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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2022

OR

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

For the transition period from to

Commission file number 001-41026

BACKBLAZE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-8893125**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
500 Ben Franklin Ct San Mateo, CA	**94401**
(Address of Principal Executive Offices)	(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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, based on the closing price of $5.23 for a share of the registrant's Class A common stock on June 30, 2022 (the last business day of the registrant's most recently completed second quarter), as reported by the Nasdaq Global Select Market, was approximately $67.0 million. 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, 2023, 21.1 million shares of the registrant's Class A common stock were outstanding, and 13.2 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 2023 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, 2022.

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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 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, inflation, war, other hostilities and other disruptive events on our business or that of our customers, partners, and supply chain or on the global economy;
- our ability to successfully remediate and prevent material weaknesses in internal controls over financial reporting; and
- the 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 specialized 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 more than 500,000 customers as of December 31, 2022. These customers use our Storage Cloud platform across more than 175 countries to grow and protect their business data on our over 2.5 exabytes, or 2.5 trillion megabytes, of data storage under management.

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, or can be paid for on a capacity basis for greater predictability, which we refer to as our B2 Reserve offering. This Infrastructure-as-a-Service (IaaS) enables use cases including backups, multi-cloud, application storage, 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 2022 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 approximately 80% of our total revenue in 2022 coming from self-serve customers. Our technology, channel, affiliate, and managed service provider (MSP) partners help expand use cases and sales channels 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 113% and 111% as of December 31, 2022 and 2021, respectively. For more information about net revenue retention rate and how it is calculated, please see the section titled “Key Business Metrics” in Item 7, Management’s Discussion and Analysis of Financial Condition and Result of Operations included elsewhere in this Annual Report on Form 10-K.

Our B2 Cloud Storage revenue grew by 46% during the year ended December 31, 2022 and our Computer Backup cloud service revenue grew by 17% during the year ended December 31, 2022.

Our ecosystem of partners—including technology and developer partners, channel 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.

- ***Technology and Developer Partners.*** Our platform, alongside the platforms of our technology and developer partners, enables software developers to efficiently build their applications and 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.

- ***Channel Partners.*** We sell B2 Cloud Storage to resellers at a discounted rate. Resellers then market and sell B2 Cloud Storage individually or as part of broader solutions to businesses and organizations. The channel provides greater access to markets with specialty needs in the purchasing process, like state and local governments and educational institutions.

- ***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. 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 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 East and West Coast regions in 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 250,000 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 total revenue with it, we continuously and smoothly deploy additional infrastructure. A significant amount 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

Backblaze 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 (AI) 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, 2022, we had over 500,000 customers in over 175 countries, including approximately 436,000 customers using our Computer Backup cloud services solution and approximately 87,000 customers using our B2 Cloud Storage solution (approximately 16,000 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 total revenue in 2022 or 2021.

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 technology and developer, channel, 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. We have also stood up a Developer Evangelism team to support our focus on supporting developers and applications storage use cases, and scaled up our partnerships team to grow our technology and channel partnership 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.

While we compete primarily based on offering services that are significantly easier to use and lower cost, but also through continued innovation; 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, we believe we stand out by offering a substantially easier to use product and significantly lower pricing.

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 believe we have an aligned and engaged workforce with relatively limited employee turnover. As of December 31, 2022, we had 393 full-time employees, including a net of 123 new full-time employees hired during 2022. A significant amount 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. Our offices reopened during 2022 and most employees located in proximity to our headquarters office location utilize a hybrid approach which includes a mixture of working in the office and working remotely from home.

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 4.8/5.0 rating, 95% CEO Approval, and 95% Recommend to a Friend ratings as of February 1, 2023.

Facilities

Our principal executive offices are located in San Mateo, California. We lease data center facilities in California, Arizona, Virginia, 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 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.

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. 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 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 our IPO, including our executive officers, employees, and directors and their affiliates, which limits 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 $51.4 million and $21.7 million for the years ended December 31, 2022 and 2021, respectively. Over our 15 years of operations, we had an accumulated deficit of $87.7 million as of December 31, 2022. We cannot guarantee that net losses in future periods will be similar to those from prior periods. 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, including storage offerings by some of our partners. 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, increased customer churn, 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. For example, a third party vendor that operated one of our multiple data center locations, filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code in 2022. This bankruptcy matter was resolved without disruption to our normal operations, but future bankruptcies or similar events affecting our third-party hosted data center providers could result in disruptions to our Company, access to customer data may become unavailable or customer data could be lost, and it may take a significant period of time to achieve full resumption of our cloud services. Also, 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. These restrictions have also been expanded to other countries, including Belarus. Although we do not have a significant number of customers located in those regions, such actions will have some impact on 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, our cloud replication offering, which was recently launched, may not achieve the desired level of market adoption on a timely basis. 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,
- harm our reputation and brand, and
- negatively impact our results of operations.

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 188 employees as of December 31, 2020, to 270 employees as of December 31, 2021 and to 393 employees as of December 31, 2022. Also, in just the last two years the amount of storage deployed by us has increased significantly. 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 headcount needs may also fluctuate on a quarterly and annual basis and we may seek to "right size" our workforce from time to time due to changing business needs and other conditions, and it may be difficult to effectively manage our workforce on a timely basis in response to such changes. It is also important that we successfully leverage our existing employee base and any headcount growth, particularly as our business grows and the corresponding demands on our business increase. 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, marketing, 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;
- 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;
- outbreaks of war or other hostilities, such as the Russia-Ukraine hostilities;
- inflation in the United States, which has recently hit a four decade high, and other regions;
- the impact of COVID-19 or other pandemics on our business or that of our customers and partners;
- the timing of expenses and receipt of perceived benefits related to any acquisitions;
- 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, while it is subject to change, we are currently waiving charges for our services for customers based in

Ukraine. We are also unable to receive payments from customers in certain regions that are subject to banking or other credit card payment restrictions, including Russia and Belarus. Although we do not have a significant amount of customers located in these regions, such actions will have some impact on 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 and other key personnel. All of our employees, including our senior management, are employed on an at-will basis. We cannot ensure that we will be able to retain the services of any member of our senior management or other key employees, particularly given that some of these employees may hold equity of the Company that is largely vested, 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. 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, including accomplished executive talent, or if we 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 now that we are 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 2022, we derived approximately 28% of our total 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. 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. Any new or currently applicable privacy and security laws, policies, or related contractual obligations may be enacted, adopted, or modified, the result of which may impact our compliance efforts, especially when certain emerging privacy laws are still subject to a high degree of uncertainty as to their interpretation, application and impact. 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.

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. For example, recent high inflation and recession concerns in the United States could have a greater adverse impact on mid-market organizations. 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 specialized 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, inflation, 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. Inflation recently experienced the highest rate in four decades in the United States amid a slowing economy and there are numerous indicators suggesting a potential economic recession in the United States and other regions of the world. Any such conditions, could reduce sales, lengthen sales cycles, increase customer churn, and lower demand for our cloud services, 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 leases to finance the equipment we use to provide our cloud-based services, and we have a revolving credit agreement with City National Bank. In addition, the stock market has recently experienced disruption and elements of a bear market, including with respect to technology stocks, due to high inflation, various economic headwinds and other factors. Also, although we use City National Bank, a subsidiary of Royal Bank of Canada (RBC), for our banking needs, and do not use Silicon Valley Bank in any capacity, the banking industry has experienced disruption and uncertainty in connection with the recent sudden closure of Silicon Valley Bank in March 2023. In the event of a failure of any financial institutions where we maintain deposits, we may lose timely access to our funds at such institutions and incur significant losses to the extent our funds exceed the $250,000 limit insured by the Federal Deposit Insurance Corporation. In addition, the disruption and uncertainty impacting the banking industry may result in reduced access to capital, increased costs of capital, and reduced opportunities to invest with investment grade securities, which could also lower investment yields and investment income. Any such impact could have a material adverse effect upon our liquidity and business. 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, vendors or other third parties in connection with various types of disputes, including relating to commercial or contract matters, violation of securities laws, intellectual property laws or other laws, 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.

The COVID-19 pandemic has impacted how we, our customers, and our partners are operating, and any re-emergence of the pandemic could result in a material adverse effect on our business.

The COVID-19 pandemic, 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. The pandemic has resulted in various changes to customer business dynamics and may have impacted the storage needs of our customers and prospective customers as well as additional costs and other adverse business conditions affecting our company and our customers and partners, which may occur again if pandemic conditions return. In addition, work from home and related business practice modifications present significant challenges to maintaining our corporate culture, including employee engagement and productivity, as we make additional adjustments following the pandemic.

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 finance 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 also experienced 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 Russia-Ukraine war, or tensions between Taiwan and China, particularly if those tensions escalate into an armed conflict, that could disrupt the global supply chain and result in the implementation of trade barriers, including boycotts or the use of economic sanctions and export control restrictions, any of which 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. For example, a third party vendor that operated one of our multiple data center locations, filed for bankruptcy under Chapter 11 under the United States Bankruptcy Code in 2022. This bankruptcy matter was resolved without disruption to normal operations, but future bankruptcies or similar actions affecting our third-party hosted data center providers could result in disruptions to the company, and access to customer data may become unavailable or customer data could be lost, and it may take a significant period of time to achieve full resumption of our cloud services. Developing alternate sources of supply for these infrastructure needs, and transitioning our customers' data from one provider to another, may result in loss of availability of our services for a period of time, be time-consuming, costly, difficult, and increase the risk of damage and loss. We may also be unable to source them on terms that are acceptable to us, or at all, which may undermine our ability to operate or 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 and certain other regions, 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 outstanding 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, of which three had been remediated as of December 31, 2022. 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, and this material weakness had been remediated as of December 31, 2022.

As of December 31, 2022, two material weaknesses remained as follows.

i. Our controls were not operating effectively to allow sufficient and timely review of significant accounting transactions and reconciliations. These deficiencies resulted in errors in 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; and
ii. 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.

We have dedicated significant effort and resources towards measures to remediate the identified material weaknesses. We are in the process of designing and implementing internal controls intended to address our remaining material weaknesses, and are also testing the operating effectiveness of these controls. The remaining material weaknesses cannot be considered fully 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 remaining 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 these material weaknesses in a timely or sufficient manner, there could continue to be a reasonable possibility that these control deficiencies 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 are 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, 2022 we had net operating loss carryforwards for U.S. federal income tax purposes of $63.4 million available to offset future U.S. federal taxable income. Also, as of December 31, 2022, we had net operating loss carryforwards for state income tax purposes of $33.5 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.

Changes in tax laws could materially affect our financial condition, results of operations and cash flows.

On August 16, 2022, the Inflation Reduction Act of 2022 (the IRA) was signed into law. The IRA contains certain tax measures, including a corporate alternative minimum tax of 15% on global adjusted financial statement income, effective for tax years beginning after December 31, 2022, and a 1% excise tax on certain share repurchases, occurring after December 31, 2022. We do not currently expect that the IRA will have a material impact on our income tax liability. We are unable to predict what changes to the tax laws of the U.S. and other jurisdictions may be proposed or enacted in the future or what effect such changes would have on our business. Any significant increase in our future effective tax rate could have a material adverse impact on our business, financial condition, results of operations, or cash flows.

The rules dealing with U.S. federal, state and local income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service and the U.S. Treasury Department. Changes to tax laws (which changes may have retroactive application) could adversely affect us or holders of our common stock. For example, under Section 174 of the Code, in taxable years beginning after December 31, 2021, expenses that are incurred for research and development in the U.S. will be capitalized and amortized, which may have an adverse effect on our cash flow. In recent years, many such changes have been made, and changes are likely to continue to occur in the future. It cannot be predicted whether, when, in what form or with what effective dates tax laws, regulations and rulings may be enacted, promulgated or issued, which could result in an increase in our or our shareholders' tax liability or require changes in the manner in which we operate in order to minimize or mitigate any adverse effects of changes in tax law.

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 United States Generally Accepted Accounting Principles (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 finance 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;

- 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;
- the impact of the COVID-19 or similar pandemic; and
- general economic conditions and slow or negative growth of our markets.

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.

We may also issue additional shares of our Class A common stock, convertible securities or other equity, including pursuant to our equity compensation plans. 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.

The above factors 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. Any such 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 35,000 square feet of space under lease agreements, the first of which expires in 2023 and includes options for renewal. We also lease space in multiple data centers located domestically in California, Arizona and Virginia, 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 Backblaze 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.

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 we believe is likely to have a material adverse effect on our business, financial condition, or operating results. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

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

Market information

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, 2023, there were 18 stockholders of record of our Class A common stock and 40 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 beneficial owners of our Class A common stock 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.

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 more than 500,000 customers as of December 31, 2022. These customers use our Storage Cloud platform across more than 175 countries to grow and protect their business data on our over 2.5 exabytes, or 2.5 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 primarily on a pay-as-you-go basis or can be paid for on a capacity basis for greater predictability, which we refer to as our B2 Reserve offering. Backblaze Computer Backup automatically backs up data from laptops and desktops for businesses and individuals. This cloud backup service offers easily understood primarily 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.

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 and cost-effective solutions. We generate revenue primarily from our two cloud services:

- Backblaze 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 or capacity based model, and

- Backblaze Computer Backup, which provides virtually unlimited backup to businesses and consumers in a SaaS subscription model.

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

We have maintained our B2 Cloud Storage pricing for six years, and we announced price increases to our unlimited subscription Backblaze Computer Backup pricing in February 2019 and July 2021 with no material impact on customer retention as of December 31, 2022.

We believe we provide simple pricing for usage of our cloud services and increase revenue per customer through our customers' natural data growth. Additionally, we provide customers with additional value through cross-sell, upsell, and use case expansion that can 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, 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. Customers may purchase our B2 Cloud Storage on a capacity basis for greater predictability, which we refer to as our B2 Reserve offering.

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 Backblaze 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 believe that we have an 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 2022 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 approximately 80% of our total revenue in 2022 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 technology and developer partners, channel partners and MSP partnerships 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 2022, generally were much 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 seeks to drive 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 113% and 111% as of December 31, 2022 and 2021, 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 will 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 outbound sales motion 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 expand our use cases and 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 total revenue originating outside of the United States for the year ended December 31, 2022. 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.

	December 31,	
	2022	**2021**
B2 Cloud Storage		
Net revenue retention rate (NRR)[1]	122 %	132 %
Gross customer retention rate	90 %	89 %
Annual recurring revenue (in millions)	$ 38.6	$ 26.8
Number of customers[1]	86,874	74,349
Annual average revenue per user[1]	$ 437	$ 360
Computer Backup		
Net revenue retention rate (NRR)[1]	108 %	102 %
Gross customer retention rate	90 %	91 %
Annual recurring revenue (in millions)	$ 53.4	$ 48.6
Number of customers[1]	436,080	433,079
Annual average revenue per user[1]	$ 124	$ 113
Total Company		
Net revenue retention rate (NRR)[1]	113 %	111 %
Gross customer retention rate	91 %	91 %
Annual recurring revenue (in millions)	$ 92.0	$ 75.4
Number of customers[1][2]	506,456	493,023
Annual average revenue per user[1]	$ 181	$ 153

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(1) The calculation methodology for the NRR and number of customers metrics presented has been refined to include customers that we invoice and with whom we have active paying licenses. The annual average revenue per user metric was also revised as a result. As such, the table above has disclosed these refined metrics as of the fourth quarter of 2022 and 2021, respectively. As the NRR and number of customer metrics are disclosed quarterly, these metrics for all quarters between the first quarter and third quarter of 2022 under this adjusted methodology have been provided in the table below:

	As of		
	September 30, 2022	June 30, 2022	March 31, 2022
B2 Cloud Storage			
Net revenue retention rate (NRR)	125 %	127 %	131 %
Number of customers	84,118	80,823	77,263
Computer Backup			
Net revenue retention rate (NRR)	109 %	107 %	105 %
Number of customers	435,312	435,266	434,767
Total Company			
Net revenue retention rate (NRR)	115 %	114 %	113 %
Number of customers	503,478	500,722	497,125

(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 net revenue retention rate 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 total 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 total 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 122% as of December 31, 2022. 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 had a significant impact on the global economy.

Although it is difficult to identify the exact overall impact of the pandemic, we 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.

In addition to the impact on customers, the pandemic has had some impact to our supply chain. Although the pandemic appears to have substantially lessened, it is possible that the pandemic could re-emerge and adversely impact our business and operations, as well as the business and operations of our customers and partners.

For additional details, see the section titled “Risk Factors - The COVID-19 pandemic has impacted how we, our customers, and our partners are operating, and any re-emergence of the pandemic could result in a material adverse effect on our business.”

Key Components of Results of Operations

Revenue

We generate revenue primarily from our Backblaze B2 Cloud Storage and Backblaze Computer Backup cloud services offered on our platform. Our platform is offered to our customers primarily 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.

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. 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.

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 total 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, among other things, selectively increasing our sales and marketing headcount, optimizing our self-serve model, strengthening our partner ecosystem, driving our go-to-market strategies, and building our lead generation and brand awareness. As a result, we expect our investment in sales and marketing to increase in absolute dollars for the foreseeable future. Sales and marketing expenses may fluctuate as a percentage of total 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. We expect to continue incurring general and administrative expenses as a result of operating as a public company, including 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 finance lease agreements and interest on the outstanding balance of our existing credit facility.

Investment Income

Investment income consists primarily of interest earned on our cash and investments.

Income Tax (Benefit) 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:

	For the Years Ended December 31, 2022	For the Years Ended December 31, 2021
	(in thousands)	
Revenue	$ 85,155	$ 67,479
Cost of revenue(1)	41,292	33,138
Gross profit	43,863	34,341
Operating expenses:		
Research and development(1)	33,107	20,536
Sales and marketing(1)	35,399	19,698
General and administrative(1)	23,470	12,901
Total operating expenses	91,976	53,135
Loss from operations	(48,113)	(18,794)
Investment income	965	
Interest expense	(4,289)	(3,677)
Gain on extinguishment of debt	—	2,299
Realized loss on SAFE	—	(1,436)
Loss before provision for income taxes	(51,437)	(21,608)
Income tax (benefit) provision	(39)	96
Net loss	$ (51,398)	$ (21,704)

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

	For the Years Ended December 31, 2022	For the Years Ended December 31, 2021
	(in thousands)	
Cost of revenue	$ 1,267	$ 509
Research and development	6,698	2,129
Sales and marketing	5,360	1,652
General and administrative	3,724	1,339
Total stock-based compensation expense	$ 17,049	$ 5,629

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

	For the Years Ended December 31, 2022	2021
Revenue	100 %	100 %
Cost of revenue	48	49
Gross profit	52	51
Operating expenses:		
Research and development	39	30
Sales and marketing	42	29
General and administrative	28	19
Total operating expenses	108	78
Loss from operations	(57)	(27)
Investment income	1	—
Interest expense	(5)	(5)
Gain on extinguishment of debt	—	3
Realized loss on SAFE	—	(2)
Loss before provision for income taxes	(60)	(32)
Income tax (benefit) provision	—	—
Net loss	(60)%	(32)%

Comparison of the Years Ended December 31, 2022 and 2021

Revenue

	For the Years Ended December 31, 2022	2021	Change	% Change
	(in thousands, except percentages)			
B2 Cloud Storage revenue	$ 33,041	$ 22,632	$ 10,409	46 %
Computer Backup revenue	51,431	44,117	7,314	17 %
Physical Media revenue	683	730	(47)	(6)%
Total revenue	$ 85,155	$ 67,479	$ 17,676	26 %

Total revenue increased by $17.7 million, or 26%, for the year ended December 31, 2022 compared to the year ended December 31, 2021. B2 Cloud Storage increased by $10.4 million, which primarily increased due to increased storage for existing customers and the addition of new customers. The remaining increase of $7.3 million was from Computer Backup, which increased primarily due to a price increase that went into effect in September 2021, an increase in the number of licenses per existing customer and the addition of new customers.

Cost of Revenue and Gross Margin

	For the Years Ended December 31, 2022	2021	Change	% Change
	(in thousands, except percentages)			
Cost of revenue	$ 41,292	$ 33,138	$ 8,154	25 %
Gross margin	52 %	51 %		

Total cost of revenue increased by $8.2 million, or 25%, for the year ended December 31, 2022 compared to the year ended December 31, 2021. The increase was primarily attributable to an increase of $4.4 million related to managing and operating our co-location facilities, and an increase of $3.8 million for depreciation of our infrastructure equipment, which resulted from purchasing additional hard drives and related infrastructure in order to support the growth of our business.

Gross margin increased to 52% for the year ended December 31, 2022 compared to 51% for the year ended December 31, 2021. The increase in gross margin was primarily due to cost of revenue, primarily depreciation expense of our infrastructure equipment, increasing at a slower rate as compared to our total revenue growth.

Operating Expenses

	For the Years Ended December 31,			
	2022	2021	Change	% Change
	(in thousands, except percentages)			
Research and development	$ 33,107	$ 20,536	$ 12,571	61 %
Sales and marketing	35,399	19,698	15,701	80 %
General and administrative	23,470	12,901	10,569	82 %

Research and Development

Research and development expense increased by $12.6 million, or 61%, for the year ended December 31, 2022 compared to the year ended December 31, 2021. The increase was primarily attributable to an increase of $6.0 million in personnel-related expenses as a result of increased headcount, $4.5 million related to stock-based compensation expense, and $1.7 million in overhead and general office expenses.

Sales and Marketing

Sales and marketing expense increased by $15.7 million, or 80%, for the year ended December 31, 2022 compared to the year ended December 31, 2021. The increase in sales and marketing expense was primarily attributable to an increase of $7.7 million in personnel-related expenses as a result of increased headcount, $3.7 million related to stock-based compensation, $2.4 million due to increased advertising expenses related primarily to our B2 Cloud Storage offering, and $1.5 million in overhead and general expenses.

General and Administrative

General and administrative expense increased by $10.6 million, or 82%, for the year ended December 31, 2022 compared to the year ended December 31, 2021. The increase was primarily attributable to $2.5 million in personnel-related expenses as a result of increased headcount, $2.4 million related to stock-based compensation expense, $1.8 million related to insurance, $1.8 million in overhead and general expenses, $1.5 million for settlement with our SAFE holders in exchange for a full release of all claims related to the SAFE transaction, which was entered into in February 2023, (the SAFE holder settlement), $0.9 million in professional fees for accounting and tax services, $0.4 million of other legal fees, partially offset by a $1.0 million decrease in indirect tax expenses.

Investment Income

	For the Years Ended December 31,			
	2022	2021	Change	% Change
	(in thousands, except percentages)			
Investment income	$ 965	$ —	$ 965	— %

Investment income increased by $1.0 million for the year ended December 31, 2022 compared to the year ended December 31, 2021. The increase was primarily due to increased interest income from our marketable securities purchased with proceeds from our public offering.

Interest Expense

	For the Years Ended December 31,			
	2022	2021	Change	% Change
	(in thousands, except percentages)			
Interest expense	$ (4,289)	$ (3,677)	$ (612)	17 %

Interest expense increased by $0.6 million, or 17%, for the year ended December 31, 2022 compared to the year ended December 31, 2021. The increase was primarily due to interest expense from finance lease agreements we entered into during 2021 and 2022 to support our growing infrastructure, which increased our finance lease liabilities and lease financing obligations to $34.0 million as of December 31, 2022.

Income Tax Provision

	For the Years Ended December 31,			
	2022	2021	Change	% Change
	(in thousands, except percentages)			
Income tax (benefit) provision	$ (39)	$ 96	$ (135)	(141)%

Our provision for income taxes decreased by $0.1 million, or 141% for the year ended December 31, 2022 compared to the year ended December 31, 2021. The increase in income tax benefit was due to sufficient deferred tax asset generated that allowed the increase of valuation allowance utilization to reverse deferred tax liability from December 31, 2021.

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, excluding stock-based compensation expense, depreciation and amortization within cost of revenue, as a percentage of adjusted gross profit to total 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,	
	2022	2021
	(in thousands, except percentages)	
Gross profit	$ 43,863	$ 34,341
Adjustments:		
Stock-based compensation	1,267	509
Depreciation and amortization	19,487	15,684
Adjusted gross profit	$ 64,617	$ 50,534
Gross margin	52 %	51 %
Adjusted gross margin	76 %	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, investment income, income tax provision, realized loss on SAFE, SAFE holder settlement, 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. We define adjusted EBITDA margin as adjusted EBITDA as a percentage of total revenue.

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. 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,	
	2022	2021
	(in thousands, except percentages)	
Net loss	$ (51,398)	$ (21,704)
Adjustments:		
Depreciation and amortization	20,151	16,322
Stock-based compensation	17,049	5,629
Interest expense, net and investment income	3,324	3,677
Income tax (benefit) provision	(39)	96
Realized loss on SAFE	—	1,436
Gain on extinguishment of debt	—	(2,299)
SAFE holder settlement	1,500	—
Adjusted EBITDA	$ (9,413)	$ 3,157
Adjusted EBITDA Margin	(11)%	5 %

Liquidity and Capital Resources

As of December 31, 2022 and December 31, 2021, our principal sources of liquidity were cash, short-term investments and restricted cash, non-current of $69.7 million and $104.8 million, respectively.

In November 2021, we completed our initial public offering (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, cash equivalents, and short-term investments, 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 total 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. During April 2022, we entered into a second amendment to our revolving credit agreement with City National Bank. Under this amendment, amounts available to be borrowed were increased to $30.0 million from $9.5 million. As of December 31, 2022, the outstanding balance of our line of credit was $4.3 million, and the amount available to us was $25.7 million.

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 our IPO. 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, 2022, our future minimum payments were $37.4 million and $8.4 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.

Although we use City National Bank, a subsidiary of Royal Bank of Canada (RBC), for our banking needs, and do not use Silicon Valley Bank in any capacity, the banking industry has experienced disruption and uncertainty in connection with the recent sudden closure of Silicon Valley Bank in March 2023. In the event of a failure of any financial institutions where we maintain deposits, we may lose timely access to our funds at such institutions and incur significant losses to the extent our funds exceed the $250,000 limit insured by the Federal Deposit Insurance Corporation. In addition, the disruption and uncertainty impacting the banking industry may result in reduced access to capital, increased costs of capital, and reduced opportunities to invest with investment grade securities, which could also lower investment yields and investment income. Any such impact could have a material adverse effect upon our liquidity and business.

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

	For the Years Ended December 31,	
	2022	2021
	(in thousands)	
Net cash (used in) provided by operating activities	$ (13,781)	$ 3,520
Net cash used in investing activities	(73,854)	(11,190)
Net cash (used in) provided by financing activities	(6,212)	106,606

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 flows from operating activities primarily consist 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, 2022, cash used in operating activities was $13.8 million, which resulted from a net loss of $51.4 million, adjusted for non-cash charges of $38.8 million and a net cash outflow of $1.2 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of $20.2 million for depreciation and amortization expense and $17.0 million for stock-based compensation expense. The net cash outflow from changes in operating assets and liabilities was primarily the result of a $2.5 million decrease in operating lease liabilities and $1.0 million decrease in accrued expenses and other current liabilities, which decreased primarily due to timing of payment of our expenses, offset in part by a $1.6 million increase in accounts payable and a $1.0 million decrease in other assets. Cash used in operations increased during the year ended December 31, 2022, as compared to the same period in 2021 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, 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.

Investing Activities

Cash used in investing activities during the year ended December 31, 2022 was $73.9 million, resulting primarily from the purchase of short-term maturity investments of $145.9 million, capital expenditures of $7.3 million in support of infrastructure deployments to support our growing business, and $8.6 million related to the development of software for adding new features and enhanced functionality to our platform, offset in part by $88.0 million from the maturity of our short-term investments.

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.

Financing Activities

Cash used in financing activities for the year ended December 31, 2022 was $6.2 million. Cash used in financing activities was primarily due to principal payments on our finance lease agreements and lease financing obligations of $16.5 million related to hard drives and other infrastructure equipment used in our co-location facilities and $0.7 million related to payments made for offering costs that are deferred, offset in part by $4.3 million in proceeds from the exercise of employee stock options, $4.3 million in proceeds from our credit facility, and $2.5 million in proceeds from our employee stock purchase plan.

Cash provided by financing activities for the year ended December 31, 2021 was $106.6 million, resulting from $107.0 million in proceeds from our IPO 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 IPO.

Contractual Obligations and Commitments

Our commitments are associated with contracts that are enforceable and legally binding and that specify all significant terms, including fixed or minimum services to be used, fixed, minimum or variable price provisions, and the approximate timing of the actions under the contracts. Operating lease commitments relate primarily to our rental of office space and co-location facilities. Our finance lease commitments relate primarily to our infrastructure equipment. Purchase commitments relate mainly to infrastructure agreements and subscription arrangements used to facilitate our operations.

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 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 total revenue for the years ended December 31, 2022 and 2021.

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 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 96% and 98% of our revenue was generated from customers paying via credit card during the years ended December 31, 2022 and 2021, 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. 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. Share-based compensation includes restricted stock units, stock option grants and stock purchase rights under the Employee Stock Purchase Plan (ESPP). 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 and stock purchase rights under our ESPP. 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 Internal-Use 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 judgment 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 finance 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, cash equivalents and short-term investments held at City National Bank. At December 31, 2022, we had cash and cash equivalents and short-term investments balances of $6.7 million and $58.7 million, respectively. Interest-earning instruments carry a degree of interest rate risk. The primary objective of our investment activities is to preserve principal while maximizing income without significantly increasing risk. As such, we generally do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure, and intend to hold all investments to their respective maturities. Due to the short-term nature of these investments and as all investments are generally intended to be held to maturity, 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.

As amended, our credit facility with City National Bank is at a variable interest rate tied, at our discretion, to the SOFR or to the Prime Rate announced by City National Bank, provided such rate is greater than 3.0%.

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.

INDEX TO THE FINANCIAL STATEMENTS

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, 2022 and 2021, 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, 2022 and 2021, 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Company has changed its method for accounting for leases in the fiscal year 2022 due to the adoption of Topic 842: Leases, using a modified retrospective approach.

Basis for Opinion

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

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

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

/s/ BDO USA, LLP

We have served as the Company's auditor since 2020.
San Jose, California
March 31, 2023

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

	December 31, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 6,690	$ 104,843
Accounts receivable, net	856	309
Short-term investments	58,733	—
Prepaid expenses and other current assets	8,120	5,930
Total current assets	74,399	111,082
Restricted cash, non-current	4,306	—
Property and equipment, net	49,375	43,068
Operating lease right-of-use assets	6,881	—
Capitalized internal-use software, net	16,704	7,637
Other assets	793	1,794
Total assets	$ 152,458	$ 163,581
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 3,283	$ 2,075
Accrued expenses and other current liabilities	9,418	7,620
Finance lease liabilities and lease financing obligations, current	18,531	13,645
Operating lease liabilities, current	2,130	—
Deferred revenue, current	22,912	21,722
Total current liabilities	56,274	45,062
Finance lease liabilities and lease financing obligations, non-current	15,487	19,603
Operating lease liabilities, non-current	5,032	—
Deferred revenue, non-current	2,611	3,132
Other long-term liabilities	—	298
Debt facility, non-current	4,306	—
Total liabilities	$ 83,710	$ 68,095
Commitments and contingencies (Note 10)		
Stockholders' Equity		
Class A common stock, $0.0001 par value; 113,000,000 shares authorized as of December 31, 2022 and 2021; 16,198,333 and 8,227,992 shares issued and outstanding as of December 31, 2022 and 2021, respectively.	2	1
Class B common stock, $0.0001 par value; 37,000,000 shares authorized as of December 31, 2022 and 2021; 17,195,404 and 22,156,842 shares issued and outstanding as of December 31, 2022 and 2021, respectively.	2	2
Additional paid-in capital	156,485	131,826
Accumulated deficit	(87,741)	(36,343)
Total stockholders' equity	68,748	95,486
Total liabilities and stockholders' equity	$ 152,458	$ 163,581

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)

	For the Years Ended December 31,	
	2022	2021
Revenue	$ 85,155	$ 67,479
Cost of revenue	41,292	33,138
Gross profit	43,863	34,341
Operating expenses:		
Research and development	33,107	20,536
Sales and marketing	35,399	19,698
General and administrative	23,470	12,901
Total operating expenses	91,976	53,135
Loss from operations	(48,113)	(18,794)
Investment income	965	—
Interest expense, net	(4,289)	(3,677)
Gain on extinguishment of debt	—	2,299
Realized loss on SAFE	—	(1,436)
Loss before provision for income taxes	(51,437)	(21,608)
Income tax (benefit) provision	(39)	96
Net loss	$ (51,398)	$ (21,704)
Net loss per share attributable to Class A and Class B common stockholders, basic and diluted	$ (1.62)	$ (1.07)
Weighted average shares used in computing net loss per share attributable to Class A and Class B common stockholders, basic and diluted	31,662,301	20,345,655

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			
Balance as of December 31, 2020	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 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
Balance as of December 31, 2021	—	$ —	30,384,834	$ 3	$ 131,826	$ (36,343)	$ 95,486
Net loss	—	—	—	—	—	(51,398)	(51,398)
Issuance of Class A and Class B common stock upon exercise of stock options	—	—	2,112,819	1	4,407	—	4,408
Issuance of Class A common stock under equity incentive plans, net of taxes withheld	—	—	321,720	—	(130)	—	(130)
Issuance of Class A common stock related to Employee Stock Purchase Plan ("ESPP")	—	—	574,364	—	2,511	—	2,511
Stock-based compensation	—	—	—	—	17,871	—	17,871
Balance as of December 31, 2022	—	$ —	33,393,737	$ 4	$ 156,485	$ (87,741)	$ 68,748

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, 2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (51,398)	$ (21,704)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Gain on extinguishment of Paycheck Protection Program ("PPP") loan	—	(2,299)
Net accretion of discount on investment securities	(863)	—
Realized loss and interest expense on SAFE	—	1,566
Noncash lease expense on operating leases	2,457	—
Depreciation and amortization	20,151	16,322
Stock-based compensation	17,049	5,629
Loss (gain) on disposal of assets and other adjustments	37	(4)
Changes in operating assets and liabilities:		
Accounts receivable	(547)	(100)
Prepaid expenses and other current assets	(379)	(3,131)
Other assets	1,001	(541)
Accounts payable	1,627	502
Accrued expenses and other current liabilities	(970)	2,311
Deferred revenue	670	5,464
Operating lease liabilities	(2,547)	—
Other long-term liabilities	(69)	(495)
Net cash (used in) provided by operating activities	(13,781)	3,520
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities	(145,871)	—
Maturities of marketable securities	88,000	—
Purchases of property and equipment, net	(7,349)	(7,562)
Capitalized internal-use software costs	(8,634)	(3,628)
Net cash used in investing activities	(73,854)	(11,190)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on finance lease and lease financing obligations	(16,492)	(12,153)
Proceeds from initial public offering, net of underwriting discounts and commissions and other offering costs	—	106,950
Payments of deferred offering costs	(658)	(2,977)
Proceeds from debt facility	4,305	3,500
Repayment of debt facility	—	(3,500)
Proceeds from SAFE	—	10,000
Proceeds from lease financing obligations	—	4,308
Employee payroll taxes paid related to net settlement of equity awards	(130)	—
Proceeds from exercises of stock options	4,252	478
Proceeds from employee stock purchase plan	2,511	—
Net cash (used in) provided by financing activities	(6,212)	106,606
Net increase (decrease) in cash, restricted cash and restricted cash, non-current	(93,847)	98,936
Cash and restricted cash at beginning of period	105,012	6,076
Cash, restricted cash and restricted cash, non-current at end of period	$ 11,165	$ 105,012
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 3,776	$ 3,526
Cash paid for income taxes	$ 31	$ 14
Cash paid for operating lease liabilities	$ 2,838	$ —
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Stock-based compensation included in capitalized internal-use software	$ 2,674	$ 433
Accrued bonus settled in restricted stock units	$ 1,852	$ —
Financed insurance premiums included in accrued expenses and other current liabilities	$ 1,545	$ —
Equipment acquired through finance lease and lease financing obligations	$ 17,037	$ 16,499
Accruals related to purchases of property and equipment	$ 158	$ 164
Lease liabilities arising from right-of-use assets upon adoption of ASC 842	$ 5,220	$ —

Assets obtained in exchange for operating lease obligations	$	4,118	$	—
Proceeds from stock option exercises pending settlement	$	156	$	—
Settlement of SAFE notes	$	—	$	11,566
Extinguishment of PPP loan	$	—	$	2,299
RECONCILIATION OF CASH, CASH EQUIVALENTS AND RESTRICTED CASH				
Cash	$	6,690	$	104,843
Restricted cash – included in prepaid expenses and other current assets	$	169	$	169
Restricted cash, non-current	$	4,306	$	—
Total cash, cash equivalents and restricted cash	$	11,165	$	105,012

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 the Company’s 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, which include (i) determining whether projects will result in new or additional functionality, (ii) the start and end date of the application development phase of projects, and (iii) their useful life, the useful lives of other long-lived assets, impairment considerations for long-lived assets, the incremental borrowing rate for lease agreements, expected lease term, lease and non-lease component allocation, estimates related to variable consideration, valuation of the Company's (i) common stock prior to its IPO in November 2021, (ii) stock options, and (iii) Employee Stock Purchase Plan ("ESPP") expense, 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 COVID-19 has had a significant impact on the global economy. Although it is difficult to identify the exact overall impact of the pandemic, we 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. In addition to the impact on customers, the pandemic has had some impact to our supply chain. Although the pandemic appears to have substantially lessened, it is possible that the pandemic could re-emerge and adversely impact our business and operations, as well as the business and operations of our customers and partners.

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. Although the Company uses City National Bank, a subsidiary of Royal Bank of Canada ("RBC"), for its banking needs, and does not use Silicon Valley Bank in any capacity, the banking industry has experienced disruption and uncertainty in connection with the recent sudden closure of Silicon Valley Bank in March 2023. In the event of a failure of any financial institutions where the Company maintains deposits, it may lose timely access to its funds at such institutions and incur significant losses to the extent its funds exceed the $250,000 limit insured by the Federal Deposit Insurance Corporation. 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 25% of total cash disbursements during the year ended December 31, 2022, and two vendors represented 26% of the accounts payable balance as of December 31, 2022. Two vendors represented in aggregate 24% of total cash disbursements during the year ended December 31, 2021, and three vendors represented 40% of the accounts payable balance as of December 31, 2021.

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, 2022 and 2021.

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 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 96% and 98% of the Company's revenue was generated from customers paying via credit card during the years ended December 31, 2022 and 2021, respectively, the risk of non-payment is low and historical write-offs having been immaterial.

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 or 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 SSP 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 customer 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 and it does not enter into a contract with the customer during this trial period. Separately, 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 $2.6 million on the Company's balance sheet as of December 31, 2022 will be recognized in 2024. As of December 31, 2021, the Company's non-current deferred revenue balance was $3.1 million, which will be recognized in 2023.

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 $5.7 million and $3.3 million for the years ended December 31, 2022 and 2021, 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 three to four years, except for the awards granted under the Company's 2022 Bonus Plan (see Note 14). Share-based compensation includes restricted stock units ("RSUs"), stock option grants and stock purchase rights under the ESPP.

The Company uses the Black-Scholes option pricing model to measure the fair value of its stock options and the stock purchase rights under the ESPP. 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 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 short maturities.

Investments

The Company holds all investments on a held-to-maturity basis and evaluates each position quarterly for impairment. The Company recognizes an impairment on a security through the statement of operations if (i) the Company intends to sell the impaired security; or (ii) it is more likely than not the Company will be required to sell the impaired security prior to recovery of its amortized cost basis. If a sale is intended or likely to be required, the amortized cost basis of the security will be written down to fair value and the full amount of the impairment will be recognized through the statement of operations as a net realized investment loss.

In evaluating whether a decline in fair value is other-than-temporary, the Company considers several factors including, but not limited to:

- the intent to sell the security or whether it is more likely than not the Company will be required to sell the security before recovery;
- the severity and duration of the decline in fair value;
- the financial condition of the issuer;
- the failure of the issuer to make scheduled interest or principal payments;
- recent credit downgrades of the applicable security or the issuer below investment grade; and
- adverse conditions specifically related to the security, an industry or a geographical area.

The Company's short-term investments include investment grade commercial paper with original maturities of 365 days or less at the date of purchase. Short-term investments are recorded at amortized cost on the balance sheet.

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.

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, current 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, 2022 and 2021. 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, 2022 and 2021 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. Expenses 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:

Property and Equipment	Useful life
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 Internal-Use Software, Net

The Company capitalizes qualifying software development costs related to new features and enhancements to the functionality of its platform and related products. 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 internal-use 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 finance 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. For finance leases, the lease term generally begins on the date of initial possession of the leased asset, and for operating leases the term begins when the Company has the right to use the leased space and obtain the economic benefits. 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. The underlying assets of finance leases are included in property and equipment, net, on the Company's balance sheets.

Accounting Pronouncements Recently Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842), or ("ASC 842"), and since that date, has issued several ASUs to further clarify certain aspects of ASU 2016-02 and provide entities with practical expedients that may be elected upon adoption. The Company adopted the new standard beginning January 1, 2022 using the modified retrospective approach and electing the optional transition approach of not adjusting the comparative period financial statements for the impact of adoption. The Company elected the package of practical expedients permitted under the transition guidance, which allows the Company to carry forward its historical lease classification, its assessment on whether a contract is or contains a lease, and its initial direct costs for any leases that existed prior to adoption of the new standard.

In accordance with ASC 842, the Company determines if an arrangement is a lease at its inception. For arrangements classified as an operating lease, Right-of-use ("ROU") assets and corresponding lease liabilities, are recognized at the commencement date based on the present value of remaining lease payments over the lease term, which, for the Company, includes primarily fixed payments. As a majority of the Company's operating leases do not provide an implicit rate, the Company uses an incremental borrowing rate based on the information available as of the commencement date for each lease component. For leases existing at adoption, the Company elected to use the remaining lease term and remaining minimum lease payments in calculating the incremental borrowing rate for all existing leases. The discount rate used is the rate of interest that a lessee would have to pay to borrow an amount equal to the lease payments on a collateralized basis over a similar term in a similar economic environment. The lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise such options. The Company has elected the short-term lease practical expedient for all asset classes, which allows the lessee to not apply the recognition requirements of ASC 842 to short-term leases (leases with original terms of 12 months or less and that do not include a purchase option that the lessee is reasonably certain to exercise).

The Company has elected the practical expedient to combine lease and non-lease components for all of its leases, with the exception of its leases belonging to the colocation lease agreement asset class. For its colocation lease agreements, the Company only recognizes fixed minimum payments for tangible components as ROU assets and operating lease liabilities, as this class of agreements may include significant intangible components.

The adoption of the new standard on January 1, 2022 resulted in the recognition of approximately $5.2 million and $5.6 million of operating lease ROU assets and operating lease liabilities on the Company's balance sheet, respectively, with the ROU asset on an existing lease being offset by an existing ASC 420, *Exit or Disposal Cost Obligations,* obligation of approximately $0.4 million. The Company noted no material impact on its financial statements with respect to its finance leases as a result of its ASC 842 adoption. See Note 10 to these financial statements.

Accounting Pronouncements Not Yet Adopted

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 adoption of, and future elections under, this ASU are not expected to have a material impact on the Company's financial statements.

Note 3. Revenues

Deferred Contract Costs

The Company's amortization of deferred contract costs was $0.9 million and $0.8 million during the years ended December 31, 2022 and 2021, respectively. The amount of capitalized contract costs was $0.4 million as of December 31, 2022 and 2021, respectively.

Deferred Revenue

Deferred revenue was $25.5 million and $24.9 million as of December 31, 2022 and 2021, respectively. Total revenue recognized during the year ended December 31, 2022 and 2021 was approximately $21.7 million and $17.6 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 approximates its contract liability balance as of December 31, 2022 and 2021. The Company's deferred revenue balance as of December 31, 2022, approximates the aggregate amount of the transaction price allocated to remaining performance obligations ("RPOs") as of that date. Further, as of December 31, 2022, the Company's deferred revenue, current, balance on its balance sheet of $22.9 million approximates the expected amount to be recognized from its RPOs as revenue over the next 12 months.

Disaggregation of Total Revenue

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

	For the Years Ended December 31,	
	2022	2021
Consumption-based arrangements (B2 Cloud Storage)	$ 33,041	$ 22,632
Subscription-based arrangements (Computer Backup)	51,431	44,117
Physical Media	683	730
Total revenue	$ 85,155	$ 67,479

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

	For the Years Ended December 31,	
	2022	2021
United States	$ 60,950	$ 48,346
United Kingdom	4,652	3,686
Canada	4,324	3,439
Other	15,229	12,008
Total	$ 85,155	$ 67,479

Note 4. Investments

Fair Values and Gross Unrealized Gains and Losses on Investments

The following table summarizes adjusted cost, gross unrealized losses, and fair value by significant investment category. The Company's commercial paper investments are classified as held-to-maturity on its balance sheets as of December 31, 2022. The Company did not have an investments balance as of December 31, 2021.

As of December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Net Carrying Value
	(In Thousands)				
Investments					
Commercial paper	$ 58,733	$ —	$ (144)	$ 58,589	$ 58,733
Total investments	$ 58,733	$ —	$ (144)	$ 58,589	$ 58,733

Scheduled Maturities

The amortized cost and fair value of held-to-maturity securities as of December 31, 2022 by contractual maturity are shown below.

As of December 31, 2022	Amortized Cost	Fair Value
	(In Thousands)	
Within one year	$ 58,733	$ 58,589
After one year through five years	—	—
After 5 years through 10 years	—	—
After 10 years	—	—
Total investments	$ 58,733	$ 58,589

Aging of Unrealized Losses

As of December 31, 2022, the Company's investments had an aggregate gross unrealized loss of $0.1 million, all of which had been in an unrealized loss position of less than twelve months and are recorded at amortized cost on the Company's balance sheet. As of December 31, 2022, the investment portfolio did not have any securities that had been in an unrealized loss position for a period of twelve months or longer. The Company did not have held-to-maturity investments as of December 31, 2021.

For those securities in an unrealized loss position, the length of time the securities were in such a position is as follows:

As of December 31, 2022	Less than 12 Months # of Securities	Less than 12 Months Fair Value	Less than 12 Months Unrealized Losses	Total # of Securities	Total Fair Value	Total Unrealized Losses
	(Dollars In Thousands)					
Investments						
Commercial paper	11	$ 58,589	$ (144)	11	$ 58,589	$ (144)
Total	11	$ 58,589	$ (144)	11	$ 58,589	$ (144)

Note 5. Fair Value Measurements

The Company classifies its fair value disclosure for its held-to-maturity investments, which are comprised of investment grade commercial paper, within Level 2 of the fair value hierarchy because the fair value of these securities are priced by using inputs based on non-binding market consensus that are primarily corroborated by observable market data or quoted market prices for similar instruments.

There were no transfers between levels of the fair value hierarchy for the year ended December 31, 2022 and 2021, respectively. The Company held no assets or liabilities that were measured at fair value on a recurring basis as of December 31, 2022 and 2021, respectively.

The following table summarizes the total carrying value of the Company's Level 3 instruments held as of December 31, 2021 including cumulative realized losses recognized during the year 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.

As of December 31, 2022 and December 31, 2021, the Company had $169 thousand in restricted cash related to the letter of credit established according to requirements under a lease agreement, reported as a component of other current assets on the balance sheets. Additionally, as of December 31, 2022, the Company had $4.3 million in restricted cash related to the line of credit agreement with City National Bank. See Note 11 for further details.

Note 6. Prepaid Expenses and Other Current Assets

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

	December 31,	
	2022	2021
Unbilled accounts receivable	$ 1,637	$ 1,220
Prepaid expenses	1,288	2,403
Prepaid subscriptions	1,312	730
Prepaid Physical Media Hardware	246	378
Capitalized commissions	365	345
Receivable from payment processor	644	289
Financed prepaid insurance	1,545	—
Other	1,083	565
Total prepaid expenses and other current assets	$ 8,120	$ 5,930

Note 7. Property and Equipment, Net

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

	December 31, 2022	December 31, 2021
Data center equipment	$ 28,531	$ 25,338
Leased and financed data center equipment	62,300	50,419
Machinery and equipment	11,613	7,803
Computer equipment	2,503	1,631
Leasehold improvements	1,268	956
Construction-in-process	3,636	—
Total property and equipment	109,851	86,147
Less: accumulated depreciation	(60,476)	(43,079)
Total property and equipment, net	$ 49,375	$ 43,068

Depreciation expense was $18.0 million and $14.6 million for the years ended December 31, 2022 and 2021, respectively. For the Company's equipment under capital leases and collateralized financing obligations, accumulated depreciation was $24.5 million and $13.5 million as of December 31, 2022 and 2021, respectively. The carrying value of the Company's equipment under capital lease agreements and collateralized financing obligations was $37.8 million and $36.9 million as of December 31, 2022 and 2021, respectively.

During the years ended December 31, 2022 and 2021, the Company recorded a loss and a gain 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, 2022, the Company had long-lived assets of $56.3 million, comprising of property and equipment, net and operating lease right-of-use assets, with $50.2 million located in the United States and $6.1 million located in The Netherlands. As of December 31, 2021, substantially all of the Company's assets were held in the United States.

Note 8. Capitalized Internal-Use Software, Net

Capitalized internal-use software, net consisted of the following (in thousands):

	December 31, 2022	December 31, 2021
Developed software	$ 23,777	$ 12,535
General and administrative software	144	144
Total capitalized internal-use software	23,921	12,679
Less: accumulated amortization	(7,217)	(5,042)
Total capitalized internal-use software, net	$ 16,704	$ 7,637

In accordance with the adoption of ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software*, 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 to prepaid 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 $2.2 million and $1.7 million for the years ended December 31, 2022 and 2021, respectively. Amortization of developed and general and administrative internal-use software 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, 2022 and 2021.

As of December 31, 2022, future amortization expense is expected to be as follows (in thousands):

Year Ending December 31,	
2023	$ 3,985
2024	3,884
2025	3,429
2026	2,976
2027	2,250
Thereafter	180
Total	$ 16,704

Note 9. Accrued Expenses and Other Current Liabilities

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

	December 31,	
	2022	2021
Accrued compensation	$ 2,728	$ 1,159
ESPP withholding	415	489
Accrued expenses	2,881	1,646
Accrued sales taxes	208	1,209
Accrued value-added tax ("VAT")	1,220	2,511
Financed insurance premiums (see Note 11)	1,545	—
Other	421	606
Accrued expenses and other current liabilities	$ 9,418	$ 7,620

Note 10. Commitments and Contingencies

Finance Leases and Lease Financing Obligations

The Company enters into finance 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 to extend the term of the lease generally at a fixed price. Contingent rental payments are generally not included in the Company's finance lease agreements. Finance leases are generally secured by the underlying leased equipment. The Company's finance leases have original lease periods expiring between 2023 and 2025. The underlying assets of finance leases are included in the property and equipment, net on the Company's balance sheet.

As of December 31, 2022, the weighted average remaining lease term for finance lease and lease financing obligation agreements was approximately two years and the weighted average discount rate for finance leases was 10.2%.

For the Company's assets acquired through finance lease and lease financing obligation agreements, which are related to sale-leaseback agreements, depreciation expense was $13.2 million and $11.5 million for the years ended December 31, 2022 and 2021, respectively. Depreciation expense on assets acquired through the Company's finance leases and lease financing obligations is included in cost of revenue in its statements of operations.

During the year ended December 31, 2022, total finance lease costs were $16.1 million, of which interest expense was approximately $3.9 million, and total lease financing obligation costs were $1.4 million, of which interest expense was approximately $0.3 million. The cash paid on interest on finance lease and lease financing obligations was $3.8 million for the year ended December 31, 2022.

During the year ended December 31, 2021, the Company entered into four sale-leaseback arrangements with vendors to provide $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 transactions were each 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. The failed sale-leaseback transactions continued to be accounted for as a failed sale-leaseback upon adoption of ASC 842 because the leaseback is classified as financing. The Company did not enter into any new sale-leaseback arrangements during the year ended December 31, 2022.

The future minimum commitments for these finance leases and lease financing obligations as of December 31, 2022 were as follows (in thousands):

Year Ending December 31,	Finance leases	Lease financing obligations	Total
2023	$ 19,458	$ 1,385	$ 20,843
2024	11,557	1,240	12,797
2025	3,287	521	3,808
Thereafter	—	—	—
Total future minimum lease and financing commitments	34,302	3,146	37,448
Less imputed interest	(3,078)	(352)	(3,430)
Total liability	$ 31,224	$ 2,794	$ 34,018

Prior to the ASC 842 adoption, the future minimum commitment for these finance leases and lease financing obligations as of December 31, 2021 were as follows (in thousands):

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

Prior to the ASC 842 adoption, as of December 31, 2021, the future minimum payments related to the lease financing obligations consisted of the following (in thousands):

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

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 renewal options to extend the lease term at a price to be determined upon exercise. These options 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 Company’s lease agreements do not contain any material residual value guarantees or material restrictive covenants. The Company's leases have original lease periods expiring between 2023 and 2031. The Company does not have a material amount of short-term leases as of December 31, 2022.

As of December 31, 2022, the weighted average remaining lease term for operating leases was approximately 5.6 years and the weighted average discount rate for operating leases was approximately 5.4%.

The future minimum commitments for these operating leases as of December 31, 2022 were as follows (in thousands), which excludes amounts allocated to services under operating lease agreements that are considered non-lease components:

Year Ending December 31,	
2023	$ 2,400
2024	1,311
2025	871
2026	890
2027	914
Thereafter	2,038
Total future minimum operating lease commitments	8,424
Less imputed interest	(1,262)
Total	$ 7,162

Non-lease components included in the Company's colocation lease agreements are related to non-tangible utilities and services used in its data center operations. The Company used judgment and third-party data in determining the stand-alone price for allocating consideration to lease and non-lease components under these colocation lease agreements, such as, the price of utilities as compared to its tangible data center footprint within each colocation facility.

The future minimum commitments for the Company's non-cancellable contractual obligations as of December 31, 2022 for non-lease components were as follows (in thousands):

Year Ending December 31,		
2023	$	5,116
2024		4,187
2025		2,592
2026		2,560
2027		2,636
Thereafter		6,106
Total future minimum commitments	$	23,197

Prior to the ASC 842 adoption, 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 operating lease agreements:

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

Rental expense related to the Company's operating leases was $6.5 million for the year ended December 31, 2022, of which $4.9 million is included in cost of revenue in its statement of operations. During the year ended December 31, 2022, total operating lease cost was $7.7 million, which does not include costs related to services. Rental expense related to the Company's operating leases was $7.1 million for the year ended December 31, 2021.

Other Contractual Commitments

Other non-cancellable commitments relate mainly to infrastructure agreements used to facilitate the Company's operations. This amount does not include amounts related to finance lease, lease financing obligations and operating leases as disclosed above. As of December 31, 2022, the Company had future minimum payments under the Company's non-cancelable purchase commitments of $10.8 million and $0.2 million payable during the years ending December 31, 2023 and 2024, 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 $1.6 million and $1.1 million to the 401(k) plan for the years ended December 31, 2022 and 2021, 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 are likely to 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 litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources, and other factors.

On July 15, 2022, the Company received a demand letter from the investors that participated in the Simple Agreement for Future Equity agreement in August 2021 related to a contractual dispute in connection with the SAFE transaction. The investors sought a refund of their original investment of $10.0 million. In February 2023, the Company settled with the SAFE holders for a full release of all claims related to the SAFE transaction for a one-time payment in the amount of $1.5 million in aggregate. The $1.5 million settlement is included as a general and administrative expense in the Company's statement of operations during the year ended December 31, 2022.

One of the SAFE holders, TMT Investments PLC ("TMT"), a beneficial holder of more than 5% of the Company's capital stock, was a party to the settlement and received a pro-rata payment of $0.3 million as part of the SAFE settlement.

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 analysis, its total accrual for sales tax payable was $0.2 million and $1.2 million as of December 2022 and 2021, 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 $1.2 million and $2.5 million as of December 31, 2022 and 2021, 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

During October 2021, the Company entered into a revolving credit agreement ("RCA") with City National Bank ("Lender"). Under this agreement, among other things, (i) amounts available to be borrowed are $9.5 million and (ii) advances on the line of credit will bear monthly interest at a variable rate equal to, at the Company's discretion, (a) the average Secured Overnight Financing Rate ("SOFR") plus 2.75%, or (b) the base rate. The base rate under the RCA is a rate equal to the greater of (i) 3.00% or (ii) the prime rate most recently announced by the Lender. 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. During April 2022, the Company entered into a second amendment to its revolving credit agreement with City National Bank. Under this amendment, the amount available to be borrowed was increased to $30.0 million from $9.5 million. There were no other material changes to the agreement as a result of the amendment.

The Company began borrowing under the RCA during the year ended December 31, 2022. As of December 31, 2022, the Company had an outstanding balance of $4.3 million and the total amount available to the Company to be borrowed was $25.7 million.

Under the RCA, the outstanding balance of $4.3 million as of December 31, 2022 was collateralized by an equal amount of cash held by the Company. As such, the Company held $4.3 million in cash that it deemed to be restricted and is included in restricted cash, non-current on the Company's balance sheet as of December 31, 2022. With prior written notice to the Lender, the Company has the right, at any time prior to the maturity date, to terminate the RCA. In the event of such termination, the aggregate principal of the then outstanding amounts, including any accrued interest to date, shall be repaid and the restrictions on the associated collateralized cash would be released.

As of December 31, 2022, the interest rate associated with the outstanding balance under the RCA was 6.7%, which is a per annum rate. Interest payments on outstanding borrowing are due on the last day of each monthly interest period and payments for the commitment fee are due at the end of each calendar quarter.

Advances under the RCA are due in full in September 2024. As the RCA is a multi-year revolving credit agreement, the Company classifies the facility as long-term debt on its balance sheets as it has the intent and ability to maintain the facility outstanding for longer than 12 months.

Insurance Premium Financing Agreement

Effective November 2022, the Company entered into an insurance policy with annual premiums totaling $2.1 million. The Company has executed a Finance Agreement with AFCO Premium Credit LLC over a term of twelve months, with an annual interest rate of 4.5%, that finances the payment of the total premiums owed. The agreement requires a $0.5 million down payment, with the remaining $1.5 million plus interest paid over three quarterly installments. These quarterly payments start February 10, 2023. As of December 31, 2022, the unpaid balance is approximately $1.5 million, reported as a component of accrued expenses and other current liabilities on the balance sheets.

Paycheck Protection Program

On April 22, 2020, the Company received $2.3 million in funding through the U.S. Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") 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 Company recognized the entire loan amount as a financial liability, with interest accrued and expensed over the term of the loan. An application to forgive the entire amount was submitted with the lender in July 2020.

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 for the year ended 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 was classified as a Simple Agreement for Future Equity agreement. The convertible notes were 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 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. 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. 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. The weighted average discount on the SAFE notes was approximately 13% and interest accrued was $0.1 million. This valuation resulted in a realized loss of $1.4 million that the Company recorded in its statement of operations.

Furthermore, $2.0 million of the SAFE notes were purchased by TMT, and was deemed to be a related party transaction. In addition, as described more fully in Note 10, TMT also received a pro-rata payment of $0.3 million as part of the settlement relating to a contractual dispute in connection with the SAFE transaction, in exchange for a full release of claims related to the SAFE transaction.

Note 12. Stockholders' Equity

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 had 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:

	December 31, 2022
2011 Equity Incentive Plan	
Options outstanding	10,862,094
Shares available for future grants	—
2021 Equity Incentive Plan	
Options outstanding	1,509,187
Restricted stock units outstanding	3,716,061
Shares available for future grants	1,836,566
2021 Employee Stock Purchase Plan	
Shares available for future purchases	990,132
Total	18,914,040

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 had been settled.

Note 13. Convertible Preferred Stock

In connection with the IPO on November 10, 2021, as further discussed in Note 11, 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 shares of the Company's convertible preferred stock outstanding, totaling 3,359,195, were automatically converted into an equivalent number of Class B common stock on a one-to-one basis and their carrying value of $2.7 million was reclassified into stockholder's equity. As of December 31, 2022 and December 31, 2021, there were no shares of convertible preferred stock issued and outstanding.

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 "2011 Plan"). The 2011 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. In March and August 2021, the Company's Board approved increases to the number of authorized shares under the Plan by 1,980,000. Following the increases, the Plan had 14,400,000 shares authorized. 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 the 2011 Plan. However, awards outstanding under the 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. During the year ended December 31, 2022, the Company increased the number of shares reserved under the 2021 Plan by 1,519,241 pursuant to this evergreen provision.

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 the Company reacquires 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.

Restricted Stock Units

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. During the year ended December 31, 2022, the Company began granting more RSUs than options to its employees and non-employee directors. All RSUs granted have service-based vesting conditions. RSUs granted under the 2021 Equity Incentive Plan generally vest based on continued service over a three-to-four year period for employees, and over a one year period for non-employee directors.

RSU activity for the year ended December 31, 2022 was as follows:

	Shares		Weighted-average grant date fair value per share
Unvested balance as of December 31, 2021	18,750	$	22.04
Granted	4,163,608	$	6.87
Vested	(344,017)	$	9.37
Forfeited	(122,280)	$	10.31
Unvested balance as of December 31, 2022	3,716,061	$	6.60

Stock Options

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.

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, 2022 and 2021, inclusive of grants issued under from the 2021 and 2011 Equity Incentive Plans:

	For the Years Ended December 31,	
	2022	2021
Expected term (in years)	6	6
Expected volatility	49.0 %	49.1 %
Risk-free interest rate	1.20 %	1.10 %
Expected dividend yield	— %	— %

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 of Directors (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 were approved. The factors considered included, 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) then 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.

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 Equity Awards	Weighted-average exercise Price	Weighted-average remaining contractual life (years)	Aggregate intrinsic value
Balance as of December 31, 2020	865,339	11,409,736	$ 2.27	6.52	$ 36,889
Shares authorized	7,242,500				
Options granted	(4,437,720)	4,437,720	12.15		
Options exercised	—	(500,374)	0.96		
Options cancelled	406,900	(406,900)	4.52		
2011 Stock Plan expiration	(177,995)	—			
RSUs granted	(18,750)	—			
Balance as of December 31, 2021	3,880,274	14,940,182	$ 5.19	6.69	$ 182,843
Shares authorized	1,519,241				
Options granted	(109,800)	109,800	13.29		
Options exercised	—	(2,112,819)	2.09		
Options cancelled	565,882	(565,882)	6.37		
RSU award activity, net of shares withheld for taxes	(4,019,031)	—			
Balance as of December 31, 2022	1,836,566	12,371,281	$ 5.74	6.07	$ 32,385
Vested and exercisable as of December 31, 2022		8,787,912	$ 3.80	5.16	$ 28,866

The weighted-average grant-date fair value of options granted was $6.26 and $7.10 during the years ended December 31, 2022 and 2021, respectively. The intrinsic value of options exercised was $10.5 million and $5.6 million for the years ended December 31, 2022 and 2021, respectively. Aggregate intrinsic value represents the difference between the exercise price of the options and the estimated fair value of the Company's underlying common stock at the time of exercise. The aggregate grant-date fair value of options vested was $13.0 million and $3.7 million for the years ended December 31, 2022 and 2021, respectively.

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. During the year ended December 31, 2022, the Company increased the number of shares reserved under the ESPP by 607,696 pursuant to its evergreen provision.

The initial offering period commenced in November 2021 and the first purchase date occurred in May 2022. Under the Company's ESPP, eligible employees may authorize payroll deductions of up to 50% of their eligible compensation, subject to IRS limitations, during prescribed offering periods to purchase shares of the Company's Class A common stock 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. A participant may participate in only one offering period at a time, and a new offering period generally begins each May 20th and November 20th. Each offering period is generally 24 months and consists of four exercise dates (each, generally six months following the start of the offering period or the preceding exercise date, as the case may be). If the fair market value of the Company's Class A common stock is less on a given exercise date than on the date of grant, employee participation in that offering period ends and participants are automatically re-enrolled in the next new offering period. The ESPP shall terminate automatically 20 years after its effective date, unless the ESPP is extended by the Board of Directors and the extension is approved within 12 months by a vote of the stockholders of the Company.

As of December 31, 2022, 574,364 shares of Class A common stock have been purchased under the ESPP. The fair value of the purchase rights under the ESPP was estimated using the Black-Scholes option pricing model with a similar methodology for determining inputs as the Company's stock options, as described above. The Company recorded stock-based compensation expense under this plan of $2.9 million for the year ended December 31, 2022, of which $0.6 million was capitalized for the development of capitalized internal-use software. As of December 31, 2022, the total unrecognized stock-based compensation expense related to the ESPP was $4.5 million and is expected to be recognized over a weighted average period of 2 years. As of December 31, 2022, $0.4 million had been withheld on behalf of employees for future purchases.

The following table summarizes the Black-Scholes option pricing model weighted-average assumptions used in estimating the fair value of the stock purchase rights granted to employees under the ESPP for the years ended December 31, 2022 and 2021:

	For the Years Ended December 31,	
	2022	2021
Expected term (in years)	0.5 - 2.0	0.5 - 2.0
Expected volatility	45% - 68%	45% - 57%
Risk-free interest rate	0.10% - 4.75%	0.10% - 0.51%
Expected dividend yield	— %	— %

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,	
	2022	2021
Cost of revenue	$ 1,267	$ 509
Research and development	6,698	2,129
Sales and marketing	5,360	1,652
General and administrative	3,724	1,339
Total stock-based compensation expense	$ 17,049	$ 5,629

During the years ended December 31, 2022 and 2021, the Company capitalized $2.7 million and $0.4 million, respectively, of stock-based compensation for the development of capitalized internal-use software. As of December 31, 2022, total compensation cost related to stock options and RSUs not yet vested was $21.2 million and $22.7 million, respectively which will be recognized over a weighted-average period of 2.1 years and 3.0 years, respectively.

During March 2022, the Company's Compensation Committee approved a new bonus plan ("2022 Bonus Plan") for its employees. The 2022 Bonus Plan is contingent upon the achievement of annual corporate performance targets. If these performance targets are met during 2022, employees will be paid out under the plan in RSUs in 2023. As a result, the Company recognized $1.9 million in stock-based compensation during the year ended December 31, 2022 based on progress made towards these performance targets. Pursuant to the 2022 Bonus Plan, during February 2023 the Company's Compensation Committee approved the issuance of approximately 288,000 RSUs that immediately vested.

During the year ended December 31, 2021, 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. As a result, the Company recognized an incremental $0.1 million in stock-based compensation during the year ended December 31, 2021. There were no such modifications during the year ended December 31, 2022.

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 the Company's net losses. Prior to the IPO, the Company's participating securities also included convertible preferred stock. The holders of convertible preferred stock did not have a contractual obligation to share in the Company's losses, and as a result, net losses were not allocated to these participating securities. Subsequent to the IPO, 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 stock options, share purchase rights pursuant to the Company's ESPP, and unvested restricted stock 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 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 SAFE notes, respectively, are included in the table below. For illustration purposes, Class B common stock in the table below for the 2021 periods presented represents the Company's common stock prior the adoption of the dual class structure in connection with the IPO.

The following table presents the calculation of basic and diluted net loss per share (in thousands, except share and per share data):

	For the Years Ended December 31,			
	2022		2021	
	(in thousands, except share and per share amounts)			
	Class A	Class B	Class A	Class B
Numerator:				
Net loss attributable to common stockholders	$ (20,980)	$ (30,418)	$ (1,137)	$ (20,567)
Denominator for basic and diluted net loss per share:				
Weighted-average shares used in computing net loss per share attributable to common stockholders – basic and diluted	12,924,084	18,738,217	1,065,955	19,279,700
Net loss per share attributable to common stockholders – basic and diluted	$ (1.62)	$ (1.62)	$ (1.07)	$ (1.07)

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 are as follows:

	December 31,	
	2022	2021
RSUs	3,716,061	18,750
Stock options	12,371,281	14,940,182
Shares issuable pursuant to the ESPP	120,191	35,961
Total	16,207,533	14,994,893

Note 16. Income Taxes

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

	For the Years Ended December 31,	
	2022	2021
United States	$ (51,437)	$ (21,608)
Loss before provision for income taxes	$ (51,437)	$ (21,608)

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

	For the Years Ended December 31, 2022	2021
Current		
Federal	$ —	$ —
State	(1)	58
Total current	(1)	58
Deferred:	—	—
Federal	(38)	38
State	—	—
Total deferred	$ (38)	$ 38
Total provision	$ (39)	$ 96

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, 2022	2021
Statutory federal income (benefit) rate	(21)%	(21)%
Increase (decrease) resulting from:		
State income tax rate	(4)%	(6)%
Change in valuation allowance	28 %	33 %
Permanent items	— %	— %
Tax credits	(4)%	(4)%
Stock-based compensation	— %	2 %
Other	— %	(1)%
Debt instruments	— %	2 %
PPP loan adjustment	— %	(2)%
Fixed assets	1 %	(3)%
Effective tax rate	— %	— %

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

	December 31,	
	2022	2021
Deferred tax assets:		
Net operating loss carryforwards	$ 15,154	$ 12,149
R&D credit carryforwards	6,751	4,323
Stock-based compensation	2,211	317
Research and experimental expenditures under IRC Section 174	5,062	—
Accruals and other	3,353	2,012
	32,531	18,801
Valuation allowance	(27,049)	(12,747)
Total deferred tax asset	5,482	6,054
Deferred tax liability:		
Fixed assets	(3,652)	(4,258)
Capitalized internal-use software	(1,830)	(1,834)
Total deferred tax liability	$ (5,482)	$ (6,092)
Net deferred tax liability	$ —	$ (38)

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 $14.3 million and $7.2 million during the years ended December 31, 2022 and 2021, respectively.

As of December 31, 2022, the Company had federal and state NOL carryforwards of $63.4 million and $33.5 million, respectively. The federal NOL carryforwards consisted of $16.0 million generated before January 1, 2018, which will begin to expire in 2027 but are able to offset 100% of taxable income and $47.4 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 $5.5 million which will begin to expire in 2032 and California R&D credit carryforwards of $2.9 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.

Effective for tax years beginning after December 31, 2021, taxpayers are required to capitalize any expenses they incurred that are considered incidental to research and experimentation ("R&E") activities under IRC Section 174. While taxpayers historically had the option of deducting these expenses under IRC Section 174, the Tax Act mandates capitalization and amortization beginning with tax years after December 31, 2021. Expenses incurred in connection with R&E activities must be amortized over a 5-year period if incurred in the US or over a 15-year period if incurred outside of the United States. R&E activities are broader in scope than the calculation of qualified research activities under IRC Section 41 (for research and development tax credit purposes). For the year ended December 31, 2022, the Company performed an analysis based on all the guidance available and has determined that it will continue to be in a loss position after considering the R&E capitalization. The Company will continue to monitor the effects of this legislation, however, the Company does not expect to pay cash taxes as a result of this change as the remaining operating expenses excluding R&E expense are significant and expect to continue to generate losses for tax purposes in the near future.

Uncertain Income Tax Positions

The total amount of unrecognized tax benefits as of December 31, 2022 was $1.2 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):

	For the Years Ended December 31,	
	2022	**2021**
Balance at beginning of year	$ 817	$ 584
Tax positions related to the current year:		
Additions	442	233
Reductions	—	—
Tax positions related to the prior year:		
Additions	—	—
Reductions	(20)	—
Settlements	—	—
Lapses in statute	—	—
Balance at end of year	$ 1,239	$ 817

The Company's policy is to account for interest and penalties as income tax expense. As of December 31, 2022, 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

Starting in January 2023, the Company initiated a reduction in headcount incurring employee termination expenses and other associated costs, in aggregate, estimated to be between $3.5 million to $4.0 million. The Company expects to recognize the majority of these expenses in the first quarter of fiscal year 2023.

In February 2023, in addition to approving equity awards related to the 2022 Bonus Plan (see Note 14), the Company's Compensation Committee approved the issuance of approximately 701,000 RSUs with service-based vesting periods that are satisfied over three or four years. The Company expects to recognize approximately $4.1 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.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Management, with the participation of our Chief Executive Officer and Chief Financial Officer, has assessed the effectiveness of our internal control over financial reporting as of December 31, 2022 based on the criteria described in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has concluded that while we have remediated three material weaknesses, our internal control over financial reporting as of December 31, 2022 was not effective, as we still have not remediated two material weaknesses in our internal control over financial reporting described below.

This annual report does not include an attestation report of our registered public accounting firm due to an exemption for "emerging growth companies."

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, 2022, 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 financial modules to support reconciliations, and other systems and processes related to fixed assets, leases, 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 Tax Manager, a Director of IT, and additional accounting staff, all with public company experience and or a Certified Public Accountant certification; and (5) reallocating responsibilities across our accounting organization so that the appropriate level of knowledge and experience is applied based on complexity of transactions, in addition to implementation of sufficient and timely review of significant accounting transactions and reconciliations.

The actions we took were subject to ongoing executive management review and also to audit committee oversight, and resulted in the full remediation of the following material weaknesses as of December 31, 2022:

i. 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;
ii. our controls were not adequately designed to consider the accurate recording of value added taxes and sales and use taxes, resulting in misstatements; and
iii. 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.

As of December 31, 2022, two material weaknesses remained as follows:

i. our controls were not operating effectively to allow sufficient and timely review of significant accounting transactions and reconciliations. These deficiencies resulted in errors in 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; and
ii. 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.

We have dedicated significant effort and resources towards measures to remediate the identified material weaknesses. We are in the process of designing and implementing internal controls intended to address our remaining material weaknesses, and are also testing the operating effectiveness of these controls. The remaining material weaknesses cannot be considered fully remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

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, 2022 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.

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 2023 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 2023 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 2023 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 2023 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 2023 Annual Meeting of Stockholders.

Part IV

Item 15. Exhibits and Financial Statement Schedules

(a)

(1) Financial Statements. We have filed the consolidated financial statements listed in the Index to Consolidated Financial Statements, Schedules, and Exhibits included in Part II, Item 8, "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K.

(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	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Amended and Restated Certificate of Incorporation of Registrant, as currently in effect.	10-Q	001-41026	3.1	12/14/2021	
3.2	Amended and Restated Bylaws	10-Q	001-41026	3.2	12/14/2021	
4.1	Description of the Registrant's Securities Registered Pursuant to Section 12 of the Exchange Act of 1934	10-K	001-41026	4.1	03/28/2022	
10.1	Form of Indemnification Agreement by and between the Registrant and each of its directors and executive officers.	S-1	333-260333	10.1	10/18/2021	
10.2	2011 Stock Plan, as amended, and forms of agreements thereunder.	S-1	333-260333	10.2	10/18/2021	
10.3	2021 Equity Incentive Plan and form of agreements thereunder.	S-1	333-260333	10.3	10/18/2021	
10.4	2021 Employee Stock Purchase Plan.	S-1	333-260333	10.4	10/18/2021	
10.5	Offer Letter, dated February 14, 2020, by and between the Company and Frank Patchel.	S-1	333-260333	10.5	10/18/2021	
10.6†	Loan and Security Agreement, dated October 21, 2021, by and between the Company and City National Bank.	S-1	333-260333	10.6	10/18/2021	
10.7	Form of Simple Agreement for Future Equity, by and between the Company and certain of its investors.	S-1	333-260333	10.7	10/18/2021	
10.8	First Amendment to the Loan and Security Agreement, dated October 21, 2021, by and between the Company and City National Bank.	10-K	001-41026	10.8	03/28/2022	
10.9	Second Amendment to the Loan and Security Agreement, dated as of October 21, 2021, by and between the Registrant and City National Bank	8-K	001-41026	10.1	04/27/2022	
10.10	Third Amendment to the Loan and Security Agreement, dated as of January 20, 2023, by and between the Registrant and City National Bank					X
23.1	Consent of BDO USA, LLP, Independent Registered Public Accounting Firm.					X
24.1	Power of Attorney (contained on signature page to this report).					X
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					X
32.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
32.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					X
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.					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

* 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. † Pursuant to Item 601(a)(5) of Regulation S-K, certain exhibits and schedules to this agreement have been omitted. The Company hereby agrees to furnish supplementally to the Securities and Exchange Commission, upon its request, any or all of such omitted exhibits and/or schedules. 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 31st day of March, 2023.

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.

Signature	Title	Date
/s/ Gleb Budman Gleb Budman	Chief Executive Officer and Chairperson *(Principal Executive Officer)*	March 31, 2023
/s/ Frank Patchel Frank Patchel	Chief Financial Officer *(Principal Financial and Accounting Officer)*	March 31, 2023
/s/ Timothy Nufire Timothy Nufire	Director	March 31, 2023
/s/ Jocelyn Carter-Miller Jocelyn Carter-Miller	Director	March 31, 2023
/s/ Barbara Nelson Barbara Nelson	Director	March 31, 2023
/s/ Earl E. Fry Earl E. Fry	Director	March 31, 2023
/s/ Evelyn D’An Evelyn D’An	Director	March 31, 2023

Exhibit 10.10

THIRD AMENDMENT TO LOAN AND SECURITY AGREEMENT

This Third Amendment to Loan and Security Agreement (this “Amendment”) is entered into as of January 20, 2023, by and between City National Bank (“Bank”) and Backblaze, Inc. (“Borrower”).

Recitals

A. Bank and Borrower have entered into that certain Loan and Security Agreement dated as of October 21, 2021 (as amended from time to time, the “Loan Agreement”).

B. Borrower has requested that Bank amend the Loan Agreement, and Bank has agreed to do so.

Agreement

Now, Therefore, the parties 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**).

(a) The defined term “Permitted Indebtedness” is hereby amended by deleting the “and” at the end of clause (f), replacing the “.” at the end of clause (g) with “; and” and adding the following new clause (h), as follows:

“(h) Indebtedness consisting of guarantees of the lease obligations of Netherlands Subsidiary in favor of Data Sales CO US, Data Sales Netherlands BV, Dell-US and/or Dell-EMEA.”

(b) The defined term “Permitted Investment” is hereby amended by deleting the “and” at the end of clause (c), replacing the “.” at the end of clause (d) with “; and” and adding the following new clause (e), as follows:

“(e) Investments in (i) Backblaze Netherlands B.V., a Subsidiary organized under the laws of the Netherlands (“Netherlands Subsidiary”) and (ii) Backblaze Worldwide, Inc., a Subsidiary organized under the laws of the State of Delaware to own the capital stock of Netherlands Subsidiary (“Delaware Subsidiary”).”

2.2 Section 2.4 (Interest Rates). The first sentence of Section 2.4(a) is amended and restated to read as follows:

“Except as set forth in Section 2.4(b), Advances consisting of Average SOFR Advances shall bear interest, on the outstanding Daily Balance thereof, at a rate equal to Average SOFR plus two percent (2.0%).”

2.3 Section 6.9 (Accounts). Section 6.9 is amended and restated to read as follows:

“**6.9 Accounts**. Borrower shall use its best efforts to maintain and cause each of its Subsidiaries to maintain its depository, operating, and investment accounts with Bank. For each account that Borrower maintains outside of Bank, Borrower shall cause the applicable bank or financial institution at or with which any such account is maintained to execute and deliver an account control agreement or other appropriate instrument in form and substance satisfactory to Bank; provided however, that Borrower shall be permitted to maintain its existing accounts with Wells Fargo Bank, and provided, further, that Netherlands Subsidiary may maintain account(s) in the Netherlands and shall not be required to execute and deliver account control agreements with respect to such account(s).”

2.4 Exhibit D (Compliance Certificate). Exhibit D to the Loan Agreement is hereby replaced in its entirety with Exhibit D attached hereto.

3. Consent. Bank consents to the formation of Netherlands Subsidiary and Delaware Subsidiary. Notwithstanding the provisions of Section 6.7 of the Loan Agreement, neither Netherlands Subsidiary nor Delaware

Subsidiary shall be required to become Borrowers under the Loan Agreement or otherwise guarantee the Obligations.

4. Limitation of Amendments

4.1 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.

4.2 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.

5. Representation and Warranties. To induce Bank to enter into this Amendment, Borrower hereby represents and warrants to Bank as follows:

5.1 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;

5.2 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;

5.3 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;

5.4 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;

5.5 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;

5.6 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

5.7 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.

6. 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.

7. 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.

8. 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.

9. 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.

10. 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 an amount equal to the Bank Expenses incurred 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	BORROWER
CITY NATIONAL BANK	BACKBLAZE, INC.
By: /s/ Alan Jepsen	By: /s/ Frank Patchel
Name: Alan Jepsen	Name: Frank Patchel
Title: SVP	Title: Chief Financial Officer

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

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Backblaze, Inc.
San Mateo, California

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-260991 and No. 333-263903) of Backblaze, Inc. of our report dated March 31, 2023, relating to the financial statements, which appears in this Form 10-K.

/s/ BDO USA, LLP

San Jose, California

March 31, 2023

Exhibit 31.1

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

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 principles;
    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 fiscal 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 31, 2023

/s/ Gleb Budman
Gleb Budman
Chief Executive Officer and Chairperson
(Principal Executive Officer)

Exhibit 31.2

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

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 principles;

    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 fiscal 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 31, 2023

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

Exhibit 32.1

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

In connection with the Annual Report on Form 10-K of Backblaze, Inc. (the “Company”) for the annual period ended December 31, 2022, 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 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 31, 2023	/s/ Gleb Budman
		Gleb Budman
		Chief Executive Officer and Chairperson
		(Principal Executive Officer)

Exhibit 32.2

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

In connection with the Annual Report on Form 10-K of Backblaze, Inc. (the “Company”) for the annual period ended December 31, 2022, 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 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 31, 2023	/s/ Frank Patchel
		Frank Patchel
		Chief Financial Officer
		(Principal Financial and Accounting Officer)