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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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

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 o

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 o

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	o
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 is a shell company (as defined in Rule 12b-2 of the Act).Yes ☐ No ☒

As of November 1, 2022, 15.3 million shares of the registrant's Class A common stock were outstanding, and 17.3 million shares of registrant's Class B common stock were outstanding.

Table of Contents

	Page
Part I - Financial Information (unaudited)	1
Item 1. Financial Statements	1
Condensed Balance Sheets as of September 30, 2022 and December 31, 2021	1
Condensed Statements of Operations for the Three and Nine Months Ended September 30, 2022 and 2021	2
Condensed Statements of Changes in Convertible Preferred Stock and Stockholders’ Equity (Deficit) for the Three and Nine Months Ended September 30, 2022 and 2021	3
Condensed Statements of Cash Flows for the Nine Months Ended September 30, 2022 and 2021	5
Notes to Condensed Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3. Quantitative and Qualitative Disclosures About Market Risk	38
Item 4. Controls and Procedures	39
Part II - Other Information	42
Item 1. Legal Proceedings	42
Item 1A. Risk Factors	42
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	65
Item 3. Defaults Upon Senior Securities	65
Item 4. Mine Safety Disclosures	66
Item 5. Other Information	66
Item 6. Exhibits	67
Signatures	68

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q, 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 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 and 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 increased expenses associated with being a public company.

You should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q. 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 Quarterly Report on Form 10-Q. 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 Quarterly Report on Form 10-Q. 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 Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q 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 - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash	$ 24,813	$ 104,843
Accounts receivable, net	720	309
Short-term investments	52,626	—
Prepaid expenses and other current assets	6,373	5,930
Total current assets	84,532	111,082
Restricted cash, non-current	2,544	—
Property and equipment, net	49,814	43,068
Operating lease right-of-use assets	4,753	—
Capitalized software, net	13,648	7,637
Other assets	1,622	1,794
Total assets	$ 156,913	$ 163,581
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 2,718	$ 2,075
Accrued expenses and other current liabilities	7,944	7,620
Finance lease liabilities and lease financing obligations, current	18,796	13,645
Operating lease liabilities, current	2,058	—
Deferred revenue, current	22,705	21,722
Total current liabilities	54,221	45,062
Finance lease liabilities and lease financing obligations, non-current	17,981	19,603
Operating lease liabilities, non-current	2,862	—
Deferred revenue, non-current	2,784	3,132
Other long-term liabilities	—	298
Debt facility, non-current	2,543	—
Total liabilities	$ 80,391	$ 68,095
Commitments and contingencies (Note 10)		
Stockholders' Equity		
Class A common stock, $0.0001 par value; 113,000,000 shares authorized as of September 30, 2022 and December 31, 2021, respectively; 15,108,346 and 8,227,992 shares issued and outstanding as of September 30, 2022 and December, 31, 2021, respectively.	1	1
Class B common stock, $0.0001 par value; 37,000,000 shares authorized as of September 30, 2022 and December 31, 2021, respectively; 17,328,043 and 22,156,842 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively.	2	2
Additional paid-in capital	149,767	131,826
Accumulated deficit	(73,248)	(36,343)
Total stockholders' equity	76,522	95,486
Total liabilities and stockholders' equity	$ 156,913	$ 163,581

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Revenue	$ 22,051	$ 17,320	$ 62,229	$ 48,782
Cost of revenue	10,836	8,519	30,073	24,275
Gross profit	11,215	8,801	32,156	24,507
Operating expenses:				
Research and development	8,152	5,338	24,493	14,314
Sales and marketing	9,727	5,025	26,125	13,149
General and administrative	5,396	3,104	16,106	8,261
Total operating expenses	23,275	13,467	66,724	35,724
Loss from operations	(12,060)	(4,666)	(34,568)	(11,217)
Investment income	210	—	405	—
Interest expense	(950)	(968)	(2,811)	(2,686)
Gain on extinguishment of debt	—	—	—	2,299
Unrealized loss on SAFE	—	(359)	—	(359)
Loss before provision for income taxes	(12,800)	(5,993)	(36,974)	(11,963)
Income tax (benefit) provision	—	—	(69)	136
Net loss	$ (12,800)	$ (5,993)	$ (36,905)	$ (12,099)
Net loss per share, basic and diluted	$ (0.40)	$ (0.32)	$ (1.18)	$ (0.64)
Weighted average shares used in computing net loss per share attributable to Class A and Class B common stockholders, basic and diluted	31,994,391	18,936,698	31,245,069	18,775,908

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

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

	Three Months Ended September 30, 2022						
	Convertible Preferred Stock		Class A and Class B Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance as of June 30, 2022	—	$ —	31,631,532	$ 3	$ 143,431	$ (60,448)	$ 82,986
Net loss	—	—	—	—	—	(12,800)	(12,800)
Issuance of common stock upon exercise of stock options	—	—	694,260	—	1,376	—	1,376
Issuance of common stock under equity incentive plan, net of taxes withheld	—	—	110,597	—	—	—	—
Stock-based compensation	—	—	—	—	4,960	—	4,960
Balance as of September 30, 2022	—	$ —	32,436,389	$ 3	$ 149,767	$ (73,248)	$ 76,522

	Three Months Ended September 30, 2021						
	Convertible Preferred Stock		Class A and Class B Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balance as of June 30, 2021	3,359,195	$ 2,784	18,936,698	$ 5	$ 10,219	$ (20,745)	$ (10,521)
Net loss	—	—	—	—	—	(5,993)	(5,993)
Stock-based compensation	—	—	—	—	1,605	—	1,605
Balance as of September 30, 2021	3,359,195	$ 2,784	18,936,698	$ 5	$ 11,824	$ (26,738)	$ (14,909)

	Nine Months Ended September 30, 2022						
	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, 2021	—	$ —	30,384,834	$ 3	$ 131,826	$ (36,343)	$ 95,486
Net loss	—	—	—	—	—	(36,905)	(36,905)
Issuance of common stock upon exercise of stock options	—	—	1,609,789	—	3,439	—	3,439
Issuance of common stock under equity incentive plan, net of taxes withheld	—	—	153,195	—	(130)	—	(130)
Issuance of common stock related to ESPP	—	—	288,571	—	1,529	—	1,529
Stock-based compensation	—	—	—	—	13,103	—	13,103
Balance as of September 30, 2022	—	$ —	32,436,389	$ 3	$ 149,767	$ (73,248)	$ 76,522

	Nine Months Ended September 30, 2021						
	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	—	—	—	—	—	(12,099)	(12,099)
Issuance of common stock upon exercise of stock options	—	—	321,793	—	148	—	148
Stock-based compensation	—	—	—	—	3,882	—	3,882
Balance as of September 30, 2021	3,359,195	$ 2,784	18,936,698	$ 5	$ 11,824	$ (26,738)	$ (14,909)

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

BACKBLAZE, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2022	**2021**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (36,905)	$ (12,099)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Gain on extinguishment of Paycheck Protection Program ("PPP") loan	—	(2,299)
Net accretion of discount on investment securities	(367)	—
Unrealized loss on SAFE	—	359
Noncash lease expense on operating leases	1,820	—
Depreciation and amortization	14,689	12,041
Stock-based compensation	13,011	3,611
Loss (gain) on disposal of assets and other adjustments	24	(17)
Changes in operating assets and liabilities:		
Accounts receivable	(411)	94
Prepaid expenses and other current assets	(234)	(1,406)
Other assets	56	(256)
Accounts payable	(137)	(258)
Accrued expenses and other current liabilities	(901)	1,186
Deferred revenue	635	5,105
Operating lease liabilities	(1,853)	—
Other long-term liabilities	(69)	(97)
Net cash (used in) provided by operating activities	(10,642)	5,964
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities	(113,259)	—
Maturities of marketable securities	61,000	—
Purchases of property and equipment, net	(4,061)	(6,876)
Capitalized internally-developed software costs	(5,645)	(3,013)
Net cash used in investing activities	(61,965)	(9,889)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on finance leases and lease financing obligations	(11,602)	(8,715)
Payments of deferred offering costs	(658)	(1,807)
Proceeds from debt facility	2,543	3,500
Repayment of debt facility	—	(3,500)
Proceeds from SAFE	—	10,000
Proceeds from lease financing obligations	—	2,907
Employee payroll taxes paid related to net settlement of equity awards	(130)	—
Proceeds from exercises of stock options	3,439	148
Proceeds from employee stock purchase plan	1,529	—
Net cash (used in) provided by financing activities	(4,879)	2,533
Net decrease in cash, restricted cash and restricted cash, non-current	(77,486)	(1,392)
Cash and restricted cash at beginning of period	105,012	6,076
Cash, restricted cash and restricted cash, non-current at end of period	$ 27,526	$ 4,684
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest	$ 2,838	$ 2,578
Cash paid for income taxes	$ 26	$ —
Cash paid for operating lease liabilities	$ 1,948	$ —
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Stock-based compensation included in capitalized software	$ 1,808	$ 271
Accrued bonus classified as stock-based compensation	$ 1,716	$ —
Equipment acquired through finance lease and lease financing obligations	$ 15,680	$ 8,895
Accruals related to purchases of property and equipment	$ 337	$ 250
Lease liabilities arising from right-of-use assets upon adoption of ASC 842	$ 5,220	$ —
Extinguishment of PPP loan	$ —	$ 2,299
RECONCILIATION OF CASH AND RESTRICTED CASH		
Cash	$ 24,813	$ 4,684
Restricted cash - included in prepaid expenses and other current assets	$ 169	$ —
Restricted cash, non-current	$ 2,544	$ —
Total cash, restricted cash and restricted cash, non-current	$ 27,526	$ 4,684

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

BACKBLAZE, INC.

NOTES TO CONDENSED 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.

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

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") and applicable rules and regulations of the U.S. Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Accordingly, they do not include all disclosures normally required in annual financial statements prepared in accordance with GAAP. Therefore, these unaudited condensed financial statements should be read in conjunction with the audited financial statements and notes for the year ended December 31, 2021 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, which was filed with the SEC on March 28, 2022. In management's opinion, these unaudited condensed financial statements have been prepared on the same basis as its annual financial statements and reflect all adjustments, which include only normal recurring adjustments necessary for the fair statement of the Company's financial position as of September 30, 2022, results of operations for the three and nine months ended September 30, 2022 and 2021, cash flows for the nine months ended September 30, 2022 and 2021, and stockholders' equity (deficit) for the three and nine months ended September 30, 2022 and 2021. The results of operations for the three and nine months ended September 30, 2022 and 2021 are not necessarily indicative of the results to be expected for the full year or any other future interim or annual period.

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.

Significant accounting policies

The Company's significant accounting policies are disclosed in the Company's audited financial statements and related notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2021, which was filed with the SEC on March 28, 2022.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Such estimates and assumptions include the costs to be capitalized as internal-use software and their useful life, the useful lives of other long-lived assets, impairment considerations for long-lived assets, the determination of 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 common stock prior to its initial public offering in November 2021 (the "IPO"), stock options, and Employee Stock Purchase Plan ("ESPP") 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.

Concentrations

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 an aggregate 25% of total cash disbursements during the three months ended September 30, 2022, while two vendors represented an aggregate 23% of total cash disbursements during the three months ended September 30, 2021. Two vendors represented an aggregate 26% of total cash disbursements during the nine months ended September 30, 2022, while two vendors represented an aggregate 25% of total cash disbursements during the nine months ended September 30, 2021. Two vendors represented an aggregate 29% of the accounts payable balance as of September 30, 2022, while 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 ("Backblaze B2") 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.

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, 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 carryforward 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. 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, include primarily fixed payments. As a majority of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available as of the commencement date. 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 on a collateralized basis over a similar term an amount equal to the lease payments 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 colocation lease agreement asset class.

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 condensed balance sheets, respectively, with the ROU asset on an existing lease being offset by an existing ASC 420 obligation of approximately $0.4 million. The Company noted no material impact on its condensed financial statements with respect to its finance leases as a result of its ASC 842 adoption. See Note 10 to these condensed 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 an amortized cost basis to be presented at the net amount expected to be collected, with further clarifications made more recently. For trade receivables, loans and other financial instruments, the Company will be required to use a forward-looking expected loss model rather than the incurred loss model for recognizing credit losses which reflects losses that are probable. Credit losses relating to available-for-sale debt securities are required to be recorded through an allowance for credit losses rather than as a reduction in the amortized cost basis of the securities. This guidance is effective for the Company for its fiscal year beginning January 1, 2023 and interim periods within that fiscal year. The Company is currently evaluating the impact of the adoption of this guidance on its financial statements.

Note 3. Revenues

Deferred Contract Costs

The Company’s amortization of deferred contract costs was $0.2 million and $0.2 million for the three months ended September 30, 2022 and 2021, respectively, and was $0.7 million and $0.6 million for the nine months ended September 30, 2022 and 2021, respectively. The amount of capitalized contract costs was $0.4 million as of September 30, 2022 and December 31, 2021, respectively.

Deferred Revenue

Deferred revenue was $25.5 million and $24.9 million as of September 30, 2022 and December 31, 2021, respectively. Revenue recognized for the three months ended September 30, 2022 and 2021 was $9.2 million and $7.6 million, respectively, and was $19.3 million and $15.6 million for the nine months ended September 30, 2022 and 2021, 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 condensed balance sheets presented its approximate contract liability balance as of September 30, 2022 and December 31, 2021. The Company’s deferred revenue balance as of September 30, 2022, approximates the aggregate amount of the transaction price allocated to remaining performance obligations (“RPOs”) as of that date. Further, as of September 30, 2022, the Company’s deferred revenue, current, balance on its condensed balance sheet of $22.7 million approximates the expected amount to be recognized from its RPOs as revenue over the next 12 months.

Disaggregation of Revenue

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Consumption-based arrangements (B2 Cloud Storage)	$ 8,825	$ 5,977	$ 23,553	$ 16,026
Subscription-based arrangements (Computer Backup)	13,065	11,163	38,168	32,219
Physical Media	161	180	508	537
Total revenue	$ 22,051	$ 17,320	$ 62,229	$ 48,782

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
United States	$ 15,802	$ 12,435	$ 44,636	$ 35,083
Other	6,249	4,885	17,593	13,699
Total	$ 22,051	$ 17,320	$ 62,229	$ 48,782

Note 4. 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.

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 condensed balance sheet as of September 30, 2022. The Company did not have an investments balance as of December 31, 2021.

		Gross Unrealized			
	Amortized Cost	Gains	Losses	Fair Value	Net Carrying Value
As of September 30, 2022			(In Thousands)		
Investments					
Commercial paper	$ 52,626	$ —	$ (198)	$ 52,428	$ 52,626
Total investments	$ 52,626	$ —	$ (198)	$ 52,428	$ 52,626

Scheduled Maturities

The amortized cost and fair value of held-to-maturity securities as of September 30, 2022 by contractual maturity are shown below.

As of September 30, 2022	Amortized Cost	Fair Value
	(In Thousands)	
Within one year	$ 52,626	$ 52,428
After one year through five years	—	—
After 5 years through 10 years	—	—
After 10 years	—	—
Total investments	$ 52,626	$ 52,428

Aging of Unrealized Losses

As of September 30, 2022, the Company's investments had an aggregate gross unrealized loss of $0.2 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 condensed balance sheet. As of September 30, 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 September 30, 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	9	$ 52,428	$ (198)	9	$ 52,428	$ (198)
Total	9	$ 52,428	$ (198)	9	$ 52,428	$ (198)

Note 5. Fair Value Measurements

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

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

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

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

The Company classifies its 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 nine months ended September 30, 2022 and the year ended December 31, 2021, respectively. The Company had no Level 1 and 3 instruments held as of September 30, 2022 and no Level 1, 2 and 3 instruments held as of December 31, 2021.

As of September 30, 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 condensed balance sheets. Additionally, as of September 30, 2022, the Company had $2.5 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):

	September 30, 2022	December 31, 2021
Unbilled accounts receivable	$ 1,473	$ 1,220
Prepaid expenses	1,365	2,403
Prepaid subscriptions	1,255	730
Prepaid Physical Media hardware	274	378
Capitalized commissions	353	345
Receivable from payment processor	516	289
Other	1,137	565
Total prepaid expenses and other current assets	$ 6,373	$ 5,930

Note 7. Property and Equipment, Net

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

	September 30, 2022	December 31, 2021
Data center equipment	$ 26,639	$ 25,338
Leased and financed data center equipment	64,204	50,419
Machinery and equipment	10,947	7,803
Computer equipment	2,454	1,631
Leasehold improvements	966	956
Construction-in-progress	526	—
Total property and equipment	105,736	86,147
Less: accumulated depreciation	(55,922)	(43,079)
Total property and equipment, net	$ 49,814	$ 43,068

Depreciation expense was $4.8 million and $3.6 million for the three months ended September 30, 2022 and 2021, respectively, and was $13.1 million and $10.8 million for the nine months ended September 30, 2022 and 2021, respectively. For the Company's equipment under finance leases and collateralized financing obligations, accumulated depreciation was $22.3 million and $13.5 million as of September 30, 2022 and December 31, 2021, respectively. The carrying value of the Company's equipment under finance lease agreements and lease financing obligations was $41.9 million and $36.9 million as of September 30, 2022 and December 31, 2021, respectively.

The Company recorded a loss of less than $0.1 million for the three and nine months ended September 30, 2022 respectively, as a result of disposing of certain hard drives. During the three and nine months ended September 30, 2021, no material gain or loss was realized related to the disposal of long-lived assets. 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 condensed statements of operations.

As of September 30, 2022 and December 31, 2021, substantially all of the Company's assets were held in the United States.

Note 8. Capitalized Software, Net

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

	September 30, 2022	December 31, 2021
Developed software	$ 20,133	$ 12,535
General and administrative software	144	144
Total capitalized internal-use software	20,277	12,679
Less: accumulated amortization	(6,629)	(5,042)
Total capitalized internal-use software, net	$ 13,648	$ 7,637

In accordance with the adoption of ASU 2018-15, during 2021 the Company aligned its capitalization of implementation costs for cloud computing arrangements with its accounting for the underlying software license included in such arrangements. Accordingly, the Company reclassified these implementation costs on its balance sheet 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 $0.6 million and $0.4 million for the three months ended September 30, 2022 and 2021, respectively, and was $1.6 million and $1.2 million for the nine months ended September 30, 2022 and 2021, respectively. Amortization of developed software and software purchased for internal use are included in cost of revenue and general and administrative expense, respectively, in the Company's statements of operations. As of September 30, 2022, future amortization expense is expected to be as follows (in thousands):

Year Ending December 31,		
Remainder of 2022	$	658
2023		3,389
2024		3,155
2025		2,700
2026		2,247
Thereafter		1,499
Total	$	13,648

Note 9. Accrued Expenses and Other Current Liabilities

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

	September 30, 2022	December 31, 2021
Accrued compensation	$ 2,872	$ 1,159
ESPP Withholding	1,271	489
Accrued expenses	1,842	1,646
Accrued sales tax	412	1,209
Accrued value-added tax ("VAT") liability	1,262	2,511
Other	285	606
Accrued expenses and other current liabilities	$ 7,944	$ 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 term 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 2022 and 2025. Finance leases are included in property and equipment, net on the Company's condensed balance sheet.

As of September 30, 2022, the weighted average remaining lease term for finance lease and lease financing obligation agreements were approximately 1.99 years and the weighted average discount rate for finance leases was approximately 10.4%.

For the Company's assets acquired through finance lease and lease financing obligation agreements, which are related to sale-leaseback agreements, depreciation expense was $3.5 million and $3.0 million for the three months ended September 30, 2022 and 2021, respectively, and was $9.7 million and $8.9 million for the nine months ended September 30, 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. There have been no material changes to the Company's finance lease obligation and lease financing commitments during the nine months ended September 30, 2022.

During the three months ended September 30, 2022, total finance lease costs were $4.1 million, of which interest expense was approximately $0.9 million, and total lease financing obligation costs were $0.3 million, of which interest expense was approximately $0.1 million. During the nine months ended September 30, 2022, total finance lease costs were $11.4 million, of which interest expense was approximately $2.5 million, and total lease financing obligation costs were $1.0 million, of which interest expense was approximately $0.3 million. The cash paid on interest on finance lease and lease financing obligations was $2.8 million for the nine months ended September 30, 2022.

During 2021, the Company entered into four sale-leaseback arrangements with vendors to provide approximately $4.3 million in cash proceeds for previously purchased hard drives and related equipment. The Company concluded the related lease arrangements would be classified as lease financing obligations as it has the option to repurchase the assets at their fair value at a future date. Therefore, the transaction was deemed a failed sale-leaseback and was accounted for as a financing arrangement. The assets continue to be depreciated over their useful lives, and payments are allocated between interest expense and repayment of the financing liability. The failed sale-leaseback transactions will continue to be accounted for as a failed sale-leaseback upon adoption of ASC 842 because the leaseback is classified as financing.

The future minimum commitments for these finance leases and lease financing obligations as of September 30, 2022 were as follows (in thousands):

Year Ending December 31,	Finance leases	Lease financing obligations	Total
Remainder of 2022	$ 5,174	$ 346	$ 5,520
2023	18,394	1,385	19,779
2024	11,038	1,240	12,278
2025	2,841	521	3,362
2026	—	—	—
Thereafter	—	—	—
Total future minimum lease and financing commitments	37,447	3,492	40,939
Less imputed interest	(3,734)	(428)	(4,162)
Total liability	$ 33,713	$ 3,064	$ 36,777

Prior to the ASC 842 adoption, the future minimum commitments 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 2022 and 2031. The Company does not have a material amount of short-term leases as of September 30, 2022.

As of September 30, 2022, the weighted average remaining lease term for operating leases was approximately 4.6 years and the weighted average discount rate for operating leases was approximately 4.7%.

The future minimum commitments for these operating leases as of September 30, 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,		
Remainder of 2022	$	618
2023		1,901
2024		833
2025		379
2026		352
Thereafter		1,465
Total future minimum operating lease commitments		5,548
Less imputed interest		(628)
Total liability	$	4,920

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 judgement 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.

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 $1.9 million for the three months ended September 30, 2022, of which $1.4 million is included in cost of revenue in its statement of operations. During the three months ended September 30, 2022, total operating lease cost was $2.3 million, which does not include costs related to services. Rental expense related to the Company’s operating leases was $0.9 million for the three months ended September 30, 2021.

Rental expense related to the Company’s operating leases was $4.7 million for the nine months ended September 30, 2022, of which $3.6 million is included in cost of revenue in its statement of operations. During the nine months ended September 30, 2022, total operating lease cost was $5.8 million, which does not include costs related to services. Rental expense related to the Company’s operating leases was $2.8 million for the nine months ended September 30, 2021.

As of September 30, 2022, the Company had additional operating leases that had not yet commenced with lease obligations of $12.7 million. The operating leases are expected to commence in 2022 with non-cancellable lease terms of approximately 7 years.

Other Contractual Commitments

Other non-cancellable commitments relate mainly to service agreements used to facilitate the Company's infrastructure operations. As of September 30, 2022, the Company had non-cancelable purchase commitments of $4.3 million and $1.9 million payable during the years ending December 31, 2022 and 2023, respectively.

401(k) Plan

The Company sponsors a 401(k) defined contribution plan covering all eligible U.S. employees. Contributions to the 401(k) plan are discretionary. The Company contributed $0.4 million and $0.3 million to the 401(k) plan during the three months ended September 30, 2022 and 2021, respectively, and $1.2 million and $0.8 million for the nine months ended September 30, 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 there are no current legal proceedings that 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 if an unfavorable ruling were to occur in any such legal proceeding, there exists the possibility of a material adverse effect on the Company's financial position, results of operations and cash flows.

On July 15, 2022, the Company received a demand letter from the investors that participated in the Simple Agreement for Future Equity ("SAFE") agreement in August 2021. The investors demanded a refund of their original investment of $10.0 million. To the Company's knowledge, no court action was filed in connection with this matter. On August 2, 2022, the Company responded to the investors' demand letter, advising the investors that their demand was without factual or legal basis. On August 11, 2022, the investors withdrew their demand letter without prejudice. Accordingly, a loss cannot be estimated at this time.

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 $0.4 million and $1.2 million as of September 30, 2022 and December 31, 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 $1.3 million and $2.5 million as of September 30, 2022 and December 31, 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 condensed 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 three months ended September 30, 2022. As of September 30, 2022, the Company had an outstanding balance of $2.5 million and the total amount available to the Company to be borrowed was $27.5 million.

Under the RCA, the outstanding balance of $2.5 million as of September 30, 2022 was collateralized by an equal amount of cash held by the Company. As such, the Company held $2.5 million in cash that it deemed to be restricted and is included in restricted cash, non-current on the Company's condensed balance sheet as of September 30, 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.

The weighted average interest rate associated with the outstanding balance under the RCA was 4.7%, which is a per annum rate, for the three and nine months ended September 30, 2022. 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 condensed balance sheet as it has the intent and ability to maintain the facility outstanding for longer than 12 months.

Paycheck Protection Program

On April 22, 2020, the Company received $2.3 million in funding through the U.S. Small Business Administration's ("SBA") PPP that was part of the CARES Act that was signed into law in March 2020. The interest rate on the loan was 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.

Convertible Notes

During August 2021, the Company issued investors convertible notes (the "Security") in the amount of $10.0 million. The Security was classified as a SAFE. 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. As the SAFE notes were deemed to be a liability, the Company conducted a valuation of the SAFE notes liability as of September 30, 2021, which resulted in an unrealized loss of $0.4 million that the Company recorded in its condensed statement of operations for the three and nine months ended September 30, 2021.

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.

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 condensed balance sheets presented is representative of its common stock prior to the inception of the dual class structure. Subsequent to the IPO, the Company has two classes of common stock, Class A common stock and Class B common stock. The rights of the holders of Class A common stock and Class B common stock are identical, except for voting, transfer, and conversion rights. Each share of Class A common stock is entitled to one vote. Each share of Class B common stock is entitled to ten votes and is convertible at any time into one share of Class A common stock.

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

	September 30, 2022	December 31, 2021
2011 Equity Incentive Plan		
Options outstanding	11,467,319	13,506,662
Shares available for future grants	—	—
2021 Equity Incentive Plan		
Options outstanding	1,514,880	1,433,520
Restricted stock units outstanding	2,238,357	18,750
Shares available for future grants	3,374,907	3,880,274
2021 Employee Stock Purchase Plan		
Shares available for future purchases	1,275,925	956,800
Total	19,871,388	19,796,006

Note 13. Stock-Based Compensation

Equity Incentive Plan

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 Equity Incentive Plan (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 common stock available for issuance under the 2021 Plan equals the sum of 5,262,500 shares plus up to approximately 13,719,000 shares subject to awards granted under the 2011 Plan that expire, forfeit or are repurchased following the effective date of the 2021 Plan. The number of shares reserved for issuance under the 2021 Plan will be increased automatically on the first business day of each of the Company's fiscal years, commencing in 2022 and ending in 2031, by a number equal to the lowest 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 nine months ended September 30, 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 the 2021 Plan, those shares will again become available for issuance under the 2021 Plan, as will shares applied to pay the exercise or purchase price of an award or to satisfy tax withholding obligations related to any award.

Stock Options

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

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

	Shares available for grant	Outstanding Stock Options	Weighted-average exercise Price	Weighted-average remaining contractual life (years)	Aggregate intrinsic value
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	—	(1,609,789)	2.14		
Options cancelled	457,994	(457,994)	6.75		
RSU award activity, net of shares withheld for taxes	(2,372,802)	—			
Balance as of September 30, 2022	3,374,907	12,982,199	$ 5.58	6.20	$ 23,426
Vested and exercisable as of September 30, 2022		8,644,827	$ 2.98	5.01	$ 21,087

The weighted-average grant-date fair value of options granted was $6.26 and $5.39 during the nine months ended September 30, 2022 and 2021, respectively. The intrinsic value of options exercised for the nine months ended September 30, 2022 and 2021 was $9.1 million and $4.8 million, respectively. Aggregate intrinsic value represents the difference between the exercise price of the options and the estimated fair value of the Company's common stock at the time of exercise. The aggregate grant-date fair value of options vested was $8.0 million and $2.5 million during the nine months ended September 30, 2022 and 2021, respectively.

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 nine months ended September 30, 2022 and 2021, respectively, and the three months ended September 30, 2021. No stock options were granted during the three months ended September 30, 2022.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Expected term (in years)	-	6.0	6.0	6.0
Expected volatility	— %	48.8 %	49.0 %	49.1 %
Risk-free interest rate	— %	0.93 %	1.20 %	1.05 %
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 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 include, but were not limited to: (i) the results of contemporaneous independent third-party valuations of the Company’s common stock; (ii) the prices, rights, preferences, and privileges of the Company’s convertible preferred stock relative to those of its common stock; (iii) the lack of marketability of the Company’s common stock; (iv) actual operating and financial results; (v) current business conditions and projections; (vi) the likelihood of achieving a liquidity event, such as an initial public offering or sale of the Company, given prevailing market conditions; and (vii) precedent transactions involving the Company’s shares.

Restricted Stock Units (“RSUs”)

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 nine months ended September 30, 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.

RSU activity for the nine months ended September 30, 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	2,501,543	$ 8.45
Vested	(175,492)	$ 9.67
Forfeited	(106,444)	$ 11.01
Unvested balance as of September 30, 2022	2,238,357	$ 8.35

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 nine months ended September 30, 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 September 30, 2022, 288,571 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 $0.7 million and $2.0 million for the three and nine months ended September 30, 2022, respectively. As of September 30, 2022, the total unrecognized stock-based compensation expense related to the ESPP was $3.8 million and is expected to be recognized over a weighted average period of 2 years. As of September 30, 2022, $1.3 million had been withheld on behalf of employees, respectively.

The following table summarizes the Black-Scholes option pricing model assumptions used in estimating the fair value of the stock purchase rights under the ESPP during the three and nine months ended September 30, 2022, respectively.

	Three Months Ended September 30,	Nine Months Ended September 30,
	2022	2022
Expected term (in years)	0.5 - 2.0	0.5 - 2.0
Expected volatility	45% - 68%	45% - 68%
Risk-free interest rate	0.10% - 2.60%	0.10% - 2.60%
Expected dividend yield	— %	— %

Stock-Based Compensation Expense

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cost of revenue	$ 353	$ 139	$ 977	$ 333
Research and development	1,828	466	5,066	1,377
Sales and marketing	1,539	489	3,906	1,057
General and administrative	1,110	354	3,062	844
Total stock-based compensation expense	$ 4,830	$ 1,448	$ 13,011	$ 3,611

During the nine months ended September 30, 2022 and 2021, the Company capitalized $1.8 million and $0.3 million, respectively, of stock-based compensation for the development of internal-use software. As of September 30, 2022, total compensation cost related to stock options and RSUs not yet vested was $23.7 million and $17.3 million, respectively, which will be recognized over a weighted-average period of approximately 3 years for both stock options and RSUs.

During March 2022, the Company's Compensation Committee approved a new bonus plan for its employees. The 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 $0.7 million and $1.7 million in stock-based compensation during the three and nine months ended September 30, 2022, respectively, based on progress made towards these performance targets.

During the three and nine months ended September 30, 2021, the Company's Board of Directors 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 three and nine months ended September 30, 2021. There were no such modifications during the three and nine months ended September 30, 2022.

Note 14. 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 convertible preferred stock, 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 and outstanding shares of convertible preferred stock, 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):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022		2021		2022		2021	
	(in thousands, except share and per share amounts)				(in thousands, except share and per share amounts)			
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
Numerator:								
Net loss attributable to common stockholders	$ (5,865)	$ (6,935)	N/A	$ (5,993)	$ (14,185)	$ (22,720)	N/A	$ (12,099)
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	14,659,262	17,335,129	N/A	18,936,698	12,009,620	19,235,449	N/A	18,775,908
Net loss per share attributable to common stockholders – basic and diluted	$ (0.40)	$ (0.40)	N/A	$ (0.32)	$ (1.18)	$ (1.18)	N/A	$ (0.64)

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:

	September 30,	
	2022	2021
Convertible preferred stock	—	3,359,195
RSUs	2,238,357	—
Stock options	12,982,199	13,818,295
Shares issuable pursuant to the ESPP	300,785	—
Total	15,521,341	17,177,490

Note 15. Income Taxes

The Company is subject to U.S. federal and state income taxes as a corporation. The Company's tax provision and the resulting effective tax rate for interim periods is determined based upon its estimated annual effective tax rate adjusted for the effect of discrete items arising in that quarter.

The effective tax rate for the three and nine months ended September 30, 2022 and 2021 was zero as the Company has incurred continuous operating losses. The Company recorded an income tax benefit of less than $0.1 million during the nine months ended September 30, 2022. The Company recorded a $0.1 million provision for income taxes during the nine months ended September 30, 2021, which included an immaterial out of period correction of $0.2 million related to the limitation of the net operating loss ("NOLs") as of December 31, 2020. The charge represents the limitation of post-2017 federal NOLs which are limited to 80% beginning in years after December 31, 2020.

Deferred tax assets and deferred tax liabilities are recognized based on temporary differences between the financial reporting and tax basis of assets and liabilities using statutory rates. A valuation allowance is recorded against deferred tax assets if it is more likely than not that some or all of the deferred tax assets will not be realized. Due to the uncertainty surrounding the realization of the favorable tax attributes in future tax returns, the Company has recorded a full valuation allowance against its otherwise recognizable net deferred tax assets.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our audited financial statements and the related notes and the discussion under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" for the year ended December 31, 2021 included in the Annual Report on Form 10-K for the year ended December 31, 2021. This discussion, particularly information with respect to our future results of operations or financial condition, business strategy and plans, and objectives of management for future operations, includes forward-looking statements that involve risks and uncertainties as described under the heading "Special Note About Forward-Looking Statements" in this Quarterly Report on Form 10-Q. You should review the disclosure under the heading "Risk Factors" in this Quarterly Report on Form 10-Q for a discussion of important factors that could cause our actual results to differ materially from those described or implied in these forward-looking statements. Our historical results are not necessarily indicative of the results that may be expected for any period in the future. Unless the context otherwise requires, all references in this report to "Backblaze," the "Company", "we," "our," "us," or similar terms refer to Backblaze, Inc.

Overview

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

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

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 will focus resources on optimizing the efficiency of our data storage. In some scenarios, we will choose to pass on potential cost savings to the customer, but in other scenarios we will choose to reinvest cost savings back into infrastructure and design.

International Expansion

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

Key Business Metrics

We monitor the key business metrics set forth below to help us evaluate our business and growth trends, establish budgets, measure the effectiveness of our sales and marketing investments, 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.

	September 30,	
	2022	2021
B2 Cloud Storage		
Net revenue retention rate (NRR)	123 %	131 %
Gross customer retention rate	90 %	89 %
Annual recurring revenue (in millions)	$ 35.7	$ 24.6
Computer Backup		
Net revenue retention rate (NRR)	108 %	101 %
Gross customer retention rate	90 %	91 %
Annual recurring revenue (in millions)	$ 52.3	$ 46.2
Total Company		
Net revenue retention rate (NRR)	114 %	110 %
Gross customer retention rate	91 %	91 %
Annual recurring revenue (in millions)	$ 88.0	$ 70.8

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 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 in our Annual Report on Form 10-K for the year ended December 31, 2021 for more information on revenue from B2 Cloud Storage and Computer Backup arrangements.

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

While ARR is not a guarantee of future revenue, we consider over 98% of our revenue recurring for the periods presented. As noted above, our gross customer retention rate has been consistent over the periods presented at approximately 90%. Although B2 Cloud Storage is paid for by customers in arrears, we recognize revenue in the month these storage services are delivered, and consider this revenue recurring as customers are charged as long as their data is stored with us. Further, during the periods presented, customers who store data with us generally increase the amount of their data stored over time, as evidenced by our B2 Cloud Storage net revenue retention rate of 123% as of September 30, 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.

Additional Key Business Metrics Calculation Notes

The metrics for net revenue retention rate and gross customer retention rate are currently calculated using only those customers paying by credit card and exclude customers paying by invoice utilizing a different system. The amounts related to the number of customers paying by invoice has historically been immaterial.

Impact of COVID-19

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

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

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

In response to the COVID-19 pandemic, in the first quarter of 2020, we temporarily and periodically closed our office, enabled our non-essential workforce to work remotely, and implemented travel restrictions for non-essential business. Our offices have reopened during the nine months ended September 30, 2022, however, the remaining changes still apply and could potentially extend into future quarters. The changes we have implemented to date have not affected and are not expected to materially affect our ability to maintain operations, including financial reporting systems, internal controls over financial reporting, and disclosure controls and procedures. Furthermore, after the outbreak of COVID-19, we have seen slower growth in certain operating expenses due to reduced business travel and the virtualization or cancellation of certain customer and employee events.

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

Key Components of Results of Operations

Revenue

We generate revenue primarily from our 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.

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

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

Cost of Revenue and Gross Margin

Cost of revenue consists of our expenses in providing our platform and cloud services to customers. These expenses include operating in co-location facilities, network and bandwidth costs, and depreciation of our equipment and finance 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 consist primarily of our investment in 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 investment in research and development to increase in absolute dollars for the foreseeable future as we continue to focus our research and development investments on adding new features to our platform, improving our cloud service offerings, and increasing the functionality of our existing features. Our research and development expenses may fluctuate as a percentage of revenue from period to period due to the timing and extent of these expenses.

Sales and Marketing

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

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

General and Administrative

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

Investment Income

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

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.

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:

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
	(in thousands, unaudited)			
Revenue	$ 22,051	$ 17,320	$ 62,229	$ 48,782
Cost of revenue[1]	10,836	8,519	30,073	24,275
Gross profit	11,215	8,801	32,156	24,507
Operating expenses:				
Research and development[1]	8,152	5,338	24,493	14,314
Sales and marketing[1]	9,727	5,025	26,125	13,149
General and administrative[1]	5,396	3,104	16,106	8,261
Total operating expenses	23,275	13,467	66,724	35,724
Loss from operations	(12,060)	(4,666)	(34,568)	(11,217)
Investment income	210	—	405	—
Interest expense	(950)	(968)	(2,811)	(2,686)
Gain on extinguishment of debt	—	—	—	2,299
Unrealized loss on SAFE	—	(359)	—	(359)
Loss before provision for income taxes	(12,800)	(5,993)	(36,974)	(11,963)
Income tax (benefit) provision	—	—	(69)	136
Net loss	$ (12,800)	$ (5,993)	$ (36,905)	$ (12,099)

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

	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
	(In thousands, unaudited)			
Cost of revenue	$ 353	$ 139	$ 977	$ 333
Research and development	1,828	466	5,066	1,377
Sales and marketing	1,539	489	3,906	1,057
General and administrative	1,110	354	3,062	844
Total stock-based compensation expense	$ 4,830	$ 1,448	$ 13,011	$ 3,611

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(unaudited)			
Revenue	100%	100%	100%	100%
Cost of revenue	49	49	48	50
Gross profit	51	51	52	50
Operating expenses:				
Research and development	37	31	39	29
Sales and marketing	44	29	42	27
General and administrative	24	18	26	17
Total operating expenses	106	78	107	73
Loss from operations	(55)	(27)	(56)	(23)
Investment income	1	—	1	—
Interest expense	(4)	(6)	(5)	(6)
Gain on extinguishment of debt	—	—	—	5
Unrealized loss on SAFE	—	(2)	—	(1)
Loss before provision for income taxes	(58)	(35)	(59)	(25)
Income tax (benefit) provision	—	—	—	—
Net loss	(58)%	(35)%	(59)%	(25)%

Comparison of the Three and Nine Months Ended September 30, 2022 and 2021

Revenue

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	Change	%Change	2022	2021	Change	%Change
	(in thousands, except percentages)				(in thousands, except percentages)			
B2 Cloud Storage revenue	$ 8,825	$ 5,977	$ 2,848	48 %	$ 23,553	$ 16,026	$ 7,527	47 %
Computer Backup revenue	13,065	11,163	1,902	17 %	38,168	32,219	5,949	18 %
Physical Media revenue	161	180	(19)	(11)%	508	537	(29)	(5)%
Revenue	$ 22,051	$ 17,320	$ 4,731	27 %	$ 62,229	$ 48,782	$ 13,447	28 %

Revenue increased by $4.7 million, or 27%, for the three months ended September 30, 2022 compared to the same period in 2021. B2 Cloud Storage increased by $2.8 million, the majority of which is due to the addition of new customers. The remaining increase of $1.9 million was from Computer Backup, which increased primarily due to a price increase that went into effect in September 2021, as well as due to the addition of new customers and the increase in the number of licenses per existing customer.

Revenue increased by $13.4 million, or 28%, for the nine months ended September 30, 2022 compared to the same period in 2021. B2 Cloud Storage increased by $7.5 million, the majority of which is due to the addition of new customers. The remaining increase of $5.9 million was from Computer Backup, which increased primarily due to a price increase that went into effect in September 2021, as well as due to the addition of new customers and the increase in the number of licenses per existing customer.

Cost of Revenue and Gross Margin

	Three Months Ended September 30,		Change	%Change	Nine Months Ended September 30,		Change	%Change
	2022	2021			2022	2021		
	(in thousands, except percentages)				(in thousands, except percentages)			
Cost of revenue	$ 10,836	$ 8,519	$ 2,317	27 %	$ 30,073	$ 24,275	$ 5,798	24 %
Gross margin	51 %	51 %			52 %	50 %		

Cost of revenue increased by $2.3 million, or 27%, for the three months ended September 30, 2022 compared to the same period in 2021. The increase was primarily attributable to $1.2 million in depreciation of our infrastructure equipment, which resulted from purchasing additional hard drives and related infrastructure in order to support the growth of our business, and $1.1 million related to managing and operating our co-location facilities.

Gross margin was consistent at 51% for the three months ended September 30, 2022 compared to the same period in 2021.

Cost of revenue increased by $5.8 million, or 24%, for the nine months ended September 30, 2022 compared to the same period in 2021. The increase was primarily attributable to $3.2 million related to managing and operating our co-location facilities, and $2.6 million in 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 nine months ended September 30, 2022 compared to 50% for the same period in 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 revenue growth.

Operating Expenses

	Three Months Ended September 30,		Change	%Change	Nine Months Ended September 30,		Change	%Change
	2022	2021			2022	2021		
	(in thousands, except percentages)				(in thousands, except percentages)			
Research and development	$ 8,152	$ 5,338	$ 2,814	53 %	$ 24,493	$ 14,314	$ 10,179	71 %
Sales and marketing	9,727	5,025	4,702	94 %	26,125	13,149	12,976	99 %
General and administrative	5,396	3,104	2,292	74 %	16,106	8,261	7,845	95 %

Research and Development

Research and development expense increased by $2.8 million, or 53%, for the three months ended September 30, 2022 compared to the same period in 2021. The increase was primarily attributable to $1.3 million related to stock-based compensation expense, $0.8 million in personnel-related expenses as a result of increased headcount, and $0.5 million in overhead and general office expenses.

Research and development expense increased by $10.2 million, or 71%, for the nine months ended September 30, 2022 compared to the same period in 2021. The increase was primarily attributable to $4.8 million in personnel-related expenses as a result of increased headcount, $3.6 million related to stock-based compensation expense, and $1.4 million in overhead and general office expenses.

Sales and Marketing

Sales and marketing expense increased by $4.7 million, or 94%, for the three months ended September 30, 2022 compared to the same period in 2021. The increase in sales and marketing expense was primarily attributable to $2.1 million in personnel-related expenses as a result of increased headcount, $1.0 million related to stock-based compensation, $1.0 million due to increased advertising expenses related primarily to our B2 Cloud Storage offering, and $0.5 million in overhead and general office expenses.

Sales and marketing expense increased by $13.0 million, or 99%, for the nine months ended September 30, 2022 compared to the same period in 2021. The increase in sales and marketing expense was primarily attributable to $5.9 million in personnel-related expenses as a result of increased headcount, $2.8 million related to stock-based compensation, $2.8 million due to increased advertising expenses related primarily to our B2 Cloud Storage offering, and $1.2 million in overhead and general office expenses.

General and Administrative

General and administrative expense increased by $2.3 million, or 74%, for the three months ended September 30, 2022 compared to the same period in 2021. The increase was primarily attributable to $1.0 million due to increased costs of operating as a public company, $0.8 million related to stock-based compensation expense, and $0.5 million in personnel-related expenses as a result of increased headcount.

General and administrative expense increased by $7.8 million, or 95%, for the nine months ended September 30, 2022 compared to the same period in 2021. The increase was primarily attributable to $2.5 million for increased costs of operating as a public company, $2.1 million related to stock-based compensation expense, $1.9 million in personnel-related expenses as a result of increased headcount, and $0.9 million in general office expenses.

Investment Income

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	Change	%Change	2022	2021	Change	%Change
	(in thousands, except percentages)				(in thousands, except percentages)			
Investment income	$ 210	$ —	$ 210	— %	$ 405	$ —	$ 405	— %

Investment income increased by $0.2 million for the three months ended September 30, 2022 compared to the same period in 2021. The increase was primarily due to increased interest income from our marketable securities, which we entered into during the current period.

Investment income increased by $0.4 million for the nine months ended September 30, 2022 compared to the same period in 2021. The increase was primarily due to increased interest income from our marketable securities, which we entered into during the current period.

Interest Expense

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	Change	%Change	2022	2021	Change	%Change
	(in thousands, except percentages)				(in thousands, except percentages)			
Interest expense	$ (950)	$ (968)	$ 18	(2)%	$ (2,811)	$ (2,686)	$ (125)	5 %

Interest expense was flat for the three months ended September 30, 2022 compared to the same period in 2021.

Interest expense increased by $0.1 million, or 5%, for the nine months ended September 30, 2022 compared to the same period in 2021. The increase was primarily due to interest expense from finance lease agreements we entered into during 2021 to support our growing infrastructure, which increased our finance lease liability to $33.7 million as of September 30, 2022.

Income Tax (Benefit) Provision

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2022	2021	Change	%Change	2022	2021	Change	%Change
	(in thousands, except percentages)				(in thousands, except percentages)			
Income tax (benefit) provision	$ —	$ —	$ —	— %	$ (69)	$ 136	$ (205)	(151)%

Our provision for income taxes was flat for the three months ended September 30, 2022, compared to the same period in 2021.

Our provision for income taxes decreased by $0.2 million, or 151% for the nine months ended September 30, 2022 compared to the same period in 2021. The increase in income tax benefit was due to an immaterial out of period adjustment in the prior period relating to the limitation of the net operating loss as of December 31, 2021. The charge represented the limitation of post-2017 federal NOLs which are limited to 80% beginning in years after December 31, 2020.

Non-GAAP Financial Measures

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

Adjusted Gross Margin

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands, except percentages)			
Gross profit	$ 11,215	$ 8,801	$ 32,156	$ 24,507
Adjustments:				
Stock-based compensation	353	139	977	333
Depreciation and amortization	5,131	3,896	14,178	11,580
Adjusted gross profit	$ 16,699	$ 12,836	$ 47,311	$ 36,420
Gross margin	51 %	51 %	52 %	50 %
Adjusted gross margin	76 %	74 %	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, income tax provision, unrealized loss on SAFE 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(in thousands, except percentages)			
Net loss	$ (12,800)	$ (5,993)	$ (36,905)	$ (12,099)
Adjustments:				
Depreciation and amortization	5,357	4,059	14,790	12,041
Stock-based compensation	4,830	1,448	13,011	3,611
Net interest expense	740	968	2,406	2,686
Income tax (benefit) provision	—	—	(69)	136
Unrealized loss on SAFE	—	359	—	359
Gain on extinguishment of debt	—	—	—	(2,299)
Adjusted EBITDA	$ (1,873)	$ 841	$ (6,767)	$ 4,435
Adjusted EBITDA margin	(8 %)	5 %	(11 %)	9 %

Liquidity and Capital Resources

Since inception, we have financed operations primarily through payments received from our customers. As of September 30, 2022 and December 31, 2021, our principal sources of liquidity were cash, short-term investments and restricted cash, non-current of $80.0 million and cash of $104.8 million, respectively.

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

We believe that our existing cash and 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 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 our investment in research and development, 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. If 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 will bear interest at a variable rate equal to, at our 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, 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 its second amendment to its 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. There were no other material changes to the agreement as a result of this amendment. As of September 30, 2022, the outstanding balance of our line of credit was $2.5 million, and the amount available to us was $27.5 million.

We generally enter into finance lease arrangements to obtain hard drives and related equipment for our data center operations. We also generally enter into leases for our facilities for data centers and office space under non-cancelable operating leases with various expiration dates. For further information, see Note 10 to our financial statements included elsewhere in this Quarterly Report.

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

	Nine Months Ended September 30,	
	2022	2021
	(in thousands, unaudited)	
Net cash (used in) provided by operating activities	$ (10,642)	$ 5,964
Net cash used in investing activities	(61,965)	(9,889)
Net cash (used in) provided by financing activities	(4,879)	2,533

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

For the nine months ended September 30, 2022, cash used in operating activities was $10.6 million, which resulted from a net loss of $36.9 million, adjusted for non-cash charges of $29.2 million and net cash outflow of $2.9 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of $14.7 million for depreciation and amortization expense and $13.0 million for stock-based compensation expense. The net cash outflow from changes in operating assets and liabilities was primarily the result of a $1.9 million decrease of operating lease liabilities, $0.9 million decrease in accrued expenses and other current liabilities, which decreased primarily due to our employee stock purchase plan withholdings and due to timing of payment of our expenses, and $0.2 million increase of prepaid and other current assets, offset in part by a $0.6 million increase of deferred revenue, which increased due to our growing customer base and timing of collections from our customers. Cash used in operations increased during the nine months ended September 30, 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 nine months ended September 30, 2021, cash provided by operating activities was $6.0 million, which resulted from a net loss of $12.1 million, adjusted for non-cash charges of $13.7 million and net cash inflow of $4.4 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of $12.0 million for depreciation and amortization expense, $2.3 million for the gain on extinguishment of the PPP loan and $3.6 million for stock-based compensation expense. The net cash inflow from changes in operating assets and liabilities was primarily the result of a $5.1 million increase in deferred revenue, which increased due to our growing customer base and timing of collections from our customers. Cash provided by operations decreased during the nine months ended September 30, 2021, as compared to the same period in 2020 primarily due to increased spending in support of our business growth.

Investing Activities

Cash used in investing activities during the nine months ended September 30, 2022 was $62.0 million, resulting primarily from the purchase of short-term maturity investments of $113.3 million, capital expenditures of $4.1 million in support of infrastructure deployments to support our growing business, and $5.6 million related to the development of internal-use software for adding new features and enhanced functionality to our platform, offset in part by $61.0 million from the maturity of our short-term investments.

Cash used in investing activities during the nine months ended September 30, 2021 was $9.9 million, resulting primarily from capital expenditures of $6.9 million in support of our infrastructure deployments to support our growing business, and $3.0 million related to the development of internal-use software for adding new features and enhanced functionality to our platform.

Financing Activities

Cash used in financing activities for the nine months ended September 30, 2022 was $4.9 million. Cash used in financing activities was primarily due to principal payments on our finance lease agreements and lease financing obligations of $11.6 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 $3.4 million in proceeds from the exercise of employee stock options, $2.5 million in proceeds from our credit facility, and $1.5 million in proceeds from the employee stock purchase plan.

Cash provided by financing activities for the nine months ended September 30, 2021 was $2.5 million. Cash provided by financing activities was primarily due to $10.0 million in proceeds received from our SAFE notes and $2.9 million in proceeds from lease financing transactions, offset by cash used in principal payments on our finance lease agreements and lease financing obligations of $8.7 million related to hard drives and other infrastructure equipment used in our co-location facilities, and $1.8 million related to payments made for deferred offering costs.

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 Quarterly Report on Form 10-Q are prepared in accordance with GAAP. The preparation of condensed 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.

There have been no material changes to our critical accounting policies and estimates as compared to those discussed in the Annual Report on Form 10-K, except as described in “Note 2”.

Recently Adopted Accounting Pronouncements

See Note 2, Basis of Presentation and Summary of Significant Accounting Policies, in the notes to our condensed financial statements included in this Quarterly Report for a discussion of recent accounting pronouncements.

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 3. 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 into. We also earn interest income generated by cash and short-term investments held at City National Bank. At September 30, 2022, we had cash and short-term investments balance of $24.8 million and $52.6 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 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 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.

Further, our credit facility with City National Bank, which was initially entered into during October 2021, as amended, is at a variable interest rate tied, at our discretion, to the SOFR or to the Prime Rate most recently announced by City National Bank, assuming 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 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission (SEC) rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our management, with the participation and supervision of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of such date, our disclosure controls and procedures were not effective over certain financial reporting areas due to the material weaknesses in our internal control over financial reporting described below. In light of this fact, our management has performed additional analyses, reconciliations, and other post-closing procedures and has concluded that, notwithstanding the material weaknesses in our internal control over financial reporting, the condensed financial statements for the periods covered by and included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with GAAP.

Previously Reported Material Weaknesses

As disclosed in the section titled “Risk Factors” in Part II, Item 1A of this Quarterly Report on Form 10-Q, we previously identified control deficiencies in the design and implementation of our internal control over financial reporting that constituted material weaknesses. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our financial statements will not be prevented or detected on a timely basis.

The five material weaknesses identified in our internal control over financial reporting related to (i) a lack of sufficient and timely review of significant accounting transactions and reconciliations, (ii) inadequate consideration of certain revenue recognition criteria, specifically related to the timing of revenue recognition, appropriate presentation and satisfaction of criteria for revenue recognition, (iii) inadequate ability to timely identify errors related to the recording of certain equity transactions, (iv) our lack of ability to consider the accurate recording of value added taxes and sales and use taxes, and (v) 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. We have concluded that these material weaknesses arose because, as a private company previously, we did not have the necessary business processes, systems, personnel, and related internal controls necessary to satisfy the accounting and financial reporting requirements of a public company.

Remediation Plans

We have dedicated significant effort and resources towards measures to remediate the identified material weaknesses. We have designed and implemented internal controls intended to address our material weaknesses, and we are now testing the operating effectiveness of these controls. These 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.

These efforts include: (1) strengthening our internal controls over financial reporting and the design of our internal-control framework through enhanced accounting policies, control activities, and monitoring; (2) user access review of systems that support financial reporting and a preliminary review of segregation of duties; (3) implementing a new enterprise resource planning (“ERP”) system, additional 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 Chief Financial Officer, a Corporate Controller, an Internal Controls Manager, a 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. We intend to continue to take steps to remediate the material weaknesses described above and further evolving our accounting processes.

For the following material weaknesses in particular, we have documented specific remediation steps and have now proceeded to demonstrating operating effectiveness for a sufficient period of time. Once operating effectiveness has been demonstrated for a sufficient period of time, we expect the following material weaknesses to be fully remediated:

i. inadequate consideration of certain revenue recognition criteria, specifically related to the timing of revenue recognition, appropriate presentation and satisfaction of criteria for revenue recognition,
ii. inadequate ability to timely identify errors related to the recording of certain equity transactions,
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, and
iv. lack of ability to consider the accurate recording of value added taxes and sales and use taxes.

The actions we are taking are subject to ongoing executive management review and are also subject to audit committee oversight. To date, we have hired additional financial and accounting personnel with public company and technical accounting experience and implemented new technology solutions to assist with our financial reporting process. We will not be able to fully remediate these material weaknesses until these steps have been completed and have been operating effectively for a sufficient period of time. If we are unable to successfully remediate these material weaknesses, or if in the future, we identify further material weaknesses in our internal control over financial reporting, we may not detect errors on a timely basis and our condensed financial statements may be materially misstated.

Changes in Internal Control over Financial Reporting

We are taking actions to remediate the material weaknesses relating to our internal control over financial reporting, as described above. Except as otherwise described herein, there were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q 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.

Part II - Other Information

ITEM 1. LEGAL MATTERS

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 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 Quarterly Report on Form 10-Q, including the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our condensed financial statements and the accompanying notes, included elsewhere in this Quarterly Report on Form 10-Q. 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 will limit your ability to influence the outcome of important transactions, including a change in control.

Risks Related to Our Business and Our Industry

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

We incurred net losses of $36.9 million and $12.1 million for the nine months ended September 30, 2022 and 2021, respectively. Over our 15 years of operations, we had an accumulated deficit of $73.2 million as of September 30, 2022. 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. In addition, a third party vendor that operates one of our multiple data center locations, Sungard Availability Services, filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code in April 2022. On or about August 31, 2022, the bankruptcy court approved the sale of nearly all of Sungard Availability Services' colocation services and network services in the United States to 365 SG Operating Company LLC, and all the obligations thereunder, which included our contract with Sungard Availability Services and the associated data center lease. As of November 1, 2022, the sale to 365 Operating Company LLC was completed and continued normal operations are expected with respect to our data center location. 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 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 82 employees as of December 31, 2018, to 126 employees as of December 31, 2019, to 188 employees as of December 31, 2020 and to 270 employees as of December 31, 2021. Also, in just the last two years the amount of storage deployed by us has more than doubled. The number of customers and customer requests on our network has also increased rapidly in recent years. While we expect to continue to expand our operations and to increase our headcount, network, and product offerings significantly in the future, our growth may not be sustainable. Our growth has placed, and future growth will continue to place, a significant strain on our management, corporate culture, quality of our cloud services, and administrative, operational, security, and financial infrastructure. Our success will depend in part on our ability to manage this growth effectively, which will require that we, among other things, continue to improve our administrative, operational, financial, and management systems and controls.

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

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

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

Historically, most of our customers consisted of small-to-medium sized businesses and individuals. To the extent we target other types of customers or customers with different needs, we may face greater demand for certain service enhancements or features that we do not currently offer, or additional performance, availability, durability, and security requirements. Certain types of customers may also have longer sales cycles, less predictability or higher volatility in the amount of data they store with us, increased pricing or negotiation leverage, and increased customer education and overall customer engagement needs. In addition, some customers may demand more customization, integration, and support services. Any of these factors could require us to devote greater sales, engineering, 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;
- the impact of COVID-19 or other pandemics on our business or that of our customers and partners;
- changes in the competitive dynamics of our industry, including consolidation among competitors;
- security breaches of our systems;
- our involvement in litigation, or the threat thereof;
- the length of the sales cycle;

- inflation in the United States, which has recently hit a four decade high, and in other regions;
- the timing of expenses and receipt of perceived benefits related to any acquisitions;
- outbreaks of war or other hostilities, such as the Russia-Ukraine hostilities;
- changes in laws and regulations that impact our business; and
- general economic and market conditions.

For example, in addition to the risks from sanctions and other restrictions discussed elsewhere in these Risk Factors in connection with the Russian attack on Ukraine that began in February 2022, in order to help the people of Ukraine facing a humanitarian crisis, we have agreed to waive charges for our services until December 31, 2022 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 our business. The Russian-Ukraine conflict has also caused oil prices to rise and increased the risk of disruption to the supply chain for oil, which could result in higher energy costs for our business and data centers, which could negatively impact our results of operations.

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

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

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

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

To execute our business strategy, we must attract and retain highly qualified personnel. For example, we are planning for aggressive hiring of new employees in sales, marketing, cloud operations and engineering to, among other things, support key new growth initiatives. Competition for executive officers, software developers, sales personnel, operational personnel, and other key employees in our industry is intense. In particular, we compete with many other companies for software developers with high levels of experience in designing, developing, and managing cloud-based software, as well as for skilled sales and operations professionals. In addition, we believe that the success of our business and corporate culture depends on employing a diverse workforce, and the competition for such personnel is significant. The market for such talented personnel is particularly competitive in the San Francisco Bay Area, where our headquarters is located. Many of the companies with which we compete for experienced personnel have greater resources than we do and can frequently offer such personnel substantially greater compensation than we can offer. If we fail to attract new personnel, 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 2021, we derived approximately 28% of our revenue from customers outside of the United States. We may also expand our international operations, which may include hiring employees, building out technical infrastructure, and opening offices in foreign jurisdictions. Any new markets or countries into which we attempt to market and sell our cloud services may not be receptive. For example, we may be unable to expand further in some markets if we are unable to satisfy various government- and region-specific requirements. Sanctions imposed by the United States and other countries with respect to Russia, Ukraine, Belarus and other countries in response to the Russian attack on Ukraine that began in February 2022 may impact our ability to offer services in the region, and additional sanctions or retaliatory measures could be imposed in the future. Further instability or tension in Russia, Ukraine, and the surrounding region could also cause us to adjust our operating model, which would increase our costs of operations, and could also impact or delay our international expansion plans. In addition, our ability to manage our business and conduct our operations internationally requires considerable management attention and resources and is subject to the particular challenges and complexities of deploying infrastructure internationally and supporting a rapidly growing business in an environment of multiple languages, cultures, customs, legal and regulatory systems, alternative dispute systems, and commercial markets. International expansion has required, and will continue to require, investment of significant funds and other resources. Growth in our international operations will subject us to new risks and may increase risks that we currently face, including risks associated with:

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

- providing our platform, building out the necessary infrastructure and operating our business across a significant distance, in different languages and among different cultures, including the potential need to modify our platform and features to ensure that they are culturally appropriate and relevant in different countries;

- compliance with applicable international laws and regulations, including laws and regulations with respect to privacy, data protection, consumer protection, and unsolicited email, and the risk of penalties to our users and individual members of management or employees if our practices are deemed to be out of compliance, and additional laws and regulations in the United States that are applicable to international operations;

- recruiting and retaining talented and capable employees outside the United States, and maintaining our company culture across all of our offices;

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

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

- compliance by us and our business partners with anti-corruption laws, anti-bribery, anti-money laundering, and similar laws; import and export control laws; tariffs and trade barriers; economic sanctions; and other regulatory limitations on our ability to provide our cloud services in international markets;

- foreign exchange controls that might require significant lead time in setting up operations in certain geographic territories;
- restrictions that might prevent us from repatriating cash earned outside the United States;
- double taxation of our international earnings and potentially adverse tax consequences due to changes in the income and other tax laws of the United States or the international jurisdictions in which we operate; and
- political and economic instability in various jurisdictions.

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

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

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

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

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

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

The ongoing COVID-19 pandemic and its inherent uncertainty, and measures taken to control its spread such as travel restrictions, shelter-in-place orders, and business shutdowns, have affected all of the regions in which we conduct business and in which our customers, partners, and suppliers are located; have adversely impacted global economic activity; and have contributed to volatility in financial markets. As the situation around the spread of the COVID-19 pandemic evolves, we have continued to operate in a modified manner—employing precautionary measures designed to protect the health of our employees while enabling us to support our customers and partners. Among other modifications, we generally required our employees to work remotely; instituted business-related travel restrictions; and virtualized, postponed, or cancelled various sales and marketing, employee, and industry events. The remote work measures that we implemented have generally allowed us to provide uninterrupted service to our customers and partners, but have also introduced additional challenges and operational risks, including increased supply chain risks and cybersecurity risks, and have affected the way we conduct various other activities. For example, starting in April 2020, we began to acquire additional hard drives and related infrastructure through finance lease agreements in order to minimize the impact of potential supply chain disruptions. The additional leased hard drives resulted in a higher balance of capital equipment and related lease liability, an increase in cash used in financing activities from principal payments, as well as a higher ongoing interest and depreciation expense related to these lease agreements. The supply chain for other infrastructure and related equipment essential to our business may also become constrained or unavailable on favorable terms or at all.

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

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

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

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

If we are unable to successfully market and sell our cloud services to mid-market organizations, our ability to grow our revenue and achieve profitability will be harmed. We expect it will be more difficult and expensive to attract and retain mid-market organization customers than other customers because mid-market organizations are more frequently forced to curtail or cease operations due to the sale or failure of their business; can be more difficult to identify and may require more expensive, targeted sales campaigns; and generally have lesser amounts of data to store than larger organizations, thus requiring us to successfully sell to and support more mid-market organizations for meaningful revenue impact. In addition, mid-market organizations frequently have limited budgets and are more likely to be significantly affected by economic downturns than larger, more established companies. 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 pure-play cloud vendor, we are dependent on a small number of offerings focused on cloud storage and computer backup, and a limited number of corresponding use cases. Our B2 Cloud Storage and Computer Backup offerings have accounted for substantially all of our total revenue to date and we anticipate that they will continue to do so for the foreseeable future. As a result, our revenue could be reduced as a result of any general or industry decline in demand for cloud-based storage solutions, particularly given that we would not have meaningful revenue from other market sectors to offset any temporary or longer-term downturn in demand for cloud-based storage solutions.

Adverse economic conditions may adversely impact our revenue and profitability.

Our operations and financial performance depend in part on worldwide economic conditions and the impact these conditions have on levels of spending on cloud storage solutions. Our business depends on the overall demand for these products and on the economic health and general willingness of our current and prospective customers to purchase our cloud services. Some of our paying customers may view use of cloud storage services as a discretionary purchase and may reduce their discretionary spending on our cloud services during an economic downturn. Weak economic conditions, whether due to COVID-19, 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 and finance markets, and other factors. For example, we often use finance 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. 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.

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.

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 is also experiencing a global chip shortage due to the COVID-19 pandemic and various other factors. Current or future supply chain interruptions that could be exacerbated by global political tensions, such as the 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. In addition, a third party vendor that operates one of our multiple data center locations, Sungard Availability Services, filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code in April 2022. On or about August 31, 2022, the bankruptcy court approved the sale of nearly all of Sungard Availability Services' colocation services and network services in the United States to 365 SG Operating Company LLC, and all the obligations thereunder, which included our contract with Sungard Availability Services and the associated data center lease. As of November 1, 2022, the sale to 365 Operating Company LLC was completed and continued normal operations are expected with respect to our data center location. 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 material weaknesses or are otherwise unable to maintain an effective system of internal controls over financial reporting, we may not be able to accurately report our financial results or timely file our periodic reports. As a result, investors may lose confidence in the accuracy and completeness of our financial reports, and the market price of our Class A common stock may be materially impacted.

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

- our controls were not operating effectively to allow sufficient and timely review of significant accounting transactions and reconciliations. These deficiencies resulted in errors in certain financial statement areas, such as cash and cash equivalents, prepaid expenses and other current assets, property and equipment, capitalized internal-use software, finance lease liability and sale leaseback transactions;

- our controls were not adequately designed to consider certain revenue recognition criteria, specifically related to the timing of revenue recognition, appropriate presentation and satisfaction of criteria for revenue recognition, which could have resulted in a material misstatement;

- our controls over certain equity transactions were not operating effectively to allow management to timely identify errors related to the recording of those transactions. Specifically, we did not have sufficient technical resources to appropriately identify errors in the accounting for equity awards and preferred stock transactions, resulting in misstatements relating to completeness and accuracy of stock-based compensation and classification of equity instruments; and

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

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

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

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

- strengthened our internal controls over financial reporting and the design of our internal-control framework through enhanced accounting policies, control activities, and monitoring;

- user access review of systems that support financial reporting and a preliminary review of segregation of duties;

- implemented a new enterprise resource planning (ERP) system, additional 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;

- hired additional full-time accounting personnel with appropriate levels of experience to increase our accounting and technical expertise, including a new Chief Financial Officer, a Corporate Controller, an Internal Controls Manager, a Tax Manager, and additional accounting staff, all with public company experience and or a Certified Public Accountant certification, and a Director of IT who was hired shortly after December 31, 2021; and

- reallocated responsibilities across our accounting organization so that the appropriate level of knowledge and experience is applied based on complexity of transactions, in addition to implementation of sufficient and timely review of significant accounting transactions and reconciliations.

We have dedicated significant effort and resources towards measures to remediate the identified material weaknesses. We have designed and implemented internal controls intended to address our material weaknesses, and we are now testing the operating effectiveness of these controls. These 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.

For the following material weaknesses in particular, we have documented specific remediation steps, and have now proceeded to demonstrating operating effectiveness for a sufficient period of time. Once operating effectiveness has been demonstrated for a sufficient period of time, we expect these material weaknesses to be fully remediated:

i. inadequate consideration of certain revenue recognition criteria, specifically related to the timing of revenue recognition, appropriate presentation and satisfaction of criteria for revenue recognition,
ii. inadequate ability to timely identify errors related to the recording of certain equity transactions,
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, and
iv. lack of ability to consider the accurate recording of value added taxes and sales and use taxes.

We cannot assure you that the measures we have taken to date will be sufficient to remediate the material weaknesses we identified or prevent additional material weaknesses in the future. Although we plan to complete this remediation, if the steps we take do not remediate 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, 2021 we had net operating loss carryforwards for U.S. federal income tax purposes of $53.0 million available to offset future U.S. federal taxable income. Also, as of December 31, 2021, we had net operating loss carryforwards for state income tax purposes of $16.9 million available to offset future state taxable income. If not utilized, both the federal and state tax credit carryforwards will begin to expire in 2034.

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

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

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

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes appearing elsewhere in this Quarterly Report on Form 10-Q or in our most recent 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 our Annual Report on Form 10-K for the year ended December 31, 2021.

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 Quarterly Report on Form 10-Q, some of which are beyond our control and may not be related to our operating performance.

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

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of technology stocks;
- the impact of the COVID-19 pandemic;
- changes in operating performance and stock market valuations of other technology companies generally or those in our industry in particular;
- sales of shares of our Class A common stock by us or our stockholders;
- failure of securities analysts to maintain coverage of us, changes in financial estimates by securities analysts who follow us, or our failure to meet these estimates or the expectations of investors;
- the financial projections we may provide to the public, any changes in those projections or our failure to meet those projections;
- announcements by us or our competitors of new products or services;
- the public’s reaction to our press releases, other public announcements, and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our operating results or fluctuations in our operating results;

- actual or anticipated developments in our business, our competitors' businesses, or the competitive landscape generally;
- litigation involving us, our industry, or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations, or principles;
- outbreaks of war or other hostilities;
- any significant change in our management; and
- general economic conditions and slow or negative growth of our markets.

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

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

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

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

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

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

Certain stockholders who acquired shares of our stock prior to our initial public offering can also require us to register shares of our capital stock owned by them for public sale in the United States. In addition, we filed a registration statement on Form S-8 in November of 2021, which was immediately effective upon filing, registering approximately 19,000,000 shares of our capital stock reserved for future issuance under our equity compensation plans. Subject to the satisfaction of applicable exercise periods, the shares of our capital stock issued upon exercise of outstanding options to purchase shares of our common stock or that settle upon vesting of restricted stock units will be available for immediate resale in the United States in the open market.

Furthermore, we may issue additional shares of our Class A common stock, convertible securities or other equity. Such issuances could be dilutive to investors and could cause the price of shares of our Class A common stock to decline. New investors in such issuances could also receive rights senior to those of holders of shares of our Class A common stock.

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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) Recent Sales of Unregistered Equity Securities

None.

(b) Use of Proceeds

The Registration Statement on Form S-1 (File No. 333-260333) for the IPO 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 as described in our Prospectus filed with the SEC pursuant to Rule 424(b)(4) under the Securities Act on November 12, 2021.

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
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 Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 10, 2022

Backblaze, Inc.

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

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

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 Quarterly Report on Form 10-Q 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 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: November 10, 2022

/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 Quarterly Report on Form 10-Q 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 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: November 10, 2022

/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 Quarterly Report on Form 10-Q of Backblaze, Inc. (the "Company") for the quarter ending September 30, 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 and belief that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 10, 2022

/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 Quarterly Report on Form 10-Q of Backblaze, Inc. (the "Company") for the quarter ending September 30, 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 and belief that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended, and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 10, 2022

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