to revenue recognition and equity administration to increase capabilities over our financial statement recording and reporting processes; (4) hiring additional full-time accounting personnel with appropriate levels of experience to increase our accounting and technical expertise, including a new Chief Financial Officer, a Corporate Controller, an Internal Controls Manager, and a Director of IT who was hired shortly after December 31, 2021; and (5) reallocating responsibilities across our accounting organization so that the appropriate level of knowledge and experience is applied based on complexity of transactions.

The actions we took were subject to ongoing executive management review and also to audit committee oversight. As of December 31, 2021, the material weaknesses have not been remediated.

Except as otherwise described herein, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the year ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

***Inherent Limitations on Effectiveness of Controls***

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

***Exemption from Management's Report on Internal Control over Financial Reporting***

The Annual Report on Form 10-K does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of our independent registered public accounting firm due to a transition period established by the rules of the SEC for newly public companies.

**Item 9B. Other Information**

None.

**Item 9C. Disclosure Regarding Foreign Jurisdiction That Prevent Inspections**

Not applicable.

**Part III**

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item is incorporated by reference to the definitive Proxy Statement for the 2022 Annual Meeting of Stockholders.

**Item 11. Executive Compensation**

The information required by this item is incorporated by reference to the definitive Proxy Statement for the 2022 Annual Meeting of Stockholders.

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

The information required by this item is incorporated by reference to the definitive Proxy Statement for the 2022 Annual Meeting of Stockholders.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item is incorporated by reference to the definitive Proxy Statement for the 2022 Annual Meeting of Stockholders.

**Item 14. Principal Accounting Fees and Services**

The information required by this item is incorporated by reference to the definitive Proxy Statement for the 2022 Annual Meeting of Stockholders.



**Part IV**

**Item 15. Exhibits and Financial Statement Schedules**

(a)

(1) Financial Statements

(2) Financial Statement Schedules. All financial statement schedules have been omitted because the information required to be presented in them is not applicable or is shown in the financial statements or related notes, which is incorporated herein by reference.

(3) Exhibits. The following exhibits are included herein or incorporated herein by reference:

Exhibit Number	Description	Form	Incorporated by Reference			Filed Herewith
			File No.	Exhibit	Filing Date	
3.1	<a href="#">Amended and Restated Certificate of Incorporation of Registrant, as currently in effect.</a>	10-Q	001-41026	3.1	12/14/2021	
3.2	<a href="#">Amended and Restated Bylaws</a>	10-Q	001-41026	3.2	12/14/2021	
4.1	<a href="#">Description of the Registrant's Securities Registered Pursuant to Section 12 of the Exchange Act of 1934</a>					X
10.1	<a href="#">Form of Indemnification Agreement by and between the Registrant and each of its directors and executive officers.</a>	S-1	333-260333	10.1	10/18/21	
10.2	<a href="#">2011 Stock Plan, as amended, and forms of agreements thereunder.</a>	S-1	333-260333	10.2	10/18/21	
10.3	<a href="#">2021 Equity Incentive Plan and form of agreements thereunder.</a>	S-1	333-260333	10.3	10/18/21	
10.4	<a href="#">2021 Employee Stock Purchase Plan.</a>	S-1	333-260333	10.4	10/18/21	
10.5	<a href="#">Offer Letter, dated February 14, 2020, by and between the Company and Frank Patchel.</a>	S-1	333-260333	10.5	10/18/21	
10.6†	<a href="#">Loan and Security Agreement, dated October 21, 2021, by and between the Company and City National Bank.</a>	S-1	333-260333	10.6	10/18/21	
10.7	<a href="#">Form of Simple Agreement for Future Equity, by and between the Company and certain of its investors.</a>	S-1	333-260333	10.7	10/18/21	
10.8	<a href="#">First Amendment to the Loan and Security Agreement, dated October 21, 2021, by and between the Company and City National Bank.</a>					X
23.1	<a href="#">Consent of BDO USA, LLP, Independent Registered Public Accounting Firm.</a>					X
24.1	<a href="#">Power of Attorney (contained on signature page to this report).</a>					X
31.1	<a href="#">Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
31.2	<a href="#">Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>					X
32.1*	<a href="#">Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>					X
32.2*	<a href="#">Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document.					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.					X
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).					X

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\* The certifications attached as Exhibit 32.1 and 32.2 that accompany this Annual Report on Form 10-K are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Backblaze, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Annual Report on Form 10-K, irrespective of any general incorporation language contained in such filing.

(b) Exhibits. See Item 15(a)(3) above.

(c) Financial Statement Schedules. See Item 15(a)(2) above.

**Item 16. Form 10-K Summary**

Not Applicable.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Mateo, State of California, on this 28th day of March, 2022.

**Backblaze, Inc.**

/s/ Gleb Budman

\_\_\_\_\_  
 Gleb Budman  
 Chief Executive Officer and Chairperson

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Gleb Budman and Frank Patchel, and each of them, as his or her true and lawful attorney-in-fact and agent with full power of substitution, for him or her in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the SEC, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully for all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute, may lawfully do or cause to be done by virtue hereof.

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

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Gleb Budman _____ Gleb Budman	Chief Executive Officer and Chairperson <i>(Principal Executive Officer)</i>	March 28, 2022
/s/ Frank Patchel _____ Frank Patchel	Chief Financial Officer <i>(Principal Financial and Accounting Officer)</i>	March 28, 2022
/s/ Brian Wilson _____ Brian Wilson	Chief Technology Officer and Director	March 28, 2022
/s/ Timothy Nufire _____ Timothy Nufire	Chief Cloud Officer and Director	March 28, 2022
/s/ Jocelyn Carter-Miller _____ Jocelyn Carter-Miller	Director	March 28, 2022
/s/ Barbara Nelson _____ Barbara Nelson	Director	March 28, 2022
/s/ Earl E. Fry _____ Earl E. Fry	Director	March 28, 2022
/s/ Evelyn D'An _____ Evelyn D'An	Director	March 28, 2022

**DESCRIPTION OF REGISTRANT'S SECURITIES REGISTERED PURSUANT TO  
SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934**

The following descriptions of the capital stock of Backblaze, Inc. ("we," "our," "us," or the "Company") is a summary of the rights of our capital stock and summarizes certain provisions of our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws. This summary does not purport to be complete and is qualified in entirety by reference to the Amended and Restated Certificate of Incorporation and the Amended and Restated Bylaws currently in effect, copies of which have been filed as exhibits to this Annual Report on Form 10-K, as well as to applicable provisions of the Delaware General Corporation Law the ("DGCL").

Our authorized capital stock consists of 160,000,000 shares, all with a par value of \$0.0001 per share, of which:

- 113,000,000 shares are designated Class A common stock;
- 37,000,000 shares are designated Class B common stock; and
- 10,000,000 shares are designated preferred stock.

**Common Stock**

We have two classes of authorized common stock: Class A common stock and Class B common stock. The rights of the holders of Class A common stock and Class B common stock are identical, except with respect to voting, conversion and transfer rights.

**Dividend Rights**

Subject to preferences that may apply to shares of preferred stock outstanding at the time, the holders of outstanding shares of our common stock are entitled to receive dividends out of funds legally available if our Board of Directors, in its discretion, determines to issue dividends and only then at the times and in the amounts that our Board of Directors may determine.

**Voting Rights**

The holders of our Class B common stock are entitled to 10 votes per share, and holders of our Class A common stock are entitled to one vote per share. The holders of our Class A common stock and Class B common stock vote together as a single class, unless otherwise required by law. Delaware law or our Amended and Restated Certificate of Incorporation could require either holders of our Class A common stock or our Class B common stock to vote separately as a single class in the following circumstances:

- if we were to seek to amend our Amended and Restated Certificate of Incorporation to increase the authorized number of shares of a class of stock, or to increase or decrease the par value of a class of stock, then that class would be required to vote separately to approve the proposed amendment; and
- if we were to seek to amend our Amended and Restated Certificate of Incorporation in a manner that alters or changes the powers, preferences or special rights of a class of stock in a manner that affected its holders adversely, then that class would be required to vote separately to approve the proposed amendment.

The holders of common stock will not have cumulative voting rights in the election of directors. Accordingly, holders of a majority of the voting power of the shares of common stock entitled to vote in any election of directors may elect all of the directors standing for election. Except for the election of directors, if a quorum is present, an action on a matter is approved if it receives the affirmative vote of the holders of a majority of the voting power of the shares of capital stock present in person or represented by proxy at the meeting and entitled to vote on the matter, unless otherwise required by applicable law, the DGCL, our Amended and Restated Certificate of Incorporation or our Amended and Restated Bylaws. The election of directors will be determined by a plurality of the votes cast in respect of the shares present in person or represented by proxy at the meeting and entitled to vote, meaning that the nominees with the greatest number of votes cast, even if less than a majority, will be elected. The rights, preferences and privileges of holders of common stock are subject to, and may be impacted by, the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future.

### ***No Preemptive or Similar Rights***

Our common stock is not entitled to preemptive rights and is not subject to conversion, redemption or sinking fund provisions.

### ***Right to Receive Liquidation Distributions***

Upon our dissolution, liquidation or winding-up, the assets legally available for distribution to our stockholders are distributable ratably among the holders of our common stock, subject to prior satisfaction of all outstanding debt and liabilities and the preferential rights and payment of liquidation preferences, if any, on any outstanding shares of preferred stock.

### ***Conversion of our Class B Common Stock***

Each share of our Class B common stock is convertible at any time at the option of the holder into one share of our Class A common stock. Each share of our Class B common stock will convert automatically into one share of our Class A common stock upon any transfer, whether or not for value, except certain transfers to entities, including certain charities and foundations, to the extent the transferor retains sole dispositive power and exclusive voting control with respect to the shares of Class B common stock, and certain other transfers described in our Amended and Restated Certificate of Incorporation. Upon the death of each holder of Class B common stock who is a natural person, the Class B common stock held by that person or his or her permitted estate planning entities will convert automatically into Class A common stock.

In addition, all shares of Class B common stock will automatically convert into shares of Class A common stock on the earlier of (i) the seven-year anniversary of the initial closing date of our initial public offering, (ii) the date on which the number of outstanding shares of Class B common stock represents less than 10% of the aggregate combined number of outstanding shares of Class A common stock and Class B common stock, or (iii) the date specified by a vote of the holders of a majority of the then outstanding shares of Class B common stock.

Once transferred and converted into Class A common stock, the Class B common stock will not be reissued.

### ***Preferred Stock***

No shares of preferred stock are outstanding, but we are authorized, subject to limitations prescribed by Delaware law, to issue preferred stock in one or more series, to establish from time to time the number of shares to be included in each series and to fix the designation, powers, preferences, and rights of the shares of each series and any associated qualifications, limitations, or restrictions. Our Board of Directors also can increase or decrease the number of shares of any series, but not below the number of shares of that series then outstanding, without any further vote or action by our stockholders. Our Board of Directors may authorize the issuance of preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of the common stock. The issuance of preferred stock, while providing flexibility in connection with possible acquisitions and other corporate purposes, could, among other things, have the effect of delaying, deferring or preventing a change in control of our company and may adversely affect the market price of our common stock and the voting and other rights of the holders of common stock. We have no current plan to issue any shares of preferred stock.

### ***Anti-Takeover Provisions***

#### ***Delaware Law***

We are governed by the provisions of Section 203 of the DGCL regulating corporate takeovers. This section prevents some Delaware corporations from engaging, under some circumstances, in a business combination, which includes a merger or sale of at least 10% of the corporation's assets with any interested stockholder, meaning a stockholder who, together with affiliates and associates, owns or, within three years prior to the determination of interested stockholder status, did own 15% or more of the corporation's outstanding voting stock, unless:

- the transaction is approved by the board of directors prior to the time that the interested stockholder became an interested stockholder;
- upon closing of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction began, excluding for purposes of determining the voting stock outstanding those shares owned (i) by persons who are directors and also officers and (ii) employee stock plans in which employee

participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or

- subsequent to such time that the stockholder became an interested stockholder the business combination is approved by the board of directors and authorized at an annual or special meeting of stockholders by at least two-thirds of the outstanding voting stock which is not owned by the interested stockholder.

A Delaware corporation may “**opt out**” of these provisions with an express provision in its original certificate of incorporation or an express provision in its certificate of incorporation or amended and restated bylaws resulting from a stockholders’ amendment approved by at least a majority of the outstanding voting shares. We have not opted out of these provisions. As a result, mergers or other takeover or change in control attempts of us may be discouraged or prevented.

### ***Certificate of Incorporation and Bylaw Provisions***

Our Amended and Restated Certificate of Incorporation and our Amended and Restated Bylaws include a number of provisions that may have the effect of deterring hostile takeovers or delaying or preventing changes in control of our management team, including the following:

- **Dual class stock.** As described above in “**—Common Stock—Voting Rights,**” our Amended and Restated Certificate of Incorporation provides for a dual class common stock structure pursuant to which holders of our Class B common stock have the ability to control the outcome of matters requiring stockholder approval, even if they own significantly less than a majority of the shares of our outstanding Class A and Class B common stock, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or its assets.
- **Separate Class B vote for certain transactions.** Any transaction that would result in a change in control of our company requires the approval of a majority of our outstanding Class B common stock voting as a separate class. This provision could delay or prevent the approval of a change in control that might otherwise be approved by a majority of outstanding shares of our Class A and Class B common stock voting together on a combined basis.
- **Board of Directors vacancies.** Our Amended and Restated Certificate of Incorporation and Amended and Restated Bylaws authorize our Board of Directors to fill vacant directorships, including newly-created seats. In addition, the number of directors constituting our Board of Directors is set only by resolution adopted by a majority vote of our entire board of directors. These provisions may prevent a stockholder from increasing the size of our Board of Directors and gaining control of our Board of Directors by filling the resulting vacancies with its own nominees.
- **Classified board.** Our Board of Directors is classified into three classes of directors with staggered three-year terms. For the first 12 months after their initial appointment or election, directors may be removed with or without cause by stockholders holding a majority of the outstanding voting power. After 12 months, directors will only be removed from office for cause. The existence of a classified board could delay a successful tender offeror from obtaining majority control of our Board of Directors, and the prospect of that delay might deter a potential offeror.
- **Stockholder action; special meeting of stockholders.** Our Amended and Restated Certificate of Incorporation provides that stockholders will not be able to take action by written consent, and will only be able to take action at annual or special meetings of our stockholders. Stockholders are not permitted to cumulate their votes for the election of directors. Our Amended and Restated Certificate of Incorporation further provides that special meetings of our stockholders may be called by a majority of our Board of Directors, stockholders holding at least 6,300,000 shares of our Class B common stock or the Chairperson of our Board of Directors.
- **Advance notice requirements for stockholder proposals and director nominations.** Our Amended and Restated Bylaws provide advance notice procedures for stockholders seeking to bring business before our annual meeting of stockholders, or to nominate candidates for election as directors at any meeting of stockholders. Our Amended and Restated Bylaws also specify certain requirements regarding the form and content of a stockholder’s notice. These provisions may preclude our stockholders from bringing matters before our annual meeting of stockholders or from making nominations for directors at our meetings of stockholders.
- **Issuance of undesignated preferred stock.** Our Board of Directors has the authority, without further action by the holders of common stock, to issue up to 10,000,000 shares of undesignated preferred stock with rights and preferences, including voting rights, designated from time to time by the Board of Directors. The existence of authorized but unissued shares of preferred stock will enable our Board of Directors to render more difficult or discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest or otherwise.

## **Choice of Forum**

Our Amended and Restated Certificate of Incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty owed by any of our directors, officers or other employee to us or our stockholder, creditors or other constituents; any action asserting a claim against us arising pursuant to the DGCL, our Amended and Restated Certificate of Incorporation or our Amended and Restated Bylaws; any action to interpret, apply, enforce, or determine the validity of our Amended and Restated Certificate of Incorporation or our Amended and Restated Bylaws; any action asserting a claim against us that is governed by the internal affairs doctrine; or any action asserting an “internal corporate claim” as defined in Section 115 of the DGCL. Our Amended and Restated Certificate of Incorporation also provides that the U.S. federal district courts will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act of 1933, as amended (the “Securities Act”). Some companies that adopted a similar federal district court forum selection provision were subject to a suit in the Chancery Court of Delaware by stockholders who asserted that the provision is not enforceable. While the Delaware Supreme Court held that such federal district court forum selection provision was in fact valid, there can be no assurance that federal courts or other state courts will follow the holding of the Delaware Supreme Court or determine that the our federal district court forum selection provision should be enforced in a particular case. These choice of forum provisions do not apply to actions brought to enforce a duty or liability created by the Securities Exchange Act of 1934, as amended. We intend for the choice of forum provision regarding claims arising under the Securities Act to apply despite the fact that Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all actions brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder. There is uncertainty as to whether a court would enforce such provision with respect to claims under the Securities Act. Our exclusive forum provision does not relieve us of our duties to comply with the federal securities laws and the rules and regulations thereunder, and our stockholders will not be deemed to have waived our compliance with these laws, rules and regulations.

These exclusive forum provisions may limit the ability of our stockholders to bring a claim in a judicial forum that such stockholders find favorable for disputes with us or our directors, officers or employees, which may discourage such lawsuits against us and our directors, officers and employees. Alternatively, if a court were to find such provisions contained in our certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, we may incur additional costs associated with resolving such action in other jurisdictions, which could materially adversely affect our business, financial condition and operating results.

## **Transfer Agent and Registrar**

The transfer agent and registrar for our Class A common stock is American Stock Transfer & Trust Company, LLC. The transfer agent’s address is 6201 15th Avenue, Brooklyn, NY 11219, and its telephone number is (718) 921-8200.

## **Listing**

Our Class A common stock has is listed on the NASDAQ Global Market under the symbol “BLZE.”

**FIRST AMENDMENT TO LOAN AND SECURITY AGREEMENT**

This First Amendment to Loan and Security Agreement (this “Amendment”) is entered into as of December 30, 2021, by and between City National Bank (“Bank”) and Backblaze, Inc., a Delaware corporation (“Borrower”).

**RECITALS**

- A.** Bank and Borrower have entered into that certain Loan and Security Agreement dated as of October 21, 2021 (as the same may from time to time be amended, modified, supplemented or restated, the “Loan Agreement”).
- B.** Bank has extended credit to Borrower for the purposes permitted in the Loan Agreement.
- C.** Borrower has requested that Bank amend the Loan Agreement to (i) remove the financial covenants, (ii) require cash collateral prior to any Advance, and (iii) make certain other revisions to the Loan Agreement as more fully set forth herein.
- D.** Bank has agreed to so amend certain provisions of the Loan Agreement, but only to the extent, in accordance with the terms, subject to the conditions and in reliance upon the representations and warranties set forth below.

**AGREEMENT**

**NOW, THEREFORE**, in consideration of the foregoing recitals and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, and intending to be legally bound, the parties hereto agree as follows:

- 1. Definitions.** Capitalized terms used but not defined in this Amendment shall have the meanings given to them in the Loan Agreement.

**2. Amendments to Loan Agreement.**

- 2.1 Section 1.1 (Definitions).** The following terms and their respective definitions set forth in Section 1.1 are deleted in their entirety:

“Leverage Ratio”  
“Total Funded Debt”

- 2.2 Section 1.1 (Definitions).** With respect to the definition of “Permitted Investment” in Section 1.1, the references to “one (1) year” in clauses (i), (ii), and (iii) are amended to refer instead to “three (3) years” in each respective clause.

- 2.3 Section 2.1 (Credit Extensions).** With respect to Section 2.1(b)(iv), the phrase “3:00 p.m. Pacific time, on the Business Day the Advance is to be made” is amended to state instead “12:00 p.m. Pacific time, at least one (1) Business Day prior to the Business Day the Advance is to be made.”



**1.4 Section 3.2 (Conditions Precedent to all Credit Extensions).** With respect to Section 3.2, the “and” at the end of clause (c) is deleted, the “.” at the end of clause (d) is deleted and replaced by “; and”, and new clause (e) is added as follows:

(e) Borrower shall transfer cash collateral to the standing pledged account at Bank in an amount equal to at least one hundred percent (100%) of the amount requested for each Advance.

**1.5 Section 6.10 (Minimum Adjusted EBITDA).** Section 6.10 is amended in its entirety and replaced with the following:

**6.10 Reserved.**

**2.6 Section 6.11 (Minimum Leverage Ratio).** Section 6.11 is amended in its entirety and replaced with the following:

**6.11 Reserved.**

**2.7 Exhibit B (Loan Advance/Paydown Request Form).** The Loan Advance/Paydown Request Form is amended in its entirety and replaced with the Loan Advance/Paydown Request Form in the form of Exhibit B attached hereto.

**2.8 Exhibit D (Compliance Certificate).** The Compliance Certificate is amended in its entirety and replaced with the Compliance Certificate in the form of Exhibit D attached hereto.

**3. Limitation of Amendments.**

**3.1** The amendments set forth in Section 2, above, are effective for the purposes set forth herein and shall be limited precisely as written and shall not be deemed to (a) be a consent to any amendment, waiver or modification of any other term or condition of any Loan Document, or (b) otherwise prejudice any right or remedy which Bank may now have or may have in the future under or in connection with any Loan Document.

**3.2** This Amendment shall be construed in connection with and as part of the Loan Documents and all terms, conditions, representations, warranties, covenants and agreements set forth in the Loan Documents, except as herein amended, are hereby ratified and confirmed and shall remain in full force and effect.

**4. Representations and Warranties.** To induce Bank to enter into this Amendment, Borrower hereby represents and warrants to Bank as follows:

**4.1** Immediately after giving effect to this Amendment (a) the representations and warranties contained in the Loan Documents are true, accurate and complete in all material respects as of the date hereof (except to the extent such representations and warranties relate to an earlier date, in which case they are true and correct as of such date), and (b) no Event of Default has occurred and is continuing;

- 4.2 Borrower has the power and authority to execute and deliver this Amendment and to perform its obligations under the Loan Agreement, as amended by this Amendment;
- 4.3 The organizational documents of Borrower most recently delivered to Bank remain true, accurate and complete and have not been amended, supplemented or restated and are and continue to be in full force and effect;
- 4.4 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, have been duly authorized;
- 4.5 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not and will not contravene (a) any law or regulation binding on or affecting Borrower, (b) any contractual restriction with a Person binding on Borrower, (c) any order, judgment or decree of any court or other governmental or public body or authority, or subdivision thereof, binding on Borrower, or (d) the organizational documents of Borrower;
- 4.6 The execution and delivery by Borrower of this Amendment and the performance by Borrower of its obligations under the Loan Agreement, as amended by this Amendment, do not require any order, consent, approval, license, authorization or validation of, or filing, recording or registration with, or exemption by any governmental or public body or authority, or subdivision thereof, binding on Borrower, except as already has been obtained or made; and
- 4.7 This Amendment has been duly executed and delivered by Borrower and is the binding obligation of Borrower, enforceable against Borrower in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, liquidation, moratorium or other similar laws of general application and equitable principles relating to or affecting creditors' rights.
5. **Ratification of Perfection Certificate.** Borrower hereby ratifies, confirms and reaffirms, all and singular, the terms and disclosures contained in a certain Perfection Certificate dated as of October 21, 2021, and acknowledges, confirms and agrees that the disclosures and information Borrower provided to Bank in such Perfection Certificate have not changed (other than as set forth in written notices to Bank), as of the date hereof.
6. **Integration.** This Amendment and the Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements. All prior agreements, understandings, representations, warranties, and negotiations between the parties about the subject matter of this Amendment and the Loan Documents merge into this Amendment and the Loan Documents.
7. **Counterparts.** This Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

**8. Electronic Execution of Documents.** Each party hereto may execute this Amendment by electronic means and recognizes and accepts the use of electronic signatures and records by any other party hereto in connection with the execution and storage hereof.

**9. Effectiveness.** This Amendment shall be deemed effective upon (a) the due execution and delivery to Bank of this Amendment by each party hereto, and (b) payment of Bank's legal fees and expenses in connection with the negotiation and preparation of this Amendment.

[Signature page follows.]

**IN WITNESS WHEREOF**, the parties hereto have caused this Amendment to be duly executed and delivered as of the date first written above.

Bank  
City National Bank

By: /s/ Raed Alfayoumi  
Name: Raed Alfayoumi  
Title: SVP

Borrower  
Backblaze, Inc.

By: /s/ Frank Patchel  
Name: Frank Patchel  
Title: Chief Financial Officer

[Signature Page of First Amendment to Loan and Security Agreement]

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-260991) of Backblaze, Inc. of our report dated March 28, 2022, relating to the financial statements, which appears in this Form 10-K.

/s/ BDO USA, LLP  
San Jose, California  
March 28, 2022

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO RULES 13A-14(A) AND 15D-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.**

I, Gleb Budman, certify that:

1. I have reviewed this Annual Report on Form 10-K of Backblaze, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2022

/s/ Gleb Budman

Gleb Budman

Chief Executive Officer and Chairperson

(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO RULES 13A-14(A) AND 15D-14(A) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.**

I, Frank Patchel, certify that:

1. I have reviewed this Annual Report on Form 10-K of Backblaze, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principals;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2022

/s/ Frank Patchel  
Frank Patchel  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002.**

In connection with the Annual Report on Form 10-K of Backblaze, Inc. (the "Company") for the annual period ended December 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gleb Budman, the Chief Executive Officer and Chairperson of the Company, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 28, 2022

/s/ Gleb Budman

Gleb Budman

Chief Executive Officer and Chairperson

(Principal Executive Officer)



**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002.**

In connection with the Annual Report on Form 10-K of Backblaze, Inc. (the "Company") for the annual period ended December 31, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frank Patchel, the Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief that:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 28, 2022

/s/ Frank Patchel

Frank Patchel

Chief Financial Officer

(Principal Financial and Accounting Officer)