
**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 June 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: 001-39039

Cloudflare, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

27-0805829
(I.R.S. Employer
Identification Number)

101 Townsend Street
San Francisco, California 94107
(Address of principal executive offices and zip code)
(888) 993-5273
(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Class A Common Stock, \$0.001 par value	NET	The New York Stock Exchange

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

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

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

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

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

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

As of July 21, 2022, 283,021,083 shares of the registrant's Class A common stock were outstanding and 44,439,312 shares of the registrant's Class B common stock were outstanding.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential,” or “continue,” or the negative of these words, or other similar terms or expressions that concern our expectations, strategy, plans, or intentions.

Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our ability to retain and upgrade paying customers;
- our ability to attract new paying customers, including large customers, or convert free customers to paying customers;
- our future financial performance, including trends in revenue, costs of revenue, gross profit or gross margin, operating expenses, paying customers, and free cash flow;
- our ability to achieve or maintain profitability;
- the consequences we may face resulting from the activities of our customers and the actions we take in response, including associated theories of liability;
- the demand, and our ability to generate demand, for our products or for solutions for security, performance, and reliability in general;
- possible harm caused by significant disruption of service, loss or unauthorized access to customers' content, or the actual or perceived failure of our products to prevent security incidents;
- our ability to compete successfully in competitive markets;
- our ability to respond to rapid technological changes;
- our ability to continue to innovate and develop new products;
- our expectations and management of future growth;
- the impact of the ongoing COVID-19 pandemic, the Russia-Ukraine conflict, and the related challenging macroeconomic conditions globally, including on our and our customers', vendors', and partners' respective businesses and the markets in which we and our customers, vendors, and partners operate;
- our ability to maintain existing co-location relationships, ISP partnerships, and other interconnection arrangements around the world;
- our ability to offer high-quality customer support;
- our ability to manage our global operations;
- our expectations of and ability to comply with applicable laws around the world;
- our ability to correctly estimate our tax obligations around the world;
- our ability to service the interest on our convertible senior notes and repay such notes, to the extent required;
- our ability to attract and retain key personnel and other highly qualified personnel;
- our ability to maintain our brand;
- our ability to prevent serious errors or defects across, and to otherwise maintain the uninterrupted operation of, our network;
- our ability to maintain, protect, and enhance our intellectual property; and
- our ability to successfully identify, acquire, and integrate companies and assets.

You should not rely upon 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, results of operations, and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in the section titled "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. Our Risk Factors are not guarantees that no such conditions exist as of the date of this report and should not be interpreted as an affirmative statement that such risks or conditions have not materialized, in whole or in part. Readers are urged to carefully review and consider the various disclosures made in this Quarterly Report on Form 10-Q and in other documents we file from time to time with the Securities and Exchange Commission (SEC) that disclose risks and uncertainties that may affect our business. 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. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this 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 we may make.

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

SELECTED RISKS AFFECTING OUR BUSINESS

Investing in our Class A common stock involves numerous risks, including those set forth below. This summary does not contain all of the information that may be important to you, and you should read this risk factor summary together with the more detailed discussion of risks and uncertainties set forth in Part II, Item 1A. Risk Factors of this Quarterly Report on Form 10-Q. Below are summaries of some of these risks, any one of which could materially adversely affect our business, financial condition, results of operations, and prospects. In that event, the market price of our Class A common stock could decline, and you could lose part or all of your investment. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business. Our Risk Factors are not guarantees that no such conditions exist as of the date of this report and should not be interpreted as an affirmative statement that such risks or conditions have not materialized, in whole or in part.

- We have a history of net losses and may not be able to achieve or sustain profitability in the future.
- We have experienced rapid revenue growth, which may not be indicative of our future performance.
- If we are unable to attract new paying and free customers, our future results of operations could be harmed.
- Our business depends on our ability to retain and upgrade paying customers and, to a lesser extent, convert free customers to paying customers, and any decline in renewals, upgrades, or conversions could adversely affect our future results of operations.
- If we are unable to effectively attract, expand, and retain sales to large customers, or we fail to mitigate the additional risks associated with serving such customers, our business, results of operation, and financial condition may suffer.
- Activities of our paying and free customers or the content of their websites or other Internet properties, as well as our response to those activities, could cause us to experience significant adverse political, business, and reputational consequences with customers, employees, suppliers, government entities, and others.

- We face intense and increasing competition, which could adversely affect our business, financial condition, and results of operations.
- If we do not effectively expand, train, and retain our sales force, we may be unable to add new contracted customers, or increase sales to our existing customers and our business would be adversely affected.
- We rely on our co-founders and other key technical, sales, and management personnel to grow our business, and the loss of one or more key employees or the inability to attract and retain qualified personnel could harm our business.
- The ongoing COVID-19 pandemic, the Russia-Ukraine conflict, and the related challenging macroeconomic conditions globally and in various countries in which we and our customers operate may materially adversely affect our customers, vendors, and partners, and the duration and extent to which these factors may impact our future business and operations, results of operations, financial condition, and cash flows remain uncertain.
- Our relatively limited operating history makes it difficult to evaluate our current business and prospects and may increase the risk that we will not be successful.
- Problems with our internal systems, networks, or data, including actual or perceived breaches or failures, could cause our network or products to be perceived as insecure, underperforming, or unreliable, our customers to lose trust in our network and products, our reputation to be damaged, and our financial results to be negatively impacted.
- If our global network that delivers our products or the core co-location facilities we use to operate our network are damaged or otherwise fail to meet the requirement of our business or local regulations, our ability to provide access to our network and products to our customers and maintain the performance of our network could be negatively impacted, which could cause our business, results of operations and financial condition to suffer.
- Detrimental changes in, or the termination of, any of our co-location relationships, ISP partnerships, or our other interconnection relationships with ISPs could adversely impact our business, results of operations, and financial condition.
- The actual or perceived failure of our products to block malware or prevent a security breach or incident could harm our reputation and adversely impact our business, results of operations, and financial condition.
- Activities of our paying and free customers or the content of their websites and other Internet properties may violate applicable laws and/or our terms of service and could subject us to lawsuits, regulatory enforcement actions, and/or liability in various jurisdictions.
- Our actual or perceived failure to comply with privacy, data protection, and information security laws, regulations, and obligations could harm our business.
- Our network presence within China is dependent upon our commercial relationship with JD Cloud & AI, and any detrimental changes in, or the termination of, that relationship could jeopardize our ability to offer an integrated global network that includes China.
- The trading price of our Class A common stock may be volatile, and you could lose all or part of your investment.
- 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 initial public offering, and it may depress the trading price of our Class A common stock.
- Servicing our future debt, including our convertible senior notes, may require a significant amount of cash, and we may not have sufficient cash flow from our business to pay our indebtedness.

PART I—FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

CLOUDFLARE, INC. CONDENSED CONSOLIDATED BALANCE SHEETS (in thousands, except par value) (unaudited)

	June 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 142,675	\$ 313,777
Available-for-sale securities	1,499,173	1,508,066
Accounts receivable, net	122,114	95,543
Contract assets	7,195	6,079
Restricted cash short-term	9,357	2,958
Prepaid expenses and other current assets	33,499	29,433
Total current assets	1,814,013	1,955,856
Property and equipment, net	244,560	183,736
Goodwill	149,122	23,530
Acquired intangible assets, net	42,258	1,254
Operating lease right-of-use assets	132,165	130,314
Deferred contract acquisition costs, noncurrent	80,706	70,320
Restricted cash	1,746	4,223
Other noncurrent assets	3,889	2,838
Total assets	\$ 2,468,459	\$ 2,372,071
Liabilities, Temporary Equity and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 55,732	\$ 26,086
Accrued expenses and other current liabilities	53,184	38,085
Accrued compensation	36,639	65,905
Operating lease liabilities	28,298	25,175
Liability for early exercise of unvested stock options	3,150	4,651
Deferred revenue	155,811	116,546
Current portion of convertible senior notes, net	—	12,117
Total current liabilities	332,814	288,565
Convertible senior notes, net	1,433,867	1,146,877
Operating lease liabilities, noncurrent	105,348	109,037
Deferred revenue, noncurrent	6,841	4,680
Other noncurrent liabilities	9,099	7,114
Total liabilities	1,887,969	1,556,273
Commitments and contingencies (Note 8)		
Temporary equity, convertible senior notes	—	4,439
Stockholders' Equity:		
Class A common stock; \$0.001 par value; 2,250,000 shares authorized as of June 30, 2022 and December 31, 2021; 282,774 and 277,708 shares issued and outstanding as of June 30, 2022 and December 31, 2021, respectively	282	277
Class B common stock; \$0.001 par value; 315,000 shares authorized as of June 30, 2022 and December 31, 2021; 44,623 and 45,904 shares issued and outstanding as of June 30, 2022 and December 31, 2021, respectively	43	44
Additional paid-in capital	1,347,671	1,494,512
Accumulated deficit	(751,428)	(680,829)
Accumulated other comprehensive loss	(16,078)	(2,645)
Total stockholders' equity	580,490	811,359
Total liabilities, temporary equity and stockholders' equity	\$ 2,468,459	\$ 2,372,071

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

CLOUDFLARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenue	\$ 234,517	\$ 152,428	\$ 446,684	\$ 290,483
Cost of revenue	55,804	35,029	102,855	67,113
Gross profit	178,713	117,399	343,829	223,370
Operating expenses:				
Sales and marketing	117,622	75,995	217,679	145,969
Research and development	75,114	41,349	142,168	80,876
General and administrative	50,518	28,927	88,547	56,651
Total operating expenses	243,254	146,271	448,394	283,496
Loss from operations	(64,541)	(28,872)	(104,565)	(60,126)
Non-operating income (expense):				
Interest income	1,641	373	2,702	917
Interest expense	(1,040)	(10,444)	(2,597)	(20,678)
Other income (expense), net	233	(877)	(254)	(729)
Total non-operating income (expense), net	834	(10,948)	(149)	(20,490)
Loss before income taxes	(63,707)	(39,820)	(104,714)	(80,616)
Provision for (benefit from) income taxes	(170)	(4,310)	204	(5,143)
Net loss	\$ (63,537)	\$ (35,510)	\$ (104,918)	\$ (75,473)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.20)	\$ (0.12)	\$ (0.32)	\$ (0.25)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	325,197	308,263	324,574	307,115

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

CLOUDFLARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Net loss	\$ (63,537)	\$ (35,510)	\$ (104,918)	\$ (75,473)
Other comprehensive loss:				
Change in unrealized loss on investments, net of tax	(3,333)	(78)	(13,433)	(207)
Other comprehensive loss	(3,333)	(78)	(13,433)	(207)
Comprehensive loss	<u>\$ (66,870)</u>	<u>\$ (35,588)</u>	<u>\$ (118,351)</u>	<u>\$ (75,680)</u>

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

CLLOUDFLARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

Three Months Ended June 30, 2022								
	Class A common stock		Class B common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total stockholders' equity
	Shares	Amount	Shares	Amount				
Balance as of March 31, 2022	280,412	\$ 280	45,128	\$ 43	\$ 1,215,790	\$ (687,891)	\$ (12,745)	\$ 515,477
Issuance of common stock in connection with acquisition	503	1	—	—	63,547	—	—	63,548
Issuance of common stock upon exercise of stock options	93	—	418	—	2,971	—	—	2,971
Vesting of shares issued upon early exercise of stock options	—	—	—	1	718	—	—	719
Issuance of common stock related to settlement of RSUs	408	(1)	289	1	—	—	—	—
Tax withholding on RSU settlement	—	—	(8)	—	(516)	—	—	(516)
Conversion of Class B to Class A common stock	1,204	2	(1,204)	(2)	—	—	—	—
Common stock issued under employee stock purchase plan	154	—	—	—	8,688	—	—	8,688
Stock-based compensation	—	—	—	—	56,473	—	—	56,473
Net loss	—	—	—	—	—	(63,537)	—	(63,537)
Other comprehensive loss	—	—	—	—	—	—	(3,333)	(3,333)
Balance as of June 30, 2022	282,774	\$ 282	44,623	\$ 43	\$ 1,347,671	\$ (751,428)	\$ (16,078)	\$ 580,490

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

CLLOUDFLARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

	Three Months Ended June 30, 2021							
	Class A common stock		Class B common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Shares	Amount	Shares	Amount				
Balance as of March 31, 2021	255,958	\$ 256	54,567	\$ 51	\$ 1,264,182	\$ (460,483)	\$ 34	\$ 804,040
Issuance of common stock upon exercise of stock options	90	(1)	885	1	3,554	—	—	3,554
Repurchases of unvested common stock	(7)	—	—	—	—	—	—	—
Issuance of common stock related to early exercised stock options	—	—	(1)	—	—	—	—	—
Vesting of shares issued upon early exercise of stock options	—	—	—	—	1,021	—	—	1,021
Issuance of common stock related to settlement of RSUs	418	1	332	1	—	—	—	2
Tax withholding on RSU settlement	—	—	(8)	—	(560)	—	—	(560)
Conversion of Class B to Class A common stock	6,506	7	(6,506)	(7)	—	—	—	—
Common stock issued under employee stock purchase plan	131	—	—	—	7,174	—	—	7,174
Stock-based compensation	—	—	—	—	21,453	—	—	21,453
Net loss	—	—	—	—	—	(35,510)	—	(35,510)
Other comprehensive loss	—	—	—	—	—	—	(78)	(78)
Balance as of June 30, 2021	263,096	\$ 263	49,269	\$ 46	\$ 1,296,824	\$ (495,993)	\$ (44)	\$ 801,096

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

CLLOUDFLARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

	Six Months Ended June 30, 2022							
	Class A common stock		Class B common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Total stockholders' equity
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2021	277,708	\$ 277	45,904	\$ 44	\$ 1,494,512	\$ (680,829)	\$ (2,645)	\$ 811,359
Cumulative effect adjustment from adoption of ASU 2020-06	—	—	—	—	(318,756)	34,319	—	(284,437)
Issuance of common stock in connection with acquisition	522	1	—	—	65,504	—	—	65,505
Issuance of restricted stock in connection with acquisition	52	—	—	—	—	—	—	—
Issuance of common stock upon exercise of stock options	158	—	1,187	1	5,976	—	—	5,977
Repurchases of unvested common stock	(2)	—	—	—	—	—	—	—
Issuance of common stock related to early exercised stock options	—	—	23	—	—	—	—	—
Vesting of shares issued upon early exercise of stock options	—	—	—	1	1,559	—	—	1,560
Issuance of common stock related to settlement of RSUs	818	—	588	1	(1)	—	—	—
Tax withholding on RSU settlement	—	—	(14)	—	(1,264)	—	—	(1,264)
Conversion of Class B to Class A Common stock	3,065	4	(3,065)	(4)	—	—	—	—
Common stock issued under employee stock purchase plan	154	—	—	—	8,688	—	—	8,688
Settlement of common stock in connection with convertible senior notes	299	—	—	—	(201)	—	—	(201)
Stock-based compensation	—	—	—	—	91,654	—	—	91,654
Net loss	—	—	—	—	—	(104,918)	—	(104,918)
Other comprehensive loss	—	—	—	—	—	—	(13,433)	(13,433)
Balance as of June 30, 2022	282,774	\$ 282	44,623	\$ 43	\$ 1,347,671	\$ (751,428)	\$ (16,078)	\$ 580,490

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

CLLOUDFLARE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)
(unaudited)

Six Months Ended June 30, 2021								
	Class A common stock		Class B common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Shares	Amount	Shares	Amount				
Balance as of December 31, 2020	249,401	\$ 249	59,239	\$ 55	\$ 1,236,993	\$ (420,520)	\$ 163	\$ 816,940
Issuance of common stock upon exercise of stock options	411	—	1,811	2	11,517	—	—	11,519
Repurchases of unvested common stock	(67)	—	—	—	—	—	—	—
Issuance of common stock related to early exercised stock options	—	—	34	—	—	—	—	—
Vesting of shares issued upon early exercise of stock options	—	—	—	1	2,051	—	—	2,052
Issuance of common stock related to settlement of RSUs	750	1	669	1	(1)	—	—	1
Tax withholding on RSU settlement	—	—	(14)	—	(1,090)	—	—	(1,090)
Conversion of Class B to Class A common stock	12,470	13	(12,470)	(13)	—	—	—	—
Common stock issued under employee stock purchase plan	131	—	—	—	7,174	—	—	7,174
Stock-based compensation	—	—	—	—	40,180	—	—	40,180
Net loss	—	—	—	—	—	(75,473)	—	(75,473)
Other comprehensive loss	—	—	—	—	—	—	(207)	(207)
Balance as of June 30, 2021	263,096	\$ 263	49,269	\$ 46	\$ 1,296,824	\$ (495,993)	\$ (44)	\$ 801,096

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

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

	Six Months Ended June 30,	
	2022	2021
Cash Flows From Operating Activities		
Net loss	\$ (104,918)	\$ (75,473)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization expense	45,352	31,245
Non-cash operating lease costs	18,106	11,004
Amortization of deferred contract acquisition costs	20,218	12,915
Stock-based compensation expense	88,780	38,589
Amortization of debt discount and issuance costs	2,332	18,154
Net accretion of discounts and amortization of premiums on available-for-sale securities	3,798	3,864
Deferred income taxes	(1,833)	(6,616)
Provision for bad debt	2,010	2,009
Other	264	84
Changes in operating assets and liabilities, net of effect of acquisitions:		
Accounts receivable, net	(26,947)	(14,363)
Contract assets	(1,116)	(1,711)
Deferred contract acquisition costs	(30,604)	(25,326)
Prepaid expenses and other current assets	(5,067)	(1,465)
Other noncurrent assets	371	1,590
Accounts payable	8,174	6,767
Accrued expenses and other current liabilities	(30,479)	10,936
Operating lease liabilities	(20,523)	(10,371)
Deferred revenue	34,477	27,721
Other noncurrent liabilities	389	1,396
Net cash provided by operating activities	2,784	30,949
Cash Flows From Investing Activities		
Purchases of property and equipment	(61,565)	(35,840)
Capitalized internal-use software	(10,034)	(7,103)
Cash paid for acquisitions, net of cash acquired	(86,941)	—
Purchases of available-for-sale securities	(422,374)	(381,205)
Maturities of available-for-sale securities	414,036	514,344
Other investing activities	25	50
Net cash provided by (used in) investing activities	(166,853)	90,246
Cash Flows From Financing Activities		
Repayments of convertible senior notes	(16,571)	—
Proceeds from the exercise of stock options	5,977	11,519
Proceeds from the early exercise of stock options	62	95
Repurchases of unvested common stock	(3)	(169)
Proceeds from the issuance of common stock for employee stock purchase plan	8,688	7,174
Payment of tax withholding obligation on RSU settlement	(1,264)	(1,090)
Net cash provided by (used in) financing activities	(3,111)	17,529
Net increase (decrease) in cash, cash equivalents, and restricted cash	(167,180)	138,724
Cash, cash equivalents, and restricted cash, beginning of period	320,958	118,146
Cash, cash equivalents, and restricted cash, end of period	\$ 153,778	\$ 256,870
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 642	\$ 2,186
Cash paid for income taxes, net of refunds	\$ 990	\$ 942
Cash paid for operating lease liabilities	\$ 16,761	\$ 10,361
Supplemental Disclosure of Non-cash Investing and Financing Activities:		
Stock-based compensation capitalized for software development	\$ 2,656	\$ 1,542
Accounts payable and accrued expenses related to property and equipment additions	\$ 35,217	\$ 19,342
Vesting of early exercised stock options	\$ 1,560	\$ 2,052
Indemnity holdback consideration associated with business combinations	\$ 10,582	\$ —
Issuance of common stock related to an acquisition	\$ 65,504	\$ —
Operating lease right-of-use assets obtained in exchange for operating lease liabilities	\$ 17,537	\$ 11,605

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

CLOUDFLARE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1. Organization and Basis of Presentation

Organization and Description of Business

Cloudflare, Inc. (the Company, Cloudflare, we, us, or our) is a global cloud services provider that delivers a broad range of services to businesses of all sizes and in all geographies, making them more secure, enhancing the performance of their business-critical applications, and eliminating the cost and complexity of managing individual network hardware. Cloudflare's network serves as a scalable, easy-to-use, unified control plane to deliver security, performance, and reliability across on-premise, hybrid, cloud, and software-as-a-service (SaaS) applications. The Company was incorporated in Delaware in July 2009. The Company is headquartered in San Francisco, California.

Basis of Presentation and Principles of Consolidation

The accompanying interim condensed consolidated financial statements and accompanying notes have been prepared in conformity with generally accepted accounting principles in the United States (U.S. GAAP) and applicable regulations of the Securities and Exchange Commission (the SEC) regarding interim financial reporting, and include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The Company's fiscal year ends on December 31.

Certain information and note disclosures normally included in the financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the applicable required disclosures and regulations of the SEC. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Unaudited Interim Condensed Consolidated Financial Information

The accompanying interim condensed consolidated balance sheet as of June 30, 2022, the condensed consolidated statements of operations and of comprehensive loss for the three and six months ended June 30, 2022 and 2021, the condensed consolidated statements of cash flows for the six months ended June 30, 2022 and 2021, the condensed consolidated statements of stockholders' equity for the three and six months ended June 30, 2022 and 2021, and the related footnote disclosures are unaudited. These unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. GAAP. In management's opinion, the unaudited interim condensed consolidated financial statements include all adjustments necessary to state fairly the Company's financial position as of June 30, 2022, its results of operations for the three and six months ended June 30, 2022 and 2021, and its cash flows for the six months ended June 30, 2022 and 2021. The results for the three and six months ended June 30, 2022 are not necessarily indicative of the results expected for the full year ending December 31, 2022 or any future period. The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the condensed consolidated financial statements and accompanying notes to the condensed consolidated financial statements. Such estimates include, but are not limited to, allowance for doubtful accounts, deferred contract acquisitions costs, the period of benefit generated from the Company's deferred contract acquisition costs, the capitalization and estimated useful life of internal-use software, the assessment of recoverability of intangible assets and their estimated useful lives, useful lives of property and equipment, liability and equity allocation of convertible senior notes, the determination of the incremental borrowing rate used for operating lease liabilities, the valuation and recognition of stock-based compensation expense, uncertain tax positions, and the recognition and measurement of current and deferred income tax assets and liabilities. Management bases these estimates and assumptions on historical experience and on various other assumptions that are believed to be reasonable. Due in part to the ongoing COVID-19 pandemic and other geopolitical conditions, there is ongoing uncertainty and significant

disruption in the global economy and financial markets. The Company is not aware of any specific event or circumstance that would require an update to its estimates or assumptions or a revision of the carrying value of its assets or liabilities as of August 4, 2022, the date of issuance of this Quarterly Report on Form 10-Q. These estimates and assumptions may change in the future, however, as new events occur and additional information is obtained. Actual results could differ materially from these estimates.

Note 2. Summary of Significant Accounting Policies

Significant Accounting Policies

The Company's significant accounting policies are discussed in the "Notes to Consolidated Financial Statements, Note 2. Summary of Significant Accounting Policies" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2021. There have been no significant changes to these policies that have had a material impact on the Company's condensed consolidated financial statements and related notes, except as noted below.

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In August 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-06, *Debt—Debt with Conversion and Other Options (ASC 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (ASC 815-40)*. The FASB issued this ASU to simplify the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. This ASU removes the separation models for convertible debt with a cash conversion feature and convertible instruments with a beneficial conversion feature. Convertible instruments that continue to be subject to separation models are (1) those with conversion options that are required to be accounted for as bifurcated derivatives and (2) convertible debt instruments issued with substantial premiums for which the premiums are recorded as paid-in capital. The ASU also requires the if-converted method to be applied for all convertible instruments when calculating earnings per share. For public business entities, these amendments are effective for fiscal years beginning after December 15, 2021, with early adoption permitted for fiscal years beginning after December 15, 2020.

The Company adopted ASU 2020-06 effective January 1, 2022 using the modified retrospective method and therefore financial information for periods before January 1, 2022 were not impacted. Upon adoption of ASU 2020-06, the Company is no longer recording the conversion feature of its 0.75% Convertible Senior Notes due 2025 (the 2025 Notes) and its 0.00% Convertible Senior Notes due 2026 (the 2026 Notes and together with the 2025 Notes, the Notes) in equity. Instead, the Company combined the previously separated equity component with the liability component, which together is now classified as debt, thereby eliminating the subsequent amortization of the debt discount as interest expense. Similarly, the portion of issuance costs previously allocated to equity was reclassified to debt and amortized as interest expense. Adoption of ASU 2020-06 resulted in an increase in the carrying value of the Notes by approximately \$288.9 million, of which \$4.4 million is classified as a current portion of convertible senior notes, net, to reflect the full principal amount of the Notes outstanding, net of unamortized debt discount and issuance costs, a decrease in additional paid-in capital of approximately \$318.8 million and temporary equity, convertible senior notes of approximately \$4.4 million to remove the equity component separately recorded for the conversion option associated with the Notes and its allocated issuance costs, and a cumulative-effect adjustment of approximately \$34.3 million to the beginning balance of accumulated deficit as of January 1, 2022.

In October 2021, the FASB issued ASU 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*, which requires contract assets and contract liabilities acquired in a business combination to be recognized and measured by the acquirer on the acquisition date in accordance with ASC Topic 606, *Revenue from Contracts with Customers*. Historically, such assets and liabilities are recognized by the acquirer at fair value in accordance with Topic 805. The ASU is effective for interim and annual periods beginning after December 15, 2022, on a prospective basis, with early adoption permitted. The Company early adopted this standard effective January 1, 2022, and such adoption did not have a material impact on its condensed consolidated financial statements.

Note 3. Revenue

Disaggregation of Revenue

Subscription and support revenue is recognized over time and accounted for substantially all of the Company's revenue for the three and six months ended June 30, 2022 and 2021.

The following table summarizes the revenue by region based on the billing address of customers who use the Company's products:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2022		2021		2022		2021	
	(in thousands)							
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage of Revenue
United States	\$ 124,259	53 %	\$ 79,944	52 %	\$ 235,609	53 %	\$ 151,166	52 %
Europe, Middle East, and Africa	61,147	26 %	39,696	26 %	116,939	26 %	75,228	26 %
Asia Pacific	32,755	14 %	22,841	15 %	62,680	14 %	45,720	16 %
Other	16,356	7 %	9,947	7 %	31,456	7 %	18,369	6 %
Total	\$ 234,517	100 %	\$ 152,428	100 %	\$ 446,684	100 %	\$ 290,483	100 %

The following table summarizes the revenue by type of customer:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2022		2021		2022		2021	
	(in thousands)							
	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage of Revenue	Amount	Percentage of Revenue
Channel partners	\$ 28,933	12 %	\$ 16,872	11 %	\$ 53,289	12 %	\$ 32,234	11 %
Direct customers	205,584	88 %	135,556	89 %	393,395	88 %	258,249	89 %
Total	\$ 234,517	100 %	\$ 152,428	100 %	\$ 446,684	100 %	\$ 290,483	100 %

Contract Balances

Contract liabilities consist of deferred revenue and include payments received in advance of performance under the contract. Such amounts are recognized as revenue over the contractual period. For the six months ended June 30, 2022 and 2021, the Company recognized revenue of \$92.8 million and \$45.6 million, respectively, that was included in the corresponding contract liability balance at the beginning of the periods presented.

The Company receives payments from customers based upon contractual billing schedules; accounts receivable are recorded when the right to consideration becomes unconditional. Standard payment terms are due upon receipt. Contract assets include amounts related to the Company's contractual right to consideration for both completed and partially completed performance obligations that have not been invoiced.

The following table summarizes the activity of the deferred contract acquisition costs:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(in thousands)			
Beginning balance	\$ 76,266	\$ 48,982	\$ 70,320	\$ 44,176
Capitalization of contract acquisition costs	14,996	14,460	30,604	25,326
Amortization of deferred contract acquisition costs	(10,556)	(6,855)	(20,218)	(12,915)
Ending balance	\$ 80,706	\$ 56,587	\$ 80,706	\$ 56,587

The Company did not recognize any impairment losses of deferred contract acquisition costs during the periods presented.

Remaining Performance Obligations

As of June 30, 2022, the aggregate amount of the transaction price allocated to remaining performance obligations was \$760.4 million. As of June 30, 2022, the Company expected to recognize 76% of its remaining performance obligations as revenue over the next 12 months with the remainder recognized thereafter.

Note 4. Fair Value Measurements

Fair value is defined as the exchange price that would be received from sale of an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

Assets and liabilities measured at fair value are classified into the following categories:

- Level I: Observable inputs are unadjusted quoted prices in active markets for identical assets or liabilities;
- Level II: Observable inputs are quoted prices for similar assets and liabilities in active markets or inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly through market corroboration, for substantially the full term of the financial instruments; and
- Level III: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. These inputs are based on the Company's own assumptions used to measure assets and liabilities at fair value and require significant management judgment or estimation.

The Company's cash equivalents and restricted cash are comprised of highly liquid money market funds. The Company classifies money market funds within Level I of the fair value hierarchy because they are valued based on quoted market prices in active markets. The Company classifies its investments, which are comprised of U.S. treasury securities, U.S. government agency securities, commercial paper, and corporate bonds, within Level II of the fair value hierarchy because the fair value of these securities is priced by using inputs based on non-binding market consensus prices that are primarily corroborated by observable market data or quoted market prices for similar instruments. The Company recognizes transfers between levels within the fair value hierarchy, if any, at the end of each period. There were no transfers between levels during the periods presented.

The following table summarizes the Company's cash and available-for-sale securities' amortized cost, unrealized gains (losses), and fair value by significant investment category reported as cash and cash equivalents, restricted cash short-term, restricted cash, or available-for-sale securities as of June 30, 2022 and December 31, 2021.

(in thousands)

June 30, 2022	Amortized Cost	Unrealized Gain	Unrealized (Loss)	Fair Value	Reported as:		
					Cash & Cash Equivalents	Available-for-sale securities	Restricted Cash (Current and Non-Current)
Cash	\$ 47,815	\$ —	\$ —	\$ 47,815	\$ 38,458	\$ —	\$ 9,357
Level I:							
Money market funds	95,966	—	—	95,966	94,220	—	1,746
Level II:							
Corporate bonds	215,087	—	(2,194)	212,893	—	212,893	—
U.S. treasury securities	1,030,056	5	(13,812)	1,016,249	9,997	1,006,252	—
Commercial paper	280,028	—	—	280,028	—	280,028	—
Subtotal	1,525,171	5	(16,006)	1,509,170	9,997	1,499,173	—
Total assets measured at fair value on a recurring basis	\$ 1,668,952	\$ 5	\$ (16,006)	\$ 1,652,951	\$ 142,675	\$ 1,499,173	\$ 11,103

(in thousands)

December 31, 2021	Amortized Cost	Unrealized Gain	Unrealized (Loss)	Fair Value	Reported as:		
					Cash & Cash Equivalents	Available-for-sale securities	Restricted Cash
Cash	\$ 64,542	\$ —	\$ —	\$ 64,542	\$ 64,021	\$ —	\$ 521
Level I:							
Money market funds	253,075	—	—	253,075	246,415	—	6,660
Level II:							
Corporate bonds	202,774	16	(289)	202,501	3,341	199,160	—
U.S. treasury securities	960,278	2	(2,298)	957,982	—	957,982	—
Commercial paper	350,924	—	—	350,924	—	350,924	—
Subtotal	1,513,976	18	(2,587)	1,511,407	3,341	1,508,066	—
Total assets measured at fair value on a recurring basis	\$ 1,831,593	\$ 18	\$ (2,587)	\$ 1,829,024	\$ 313,777	\$ 1,508,066	\$ 7,181

As of June 30, 2022, the Company had \$11.1 million in total restricted cash, mainly related to \$10.6 million of indemnity holdback consideration associated with business combinations. For further details on the indemnity holdback, refer to Note 13 to these condensed consolidated financial statements.

The aggregate fair value of the Company's money market funds approximated amortized cost and, as such, there were no unrealized gains or losses on money market funds as of June 30, 2022 and December 31, 2021. Realized gains and losses, net of tax, were not material for any of the periods presented.

The amortized cost of available-for-sale investments with maturities less than one year was \$1,294.0 million and \$966.3 million as of June 30, 2022 and December 31, 2021, respectively. The amortized cost of available-for-sale investments with maturities greater than one year was \$221.1 million and \$544.4 million as of June 30, 2022 and December 31, 2021, respectively.

As of June 30, 2022, net unrealized loss on investments were \$16.1 million and were included in accumulated other comprehensive income on the condensed consolidated balance sheets. As of December 31, 2021, net unrealized gains on investments were \$2.7 million net of tax and were included in accumulated other comprehensive income on the condensed consolidated balance sheets. The unrealized gains and losses on available-for-sale investments are related to U.S. treasury securities, U.S. government agency securities, commercial paper, and corporate bonds. The Company determined any unrealized losses to be temporary. Factors considered in determining whether a loss is temporary include the financial condition and near-term prospects of the investee, the extent of the loss related to the credit of the issuer, the expected cash flows from the security, the Company's intent to sell the security, and whether or not the Company will be required to sell the security before the recovery of its amortized cost. As of June 30, 2022, the Company's investment portfolio consisted of investment grade securities with an average credit rating of AA.

The Company carries the 2026 Notes issued in August 2021 at face value less the unamortized issuance costs on its condensed consolidated balance sheets and presents that fair value for disclosure purposes only. As of June 30, 2022, the fair value of the 2026 Notes was \$1,012.0 million. The fair value of the 2026 Notes, which are classified as Level II financial instruments, was determined based on the quoted bid prices of the 2026 Notes in an over-the-counter market on the last trading day of the reporting period.

The Company carries the 2025 Notes issued in May 2020 at face value less the unamortized issuance costs on its condensed consolidated balance sheets and presents that fair value for disclosure purposes only. As of June 30, 2022, the fair value of the 2025 Notes was \$221.4 million. The fair value of the 2025 Notes, which are classified as Level II financial instruments, was determined based on the quoted bid prices of the 2025 Notes in an over-the-counter market on the last trading day of the reporting period. For further details on the Notes, refer to Note 7 to these condensed consolidated financial statements.

The Company classifies financial instruments in Level III of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation

models for Level III financial instruments typically also rely on a number of inputs that are readily observable, either directly or indirectly. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires management to make judgments and consider factors specific to the asset or liability. There were no financial instruments classified as Level III of the fair value hierarchy as of June 30, 2022 and December 31, 2021.

Note 5. Balance Sheet Components

Accounts Receivable, Net

As of June 30, 2022 and December 31, 2021, the Company's allowance for doubtful accounts was \$2.8 million and \$2.6 million, respectively. Provision for bad debt for the three months ended June 30, 2022 and 2021 was \$1.0 million and \$0.5 million, respectively, and for the six months ended June 30, 2022 and 2021 was \$2.0 million and \$2.0 million, respectively. Write-off of uncollectible accounts receivable for the three months ended June 30, 2022 and 2021 was \$1.3 million and \$0.2 million, respectively, and for the six months ended June 30, 2022 and 2021 was \$1.8 million and \$1.2 million, respectively.

Property and Equipment, Net

Property and equipment, net consisted of the following:

	June 30, 2022	December 31, 2021
	(in thousands)	
Property and equipment:		
Servers—network infrastructure	\$ 192,893	\$ 151,462
Construction in progress	66,512	41,424
Capitalized internal-use software	76,021	63,331
Office and computer equipment	34,118	24,451
Office furniture	6,684	5,927
Software	5,262	4,032
Leasehold improvements	19,462	12,892
Asset retirement obligation	827	430
Gross property and equipment	401,779	303,949
Less accumulated depreciation and amortization	(157,219)	(120,213)
Total property and equipment, net	\$ 244,560	\$ 183,736

Depreciation and amortization expense on property and equipment for the three months ended June 30, 2022 and 2021 was \$20.0 million and \$15.1 million, respectively, and for the six months ended June 30, 2022 and 2021 was \$38.9 million and \$29.1 million, respectively. This includes amortization expense for capitalized internal-use software which totaled \$4.8 million and \$4.6 million for the three months ended June 30, 2022 and 2021, respectively, and \$9.6 million and \$8.8 million for the six months ended June 30, 2022 and 2021, respectively.

Goodwill

As of June 30, 2022 and December 31, 2021, the Company's goodwill was \$149.1 million and \$23.5 million, respectively. During the six months ended June 30, 2022, the Company recorded \$5.0 million and \$120.8 million of goodwill in connection with the acquisition of Vectrix Security, Inc. (Vectrix) and Area 1 Security, Inc. (Area 1), respectively. For further details on these acquisitions, refer to Note 13 to these condensed consolidated financial statements. No goodwill impairments were recorded during the six months ended June 30, 2022 and 2021.

Acquired Intangible Assets, Net

Acquired intangible assets, net consisted of the following:

	June 30, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
	(in thousands)		
Developed technology	\$ 40,100	\$ 10,566	\$ 29,534
Customer relationships	11,600	363	11,237
Trade name	1,700	213	1,487
Total acquired intangible assets, net	\$ 53,400	\$ 11,142	\$ 42,258

	December 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
	(in thousands)		
Developed technology	\$ 7,000	\$ 5,746	\$ 1,254
Total acquired intangible assets, net	\$ 7,000	\$ 5,746	\$ 1,254

The estimated useful life of the Company's acquired developed technology and trade name intangible assets are two years and the estimated useful life of the Company's acquired customer relations intangible assets is eight years. The Company recorded preliminary amounts of \$30.0 million, \$11.6 million, and \$1.7 million of developed technology, customer relationships, and trade name, respectively, in connection with the acquisition of Area 1 as of June 30, 2022. For further details on this acquisition, refer to Note 13 to these condensed consolidated financial statements.

Amortization of acquired intangible assets was \$4.9 million and \$0.7 million for the three months ended June 30, 2022 and 2021, respectively, and \$5.4 million and \$1.4 million for the six months ended June 30, 2022 and 2021, respectively.

As of June 30, 2022, the estimated future amortization expense of acquired intangible assets was as follows:

	Estimated Amortization (in thousands)
Year ending December 31,	
2022 (remaining six months)	\$ 9,774
2023	19,404
2024	5,468
2025	1,450
2026	1,450
Thereafter	4,712
Total	\$ 42,258

Note 6. Leases

The Company's lease portfolio consists of real estate and co-location agreements in the U.S. and internationally. The real estate leases include leases for office space and have remaining lease terms of up to 9.0 years. Certain of these leases contain options that allow the Company to extend or terminate the lease agreement. The Company's co-location leases have remaining lease terms of up to 6.5 years. All of the Company's leases are classified as operating leases.

The Company also subleased one of its leased office spaces. The lease term of the sublease ended during the three months ended June 30, 2021. Sublease income, which is recorded as a reduction of rent expense was zero and \$0.4 million for the three months ended June 30, 2022 and 2021, respectively and zero and \$1.1 million for the six months ended June 30, 2022 and 2021, respectively.

The components of lease cost related to the Company's operating leases included in the condensed consolidated statements of operations were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(in thousands)			
Operating lease cost	\$ 9,496	\$ 5,507	\$ 18,106	\$ 11,004
Sublease income	—	(350)	—	(1,096)
Total lease cost	\$ 9,496	\$ 5,157	\$ 18,106	\$ 9,908

Variable lease cost and short-term lease cost for the three and six months ended June 30, 2022 and June 30, 2021 were not material.

As of June 30, 2022, the Company had \$46.6 million of total undiscounted future payments under operating leases that have not yet commenced, which were not included on the condensed consolidated balance sheets. These operating leases will commence between July 2022 and September 2026 and have an average lease term of 4.7 years.

As of June 30, 2022, the weighted-average remaining term of the Company's operating leases was 5.7 years and the weighted-average discount rate used to measure the present value of the operating lease liabilities was 3.5%.

Maturities of the operating lease liabilities as of June 30, 2022 are as follows:

	June 30, 2022 (in thousands)
2022 (remaining six months)	\$ 8,794
2023	31,397
2024	28,712
2025	21,788
2026	19,208
Thereafter	39,977
Total lease payments	\$ 149,876
Less: Imputed interest	\$ (16,230)
Total operating lease liabilities	\$ 133,646

Note 7. Debt

2026 Convertible Senior Notes

In August 2021, the Company issued \$1,293.8 million aggregate principal amount of the 2026 Notes in a private offering to qualified institutional buyers pursuant to Rule 144A promulgated under the Securities Act, including the initial purchasers' exercise in full of their option to purchase an additional \$168.8 million aggregate principal amounts of the 2026 Notes. The total proceeds from the issuance of the 2026 Notes, net of initial purchaser discounts and commissions and debt issuance costs, were \$1,274.0 million.

The 2026 Notes are senior unsecured obligations of the Company and will mature on August 15, 2026, unless earlier redeemed, repurchased, or converted, and are governed by the terms of the indenture dated August 13, 2021 (the 2026 Indenture). The 2026 Notes are 0% convertible senior notes and therefore do not bear regular cash interest.

The 2026 Notes are convertible at an initial conversion rate of 5.2263 shares of the Company's Class A common stock per \$1,000 principal amount of the 2026 Notes, which is equivalent to an initial conversion price of approximately \$191.34 per share, subject to adjustment upon the occurrence of specified events in accordance with the terms of the 2026 Indenture. The 2026 Notes may be converted at any time on or after May 15, 2026 until the

close of business on the second scheduled trading day immediately preceding the maturity date. Holders of the 2026 Notes may convert all or any portion of their 2026 Notes at their option at any time prior to the close of business on the business day immediately preceding May 15, 2026 only under the following circumstances:

- (1) during any calendar quarter commencing after the calendar quarter ending on December 31, 2021 (and only during such calendar quarter), if the last reported sale price of the Company's Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- (2) during the five business day period after any five consecutive trading day period in which the trading price per \$1,000 principal amount of the 2026 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's Class A common stock and the conversion rate on each such trading day;
- (3) if the Company calls such 2026 Notes for redemption, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or
- (4) upon the occurrence of specified corporate events.

None of the circumstances described in the paragraphs above were met during the three months ended June 30, 2022.

In addition, if the 2026 Notes are converted prior to the maturity date following certain specified corporate events or because the Company issues a notice of redemption, the Company will increase the conversion rate for such 2026 Notes converted in connection with such a corporate event or during the related redemption period, as the case may be, in certain circumstances set forth in the 2026 Indenture.

Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of the Company's Class A common stock, or a combination of cash and shares of the Company's Class A common stock, at the Company's election. It is the Company's current intent to settle the principal amount of 2026 Notes in cash.

The Company may not redeem the 2026 Notes prior to August 20, 2024. The Company may redeem for cash all or any portion of the 2026 Notes (subject to the partial redemption limitation (as defined below)), at its option, on or after August 20, 2024, if the last reported sale price of the Company's Class A common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the 2026 Notes to be redeemed, plus any accrued and unpaid special interest to, but excluding, the redemption date. If the Company elects to redeem fewer than all of the outstanding 2026 Notes, at least \$100.0 million aggregate principal amount of 2026 Notes must be outstanding and not subject to redemption as of the relevant redemption date. No sinking fund is provided for the 2026 Notes.

If the Company undergoes a fundamental change (as defined in the 2026 Indenture), holders of the 2026 Notes may require the Company to repurchase for cash all or any portion of their notes at a repurchase price equal to 100% of the principal amount of the 2026 Notes to be repurchased, plus accrued and unpaid special interest to, but excluding, the fundamental change repurchase date.

Based on the closing price of the Company's Class A common stock of \$43.75 on June 30, 2022, the if-converted value of the 2026 Notes does not exceed its principal amount. The remaining life of the 2026 Notes was approximately 50 months as of June 30, 2022.

2026 Capped Call Transactions

In connection with the offering of the 2026 Notes, the Company entered into privately-negotiated capped call option transactions (the 2026 Capped Calls) with certain financial institution counterparties. The 2026 Capped Calls each have an initial strike price of approximately \$191.34 per share of the Company's Class A common stock, subject to certain adjustments, which corresponds to the initial conversion price of the 2026 Notes. The 2026 Capped Calls each have an initial cap price of approximately \$250.94 per share, subject to certain adjustments. The 2026 Capped Calls initially cover, subject to anti-dilution adjustments, approximately 6.8 million shares of the Company's Class A common stock. The 2026 Capped Calls are intended to generally offset potential dilution to the Company's Class A common stock upon conversion of the 2026 Notes and/or offset the potential cash payments that the Company could be required to make in excess of the principal amount upon any conversion, subject to the cap price. The 2026 Capped Calls are subject to either adjustment or termination upon the occurrence of certain specified events

affecting the Company, including a merger event, a tender offer, and a nationalization, insolvency, or delisting involving the Company. The 2026 Capped Calls expire in incremental components on each trading date between July 17, 2026 and August 13, 2026. As of June 30, 2022, the terms of the 2026 Capped Calls have not been adjusted.

The 2026 Capped Calls are recorded in stockholders' equity and are not accounted for as derivatives. The premium paid for the purchase of the 2026 Capped Calls of \$86.3 million was recorded as a reduction to additional paid-in capital on the condensed consolidated balance sheets.

2025 Convertible Senior Notes

In May 2020, the Company issued \$575.0 million aggregate principal amount of the 2025 Notes in a private offering to qualified institutional buyers pursuant to Rule 144A promulgated under the Securities Act, including the initial purchasers' exercise in full of their option to purchase an additional \$75.0 million aggregate principal amount of the 2025 Notes. The total net proceeds from the issuance of the 2025 Notes, after deducting initial purchaser discounts and debt issuance costs, were \$562.5 million. Immediately following the closings of the 2025 Notes Exchange (defined below) and other conversions that have since been completed, \$158.4 million in aggregate principal amount of the 2025 Notes remained outstanding as of June 30, 2022.

The 2025 Notes are senior unsecured obligations of the Company and will mature on May 15, 2025, unless earlier redeemed, repurchased, or converted, and are governed by the terms of the Indenture dated May 15, 2020 (the 2025 Indenture and, together with the 2026 Indenture, the Indentures). Interest on the 2025 Notes is payable semi-annually in arrears on May 15 and November 15 of each year, beginning on November 15, 2020, at a rate of 0.75% per year.

The 2025 Notes are convertible at an initial conversion rate of 26.7187 shares of the Company's Class A common stock per \$1,000 principal amount of the 2025 Notes, which is equivalent to an initial conversion price of approximately \$37.43 per share, subject to adjustment upon the occurrence of specified events in accordance with the terms of the 2025 Indenture. The 2025 Notes may be converted at any time on or after February 15, 2025 until the close of business on the second scheduled trading day immediately preceding the maturity date. Holders of the 2025 Notes may convert all or any portion of their 2025 Notes at their option at any time prior to the close of business on the business day immediately preceding February 15, 2025 only under the following circumstances:

- (1) during any calendar quarter (and only during such calendar quarter), if the last reported sale price of the Company's Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day;
- (2) during the five business day period after any five consecutive trading day period in which the trading price per \$1,000 principal amount of the 2025 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's Class A common stock and the conversion rate on each such trading day;
- (3) if the Company calls such 2025 Notes for redemption, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or
- (4) upon the occurrence of specified corporate events.

None of the circumstances described in the paragraphs above were met during the three months ended June 30, 2022.

In addition, if the 2025 Notes are converted prior to the maturity date following certain specified corporate events or because the Company issues a notice of redemption, the Company will increase the conversion rate for such 2025 Notes converted in connection with such a corporate event or during the related redemption period, as the case may be, in certain circumstances set forth in the 2025 Indenture.

Upon conversion, the Company will pay or deliver, as the case may be, cash, shares of the Company's Class A common stock, or a combination of cash and shares of the Company's Class A common stock, at the Company's election. It is the Company's current intent to settle the principal amount of 2025 Notes in cash.

The Company may not redeem the 2025 Notes prior to May 20, 2023. The Company may redeem for cash all or any portion of the 2025 Notes, at its option, on or after May 20, 2023, if the last reported sale price of the Company's Class A common stock has been at least 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day preceding the date on which the Company provides

notice of redemption at a redemption price equal to 100% of the principal amount of the 2025 Notes to be redeemed, plus any accrued and unpaid interest to, but excluding, the redemption date. No sinking fund is provided for the 2025 Notes.

If the Company undergoes a fundamental change (as defined in the 2025 Indenture), holders of the 2025 Notes may require the Company to repurchase for cash all or any portion of their notes at a repurchase price equal to 100% of the principal amount of the 2025 Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

During the six months ended June 30, 2022, the Company settled conversions of approximately \$16.6 million aggregate principal amount of the 2025 Notes. The Company elected to settle the conversions in a combination of cash equal to the principal amount of the 2025 Notes converted and the issuance of 298,909 shares of the Company's Class A common stock for the remainder associated with the conversion premium. The difference between the settlement consideration and the carrying value of the 2025 Notes converted was recorded to additional paid-in-capital on the Company's condensed consolidated balance sheets.

2025 Notes Exchange

On August 13, 2021, the Company closed privately-negotiated exchange agreements with certain holders of the 2025 Notes to exchange approximately \$400.0 million in aggregate principal amount of the 2025 Notes (the 2025 Notes Exchange) for an aggregate of \$400.7 million in cash (including accrued interest) and approximately 7.6 million shares of the Company's Class A common stock (the Exchange Shares) for aggregate consideration of \$1,321.0 million. The Company used a portion of the net proceeds from the offering of the 2026 Notes to fund the 2025 Notes Exchange. As a result, the Company recorded a debt extinguishment loss of \$72.2 million, representing the difference between the fair value of the liability component of \$355.3 million and the carrying value of the 2025 Notes Exchange of \$283.1 million at the closing date. The fair value of the liability component was calculated by using an effective interest rate of 4.08%, which was determined by measuring the fair value of similar debt instruments that did not have an associated convertible feature and adjusted to reflect the term of the remaining 2025 Notes. The aggregate consideration of \$1,321.0 million was allocated between the fair value of the liability component of \$355.3 million and the reacquisition of the equity component of \$965.7 million, which was recorded as a reduction to additional paid-in capital and offset by the additional paid-in capital for the Exchange Shares issued.

Based on the closing price of the Company's Class A common stock of \$43.75 on June 30, 2022, the if-converted value of the 2025 Notes exceeded its principal amount by approximately \$26.8 million. The remaining life of the 2025 Notes was approximately 35 months as of June 30, 2022.

2025 Capped Call Transactions

In connection with the offering of the 2025 Notes, the Company entered into privately-negotiated capped call option transactions (the 2025 Capped Calls and, together with the 2026 Capped Calls, the capped call transactions) with certain financial institution counterparties. The 2025 Capped Calls each have an initial strike price of approximately \$37.43 per share of the Company's Class A common stock, subject to certain adjustments, which corresponds to the initial conversion price of the 2025 Notes. The 2025 Capped Calls each have an initial cap price of \$57.58 per share, subject to certain adjustments. The 2025 Capped Calls initially cover, subject to anti-dilution adjustments, approximately 15.4 million shares of the Company's Class A common stock. The 2025 Capped Calls are intended to generally offset potential dilution to the Company's Class A common stock upon conversion of the 2025 Notes and/or offset the potential cash payments that the Company could be required to make in excess of the principal amount upon any conversion, subject to the cap price. The 2025 Capped Calls are subject to either adjustment or termination upon the occurrence of certain specified events affecting the Company, including a merger event, a tender offer, and a nationalization, insolvency, or delisting involving the Company. The 2025 Capped Calls expire in incremental components on each trading date between March 18, 2025 and May 13, 2025. As of June 30, 2022, the terms of the 2025 Capped Calls have not been adjusted and no 2025 Capped Calls were exercised in connection with the 2025 Notes Exchange. As of June 30, 2022, no 2025 Capped Calls were exercised in connection with the 2025 Notes conversion requests.

The 2025 Capped Calls are recorded in stockholders' equity and are not accounted for as derivatives. The premium paid for the purchase of the 2025 Capped Calls of \$67.3 million was recorded as a reduction to additional paid-in capital on the condensed consolidated balance sheets.

The net carrying amounts of the Notes were as follows:

	June 30, 2022		December 31, 2021	
	2026 Notes	2025 Notes	2026 Notes	2025 Notes
	(in thousands)			
Principal	\$ 1,293,750	\$ 158,429	\$ 1,293,750	\$ 175,000
Unamortized debt discount ⁽¹⁾	—	—	(248,179)	(45,382)
Unamortized debt issuance costs	(16,327)	(1,985)	(14,541)	(1,654)
Carrying amount, net	\$ 1,277,423	\$ 156,444	\$ 1,031,030	\$ 127,964

(1) The carrying value of the equity components of the 2025 Notes and 2026 Notes as of December 31, 2021 was eliminated upon the adoption of ASU 2020-06. Refer to Note 2 to these condensed consolidated financial statements.

The following tables set forth total interest expense recognized related to the Notes:

	Three Months Ended June 30,			
	2022		2021	
	2026 Notes	2025 Notes	2026 Notes	2025 Notes
	(in thousands)			
Coupon interest expense	\$ —	\$ 297	\$ —	\$ 1,078
Amortization of debt discount ⁽¹⁾	—	—	—	8,779
Amortization of debt issuance costs	989	173	—	404
Total	\$ 989	\$ 470	\$ —	\$ 10,261

	Six Months Ended June 30,			
	2022		2021	
	2026 Notes	2025 Notes	2026 Notes	2025 Notes
	(in thousands)			
Coupon interest expense	\$ —	\$ 607	\$ —	\$ 2,156
Amortization of debt discount ⁽¹⁾	—	—	—	17,347
Amortization of debt issuance costs	1,979	353	—	807
Total	\$ 1,979	\$ 960	\$ —	\$ 20,310

(1) As a result of the adoption of ASU 2020-06 on January 1, 2022, there is no debt discount associated with either the 2025 Notes or the 2026 Notes. Refer to Note 2 to these condensed consolidated financial statements.

Prior to the adoption of ASU 2020-06 on January 1, 2022, the Company separated the Notes into liability and equity components. On issuance of the Notes, the carrying amounts of the equity components were recorded as debt discount and subsequently amortized to interest expense. Upon the adoption of ASU 2020-06, the Company accounts each of the Notes as a single liability measured at its amortized cost. For further details on the adoption of ASU 2020-06, refer to Note 2 to these condensed consolidated financial statements.

Note 8. Commitments and Contingencies

Purchase Commitments

Open purchase commitments are for the purchase of services under non-cancelable contracts. They are not recorded as liabilities on the condensed consolidated balance sheet as of June 30, 2022 as the Company has not yet received the related services. Refer to the table below for purchase commitments under non-cancelable contracts with various vendors as of June 30, 2022.

Bandwidth & Co-location Commitments

The Company enters into long-term non-cancelable agreements with providers in various countries to purchase capacity, such as bandwidth and co-location space, for the Company's global network. Bandwidth and co-location costs for paying customers are recorded as cost of revenue in the condensed consolidated statements of operations and as sales and marketing expense in the condensed consolidated statements of operations for free customers. Such costs totaled \$27.9 million and \$18.6 million for the three months ended June 30, 2022 and 2021, respectively.

and \$53.7 million and \$35.0 million for the six months ended June 30, 2022 and 2021. Refer to the table below for long-term bandwidth and co-location commitments under non-cancelable contracts with various networks and Internet service providers as of June 30, 2022. For the lease components of co-location agreements, refer to Note 6 to these condensed consolidated financial statements.

	Payments Due by Period as of June 30, 2022						
	Total	2022 (remaining six months)	2023	2024	2025	2026	Thereafter
	(in thousands)						
Non-cancelable:							
Open purchase agreements ⁽¹⁾	\$ 78,002	\$ 25,433	\$ 34,839	\$ 7,779	\$ 2,579	\$ 2,274	\$ 5,098
Bandwidth and other co-location related commitments ⁽²⁾	125,555	22,187	37,416	27,106	16,104	10,971	11,771
Other commitments ⁽³⁾	10,582	—	10,582	—	—	—	—
Total	\$ 214,139	\$ 47,620	\$ 82,837	\$ 34,885	\$ 18,683	\$ 13,245	\$ 16,869

- (1) Open purchase commitments are for the purchase of services under non-cancelable contracts. They were not recorded as liabilities on the condensed consolidated balance sheet as of June 30, 2022 as the Company had not yet received the related services.
- (2) Long-term commitments for bandwidth usage and other co-location related commitments with various networks and Internet service providers. The costs for services not yet received were not recorded as liabilities on the condensed consolidated balance sheet as of June 30, 2022.
- (3) Indemnity holdback consideration associated with the Area 1 and Vectrix acquisitions. See Note 13.

Legal Matters

From time to time the Company is a party to various legal proceedings that arise in the ordinary course of business. In addition, third parties may from time to time assert claims against the Company in the form of letters and other communications. Management currently believes that there is no pending or threatened legal proceeding to which the Company is a party that is likely to have a material adverse effect on the Company's condensed consolidated financial statements. However, the results of legal proceedings are inherently unpredictable and if an unfavorable ruling were to occur in any of the legal proceedings there exists the possibility of a material adverse effect on the Company's financial position, results of operations, and cash flows. The Company accrues for legal proceedings that it considers probable and for which the loss can be reasonably estimated. The Company also discloses material contingencies when it believes a loss is not probable but reasonably possible and can be reasonably estimated. Legal costs incurred and expected to be incurred related to litigation matters are expensed as incurred.

The Company's network and associated products are subject to various restrictions under U.S. export control and sanctions laws and regulations, including the U.S. Department of Commerce's Export Administration Regulations (EAR) and various economic and trade sanctions regulations administered by the U.S. Department of the Treasury's Office of Foreign Assets Controls (OFAC). The U.S. export control laws and U.S. economic sanctions laws include restrictions or prohibitions on the sale or supply of certain products and services to U.S. embargoed or sanctioned countries, governments, persons and entities and also require authorization for the export of certain encryption items. In addition, various countries regulate the import of certain encryption technology, including through import permitting and licensing requirements and have enacted or could enact laws that could limit the Company's ability to distribute its products through its network.

Although the Company takes precautions to prevent its network and associated products from being accessed or used in violation of such laws, the Company may have inadvertently allowed its network and associated products to be accessed or used by some customers in apparent violation of U.S. economic sanctions laws, including by users in embargoed or sanctioned countries, and the Company may have exported or allowed the download of certain software prior to making required filings with the U.S. Department of Commerce's Bureau of Industry and Security. As a result, the Company has submitted to OFAC and to the Bureau of Industry and Security a voluntary self-disclosure concerning potential violations, and the Company has submitted a voluntary self-disclosure to the Census Bureau regarding potential violations of the Foreign Trade Regulations related to some incorrect electronic export information statements to the U.S. government for certain hardware exports, which were authorized. The voluntary self-disclosure to the Census Bureau was completed with no penalties in November 2019, and the voluntary self-disclosure to the Bureau of Industry and Security was completed with no penalties in June 2020. The

voluntary self-disclosure to OFAC remains under review. If the Company is found to be in violation of U.S. economic sanctions or export control laws, it could result in substantial fines and penalties for the Company and for the individuals working for the Company. The Company may also be adversely affected through other penalties, reputational harm, loss of access to certain markets or otherwise. No loss has been recognized in the consolidated financial statements for this loss contingency as it is not probable a loss has been incurred and the range of a possible loss is not yet estimable.

Guarantees and Indemnifications

If the Company's services do not meet certain service level commitments, its contracted customers and certain of its pay-as-you-go customers are entitled to receive service credits, and in certain cases, refunds, each representing a form of variable consideration. To date, the Company has not incurred any material costs as a result of such commitments.

The Company's arrangements generally include certain provisions for indemnifying customers against liabilities if its products or services infringe a third-party's intellectual property rights. It is not possible to determine the maximum potential amount under these indemnification obligations due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. To date, the Company has not incurred any material costs as a result of such obligations and has not accrued any liabilities related to such obligations in the condensed consolidated financial statements.

The Company has also agreed to indemnify its directors, executive officers, and certain other employees for costs associated with any fees, expenses, judgments, fines, and settlement amounts incurred by them in any action or proceeding to which any of them are, or are threatened to be, made a party by reason of their service as a director or officer. The Company maintains director and officer insurance coverage that would generally enable it to recover a portion of any future amounts paid. The Company also may be subject to indemnification obligations by law with respect to the actions of its employees under certain circumstances and in certain jurisdictions.

Note 9. Common Stock

The Company's amended and restated certificate of incorporation authorizes the issuance of Class A common stock and Class B common stock. The holder of each share of Class A common stock is entitled to one vote per share, while the holder of each share of Class B common stock is entitled to 10 votes per share. As of June 30, 2022 and December 31, 2021, the Company was authorized to issue 2,250,000,000 shares of Class A common stock and 315,000,000 shares of Class B common stock, each with a par value of \$0.001 per share. There were 282,774,214 and 277,707,635 shares of Class A common stock issued and outstanding as of June 30, 2022 and December 31, 2021, respectively. The number of shares of Class B common stock issued and outstanding was 44,623,332 and 45,904,227, as of June 30, 2022 and December 31, 2021, respectively.

Holders of the Company's Class A common stock and Class B common stock are entitled to dividends when, as and if, declared by the Company's Board of Directors, subject to the rights of the holders of all classes of stock outstanding having priority rights to dividends. Any dividends paid to the holders of the Class A common stock and Class B common stock will be paid on a pro rata basis. As of June 30, 2022 and December 31, 2021, the Company had not declared any dividends. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting and conversion. Shares of the Company's Class B common stock are convertible into an equivalent number of shares of the Company's Class A common stock and generally convert into shares of the Company's Class A common stock upon cessation of employment or transfer, except for certain transfers described in the Company's amended and restated certificate of incorporation. Class A common stock and Class B common stock are referred to, collectively, as common stock throughout the notes to these condensed consolidated financial statements, unless otherwise indicated.

Common Stock Reserved for Future Issuance

Shares of common stock reserved for future issuance, on an as-if converted basis, are as follows:

	June 30, 2022	December 31, 2021
	(in thousands)	
2025 Notes	5,503	6,078
2026 Notes	10,311	10,311
Stock options issued and outstanding	17,303	13,603
Remaining shares available for issuance under the 2019 Plan ⁽¹⁾	48,392	30,761
Outstanding and unsettled restricted stock units	7,620	7,417
Shares available for issuance under the Employee Stock Purchase Plan	11,139	8,056
Total shares of common stock reserved	100,268	76,226

(1) Remaining shares available for issuance under the 2019 Plan as of December 31, 2021, are net of the Co-Founder Performance Awards. See Note 10.

Note 10. Stock-based Compensation

Equity Incentive Plans

In 2010, the Company's Board of Directors adopted and stockholders approved the 2010 Equity Incentive Plan (2010 Plan). The 2010 Plan is a broad-based retention program and is intended to attract and retain talented employees, directors, and non-employee consultants. The 2010 Plan provides for the granting of stock options, restricted stock, restricted stock units (RSUs), and stock appreciation rights to employees, directors, and consultants. Incentive stock options may be granted only to employees. All other awards under the 2010 Plan, including non-qualified stock options, may be granted to employees, directors, and consultants. Except for qualifying assumptions and substitutions of options, the exercise price of an incentive stock option and non-qualified stock option shall not be less than 100% of the fair market value of such shares on the date of grant. Prior to the Company's IPO, stock-based awards forfeited, canceled, or repurchased generally were returned to the pool of shares of common stock available for issuance under the 2010 Plan. In connection with the IPO, the 2010 Plan was terminated effective immediately prior to the effectiveness of the 2019 Equity Incentive Plan (2019 Plan) and the Company ceased granting any additional awards under the 2010 Plan. All outstanding awards under the 2010 Plan at the time of the termination of the 2010 Plan remain subject to the terms of the 2010 Plan, and any shares underlying stock options that expire or terminate or are forfeited or repurchased by the Company under the 2010 Plan will be automatically transferred to the 2019 Plan.

In 2019, the Company's Board of Directors adopted and stockholders approved the 2019 Plan, which became effective one business day prior to the effective date of the Company's registration statement on Form S-1 for the IPO. The 2019 Plan provides for the granting of stock options, restricted stock, RSUs, stock appreciation rights, performance shares, performance stock units, and performance awards for the Company's Class A common stock to the Company's employees, directors, and consultants. Except as otherwise indicated below, the maximum number of shares of Class A common stock that may be issued under the 2019 Plan will not exceed 66,661,953 shares of the Company's Class A common stock, which is the sum of (1) 29,335,000 new shares, plus (2) an additional number of shares of Class A common stock not to exceed 37,326,953, consisting of the total number of shares of Class A or Class B common stock subject to outstanding awards granted under the 2010 Plan that, on or after the 2019 Plan became effective, are canceled, expire, or otherwise terminate prior to exercise or settlement; are repurchased by the Company because of the failure to vest; or are forfeited, tendered to, or withheld by the Company (or not issued) to satisfy a tax withholding obligation or the payment of an exercise price, if any, as such shares become available from time to time. Stock-based awards under the 2019 Plan that expire or are forfeited, canceled, or repurchased generally are returned to the pool of shares of Class A common stock available for issuance under the 2019 Plan. In addition, the number of shares of the Company's Class A common stock reserved for issuance under the 2019 Plan will automatically increase on January 1 of each calendar year, starting on January 1, 2021 through January 1, 2029, in an amount equal to the least of (i) 29,335,000 shares, (ii) 5% of the total number of shares of Class A and Class B common stock outstanding on December 31 of the fiscal year before the date of each automatic increase, or (iii) a lesser number of shares determined by the compensation committee of the Company's Board of Directors prior to the applicable January 1.

Stock Options

Under the 2010 Plan and 2019 Plan, at exercise, stock option awards entitle the holder to receive one share of Class B or Class A common stock, in the case of the 2010 Plan, or one share of Class A common stock, in the case of the 2019 Plan. The stock options granted under the 2010 Plan and the 2019 Plan generally vest over a four-year period subject to remaining continuously employed and expire no more than 10 years from the date of grant. The following table summarizes the stock options activity under the 2010 Plan and 2019 Plan for the six months ended June 30, 2022:

	Stock Options Outstanding			
	(in thousands, except year and per share data)			
	Shares Subject to Options Outstanding	Weighted- Average Exercise Price per Option	Weighted- Average Remaining Contractual Terms (in years)	Aggregate Intrinsic Value
Balances as of December 31, 2021	13,603	\$ 12.47	6.0	\$ 1,726,440
Options granted	5,074	\$ 102.94		
Options exercised	(1,368)	\$ 4.35		\$ 125,302
Options canceled/forfeited/expired	(6)	\$ 7.41		
Balances as of June 30, 2022	17,303	\$ 96.26	4.6	\$ 490,994
Vested and expected to vest as of June 30, 2022	17,266	\$ 33.70	4.6	\$ 489,634
Exercisable as of June 30, 2022	11,387	\$ 2.62	5.3	\$ 468,167

The aggregate intrinsic value is the difference between the exercise price of the option and the estimated fair value of the underlying common stock. Options exercisable include 4,400,733 and 6,229,524 options that were unvested as of June 30, 2022 and December 31, 2021, respectively.

The total grant date fair value for vested options in the six months ended June 30, 2022 and 2021 was \$5.1 million and \$8.7 million, respectively.

As of June 30, 2022 and December 31, 2021, there was \$305.1 million and \$20.1 million, respectively, of unrecognized stock-based compensation expense related to unvested stock options that is expected to be recognized over a weighted-average period of 4.7 years and 2.3 years, respectively.

In December 2021, the Compensation Committee of the Board of Directors of the Company (the Compensation Committee) granted to the Company's Chief Executive Officer and President and Chief Operating Officer (each, a Co-Founder), a 10-year performance-based stock option that vests and becomes exercisable only if the Company achieves certain stock price milestones and the Co-Founder continues to remain in a primary leadership position with the Company (the Co-Founder Performance Awards). If a majority of the voting power held by the Company's stockholders other than the Co-Founders, other executive officers of the Company, certain other employees of the Company, and certain of their respective family members and affiliates (the Disinterested Stockholders) do not approve the Co-Founder Performance Awards by December 22, 2022, the Co-Founder Performance Awards will be immediately and automatically forfeited. Each Co-Founder Performance Award was granted under the 2019 Plan and consists of a 10-year option to purchase an aggregate of 3,960,000 shares of the Company's Class A common stock. The exercise price per share subject to the Co-Founder Performance Awards is \$136.81, which was the closing sales price of the Company's Class A common stock on December 22, 2021, the date of grant by the Compensation Committee. Solely for accounting purposes, the grant date of the Co-Founder Performance Awards will be the date of approval by the majority of the voting power held by the Disinterested Stockholders. As of the date of this report, the Co-Founder Performance Awards have not been voted upon, and therefore not approved, by the Disinterested Stockholders, and accordingly, are not considered granted in accordance with ASC 718 solely for accounting purposes.

On February 14, 2022, the Company's Board of Directors and Compensation Committee granted to our executive officers (other than the Co-Founders) and certain other key employees 10-year performance-based stock options that vest and becomes exercisable only if the Company achieves certain stock price milestones and the employee continues to provide service to the Company through the applicable vesting dates (the Other Performance Awards). The Other Performance Awards were granted under the 2019 Plan and consist of 10-year options to purchase an aggregate of 4,915,000 shares of the Company's Class A common stock. The exercise price per share subject to the Other Performance Awards is \$105.56, which was the closing sales price of the Company's Class A common stock on February 14, 2022. At the time of grant, the terms of the Other Performance Awards provided that such awards shall automatically forfeit if the Company's Disinterested Stockholders failed to approve the Co-Founder Performance Awards. On April 20, 2022, the Company's Board of Directors and Compensation Committee removed this contingency, resulting in an accounting grant date for the Other Performance Awards under ASC 718.

The fair values of the Other Performance Awards were measured and fixed at the grant date using a Monte Carlo simulation model. The weighted-average assumptions used to determine the fair value of the Other Performance Awards granted were as follows:

	Six Months Ended June 30,
	2022
Expected term (in years)	9.81
Expected volatility	59.0 %
Risk-free interest rate	2.8 %
Dividend yield	—

The weighted-average grant date fair value of the Other Performance Awards was \$58.85 per share.

The Company recognizes stock-based compensation expense for the Other Performance Awards based on the grant date fair value on an expense attribution method over the requisite service period of 5.24 years. The total stock-based compensation expense for the Other Performance Awards for the three and six months ended June 30, 2022 was \$12.6 million. As of June 30, 2022, there was \$276.6 million of unrecognized stock-based compensation expense related to the Other Performance Awards that is expected to be recognized over a weighted-average period of 5.1 years.

In connection with the acquisition of Area 1, each unvested option to purchase shares of Area 1's common stock held by Area 1 employees who have joined the Company were assumed and converted into stock option awards to purchase the Company's Class A common stock (the Assumed Area 1 Stock Options). The Assumed Area 1 Stock Options are subject to the terms and conditions set forth in the Area 1 stock incentive plan and consist of options to purchase an aggregate of 156,770 shares of the Company's Class A common stock. The Assumed Area 1 Stock Options are subject to annual vesting on a ratable basis over the three years from the Area 1 acquisition date, in each case subject to remaining continuously employed by the Company or any of its subsidiaries.

None of the Assumed Area 1 Stock Options vested during the three months ended June 30, 2022.

The weighted-average assumptions used to determine the fair value of the Assumed Area 1 Stock Options during the six months ended June 30, 2022 were as follows:

	Six Months Ended June 30, 2022
Expected term (in years)	2.3
Expected volatility	66.7 %
Risk-free interest rate	2.5 %
Dividend yield	—

The weighted-average grant date fair value of the Assumed Area 1 Stock Options was \$93.32 per share.

The total stock-based compensation expense for the Assumed Area 1 Stock Options for the three and six months ended June 30, 2022 was \$1.2 million.

As of June 30, 2022, there was \$13.3 million of unrecognized stock-based compensation expense related to the Assumed Area 1 Stock Options that is expected to be recognized over a weighted-average period of 2.8 years.

For further details on the Area 1 acquisition, refer to Note 13 to these condensed consolidated financial statements.

Early Exercises of Stock Options

The 2010 Plan allows for the early exercise of stock options for certain individuals as determined by the Company's Board of Directors. Shares of common stock issued upon early exercises of unvested options are not deemed, for accounting purposes, to be issued until those shares vest according to their respective vesting schedules and accordingly, the consideration received for early exercises is initially recorded as a liability and reclassified to common stock and additional paid-in capital as the underlying awards vest. Stock options that are early exercised are subject to a repurchase option that allows the Company to repurchase within six months of an individual's termination for any reason, including death and disability (or in the case of shares issued upon exercise of an option after termination, within six months of the date of exercise), any unvested shares of such individual for a repurchase price equal to the amount previously paid by the individual for such unvested shares. As of June 30, 2022 and December 31, 2021, the Company had \$3.1 million and \$4.7 million, respectively, recorded in liability for early exercise of unvested stock options, and the related number of unvested shares subject to repurchase was 1,465,281 and 2,128,660, respectively.

Restricted Stock and Restricted Stock Units

RSUs granted under the 2010 Plan generally vest upon the satisfaction of both a service-based vesting condition and a performance vesting condition, as defined below, occurring before these RSUs expire. RSUs granted under the 2019 Plan generally vest upon the satisfaction of a service-based vesting condition. The service-based vesting condition for employees under both the 2010 Plan and the 2019 Plan is typically satisfied over a four-year period, subject to remaining continuously employed. The performance vesting condition under the 2010 Plan was deemed satisfied upon the effective date of the Company's registration statement on Form S-1 filed with the SEC in connection with the IPO.

In connection with the acquisition of Vectrix in January 2022, the Company issued approximately 71,000 shares of Class A common stock to former Vectrix employees who have joined the Company and previous holders of Vectrix equity interests. Of these issued shares, approximately 52,000 shares are restricted stock that is subject to vesting on a ratable basis over the four years from the acquisition date, in each case subject to remaining continuously employed. None of these restricted shares vested during the three months ended June 30, 2022. The total stock-based compensation expense for shares of unvested restricted stock for the six months ended June 30, 2022 was not material. As of June 30, 2022, the total unrecognized stock-based compensation expense related to unvested restricted stock was \$4.6 million. For further details on the Vectrix acquisition, refer to Note 13 to these condensed consolidated financial statements.

In connection with the acquisition of Zaraz Inc. (Zaraz) in October 2021, the Company issued approximately 48,000 shares of Class A common stock to former Zaraz employees who have joined the Company and previous holders of Zaraz equity interests. Of these issued shares, approximately 39,000 are shares of restricted stock that is subject to vesting on a ratable basis over the three years from the acquisition date, in each case subject to remaining continuously employed. The total stock-based compensation expense for such shares of unvested restricted stock for the six months ended June 30, 2022 was not material. As of June 30, 2022, the total unrecognized stock-based compensation expense related to unvested restricted stock was \$4.9 million. For further details on the Zaraz acquisition, refer to Note 13 to these condensed consolidated financial statements.

In connection with the acquisition of S2 Systems Corporation (S2) in January 2020, the Company issued approximately 948,000 shares of Class A common stock to former S2 shareholders, some of which have joined the Company as employees. Of these issued shares, approximately 841,000 shares are restricted stock that is subject to vesting, with 77.8% of this restricted stock vesting in two years from the acquisition date and the remainder of this restricted stock vesting in three years from the acquisition date, in each case subject to remaining continuously employed. The total grant date fair value for vested shares in the six months ended June 30, 2022 and June 30, 2021 was \$11.2 million and zero, respectively. The total stock-based compensation expense for shares of unvested restricted stock for the six months ended June 30, 2022 was not material. As of June 30, 2022, the total unrecognized stock-based compensation expense related to unvested restricted stock was not material. For further details on the S2 acquisition, refer to Note 13 to these condensed consolidated financial statements.

RSU and restricted stock activity for the six months ended June 30, 2022 was as follows:

	Restricted Stock and RSUs	Weighted-Average Grant Date Fair Value
	(in thousands, except per share data)	
Unvested and outstanding as of December 31, 2021	7,456	\$ 47.36
Granted - RSUs	1,918	\$ 95.44
Granted - Restricted stock	52	\$ 100.29
Vested - RSUs	(1,407)	\$ 33.27
Vested - Restricted stock	(656)	\$ 19.47
Forfeited	(346)	\$ 51.04
Unvested as of June 30, 2022	<u>7,017</u>	<u>\$ 62.32</u>
Vested and not yet released	<u>—</u>	<u>\$ —</u>
Outstanding as of June 30, 2022	<u>7,017</u>	<u>\$ 62.32</u>

The total grant date fair value for vested RSUs for the six months ended June 30, 2022 and 2021 was \$46.8 million and \$25.2 million, respectively. The total stock-based compensation expense for RSUs for the three months ended June 30, 2022 and 2021 was \$32.6 million and \$16.5 million, respectively, and for the six months ended June 30, 2022 and 2021 was \$61.9 million and \$30.1 million, respectively. As of June 30, 2022 and December 31, 2021, the total unrecognized stock-based compensation expense related to unvested RSUs was \$395.5 million and \$176.2 million, respectively, that is expected to be recognized over a weighted-average period of 3.2 years and 3.5 years, respectively.

2019 Employee Stock Purchase Plan

In September 2019, the Company's Board of Directors adopted and stockholders approved the 2019 Employee Stock Purchase Plan (ESPP), which became effective one business day prior to the effective date of the Company's registration statement on Form S-1 filed with the SEC in connection with the IPO. A total of 5,870,000 shares of Class A common stock were initially reserved for sale under the ESPP. The number of shares of Class A common stock reserved for issuance includes an annual increase on the first day of each fiscal year, beginning on January 1, 2021, by the least of (1) 5,870,000 shares of Class A common stock, (2) 1% of the total number of shares of Class A and Class B common stock outstanding on December 31 of the fiscal year before the date of each automatic increase; or (3) such lesser amount as the compensation committee of the Company's Board of Directors may determine prior to the applicable January 1.

Generally, all regular employees, including executive officers, employed by the Company or by any of its designated subsidiaries, except for those holding 5% or more of the total combined voting power or value of all classes of common stock, may participate in the ESPP and may contribute, normally through payroll deductions, up to 10% of their eligible compensation for the purchase of Class A common stock under the ESPP. Unless otherwise determined by the compensation committee of the Board of Directors, Class A common stock will be purchased for the accounts of employees participating in the ESPP at a price per share that is the lesser of (1) 85% of the fair market value of a share of the Company's Class A common stock on the first date of an offering period, or (2) 85% of the fair market value of a share of the Company's Class A common stock on the date of purchase.

The ESPP generally provides for six-month offering periods beginning on the first day of trading on or after November 15 and May 15 of each year and terminating on the last trading day before May 15 and November 15, approximately six months later, with identical purchase periods. Current employees cannot sell the shares of Class A common stock purchased under the ESPP until the day after the one-year anniversary of the purchase date of such shares, except for the withholding or sale of shares by the Company to meet any applicable tax withholding obligations. No employee may purchase (i) during each purchase period more than 1,500 shares of Class A common stock and (ii) shares under the ESPP at a rate in excess of \$25,000 worth of the Company's Class A common stock based on the fair market value per share of the Company's Class A common stock at the beginning of an offering for each calendar year such purchase right is outstanding.

During the six months ended June 30, 2022 and June 30, 2021, respectively, 153,974 and 130,870 shares of Class A common stock were purchased under the ESPP. As of June 30, 2022 and December 31, 2021, the total unrecognized stock-based compensation expense related to the ESPP was \$3.5 million and \$2.6 million, respectively, that is expected to be recognized over a weighted average period of 0.4 years and 0.4 years, respectively.

The weighted-average assumptions used to determine the fair value of the ESPP during the periods presented were as follows:

	Six months ended June 30,	
	2022	2021
Expected term (in years)	0.5	0.5
Risk-free interest rate	1.2 %	0.1 %
Expected volatility	88.5 %	62.8 %
Dividend yield	— %	— %

Stock-based Compensation Expense

The following table sets forth the total stock-based compensation expense included in the Company's condensed consolidated statements of operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(in thousands)			
Cost of revenue	\$ 1,888	\$ 579	\$ 2,966	\$ 993
Sales and marketing	12,216	6,608	21,135	12,253
Research and development	26,659	9,509	45,488	17,873
General and administrative	14,052	3,855	19,191	7,470
Total stock-based compensation expense	\$ 54,815	\$ 20,551	\$ 88,780	\$ 38,589

Note 11. Net Loss per Share Attributable to Common Stockholders

The following table sets forth the computation of basic and diluted net loss per share attributable to common stockholders:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2022		2021		2022		2021	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
	(in thousands, except per share data)							
Net loss attributable to common stockholders	\$ (55,081)	\$ (8,456)	\$ (29,774)	\$ (5,736)	\$ (90,864)	\$ (14,054)	\$ (62,079)	\$ (13,394)
Weighted-average shares used in computing net loss per share attributable to common stockholders, basic and diluted	281,915	43,282	258,471	49,792	281,097	43,477	252,614	54,501
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.20)	\$ (0.20)	\$ (0.12)	\$ (0.12)	\$ (0.32)	\$ (0.32)	\$ (0.25)	\$ (0.25)

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

	June 30,	
	2022	2021
	(in thousands)	
2025 Notes	4,233	15,363
2026 Notes	6,762	—
Shares subject to repurchase	1,465	2,933
Unexercised stock options	17,303	15,812
Unvested restricted stock and RSUs	7,620	8,113
Shares issuable pursuant to the ESPP	187	141
Total	37,570	42,362

Note 12. Income Taxes

The computation of the provision for (benefit from) income taxes for interim periods is determined by applying the estimated annual effective tax rate to year-to-date earnings from recurring operations and adjusting for discrete tax items recorded in the period. The Company's ability to estimate the geographic mix of earnings is impacted by the relatively high-growth nature of the business, fluctuations of business operations by country, and implementation of tax planning strategies.

The Company recorded an income tax benefit of \$0.2 million and \$4.3 million for the three months ended June 30, 2022 and 2021, respectively, and an income tax expense of \$0.2 million and an income tax benefit of \$5.1 million for the six months ended June 30, 2022 and 2021, respectively.

The benefit from income taxes of \$0.2 million for the three months ended June 30, 2022 was primarily related to the partial release of the U.S. valuation allowance in connection with an acquisition, offset by withholding taxes in the U.S. and income tax expense from profitable foreign jurisdictions.

The benefit from income taxes of \$4.3 million for the three months ended June 30, 2021 was primarily related to excess tax benefits from stock-based compensation deductions and the remeasurement of deferred tax assets from an enacted rate change in the United Kingdom, offset by withholding taxes in the U.S. and income tax expense from profitable foreign jurisdictions.

The provision for income taxes of \$0.2 million for the six months ended June 30, 2022 was primarily related to withholding taxes in the U.S. and income tax expense from profitable foreign jurisdictions, offset by the partial release of the U.S. valuation allowance in connection with acquisitions.

The benefit from income taxes of \$5.1 million for the six months ended June 30, 2021 was primarily related to excess tax benefits from stock-based compensation deductions and the remeasurement of deferred tax assets from an enacted tax rate change in the United Kingdom, offset by withholding taxes in the U.S. and income tax expense from profitable foreign jurisdictions.

In determining the need for a valuation allowance, the Company weighs both positive and negative evidence in the various jurisdictions in which it operates to determine whether it is more likely than not that its deferred tax assets are realizable. A full valuation allowance has been established in the U.S. and the U.K. and no deferred tax assets and related tax benefits have been recognized in the consolidated financial statements. There is no valuation allowance associated with any other foreign jurisdictions.

Note 13. Business Combinations

Area 1

On April 1, 2022, the Company acquired all of the outstanding shares of Area 1, a company that has developed cloud-native email security technology, for a total purchase consideration of \$156.6 million. The total purchase consideration included (i) acquisition-date cash payments of \$82.6 million, net of \$2.5 million of cash acquired, (ii) \$63.5 million in shares of the Company's Class A common stock, (iii) a cash holdback of \$9.3 million, which the Company is retaining for up to 12 months and will be payable to the previous owners of Area 1, subject to offset by the Company for any of the previous owners' indemnification obligations in connection with the acquisition, and (iv) a cash holdback of \$1.1 million, which the Company is retaining for up to five months and will be payable to the previous owners of Area 1, subject to the final purchase price adjustment. Concurrent with the closing of the acquisition, the Company made a cash payment of \$4.1 million to repay Area 1's debt, which was part of the acquisition-date cash payments included in the purchase consideration.

In connection with the acquisition, the Company entered into compensation arrangements for stock-based and cash awards with a value totaling \$15.9 million. Of the total stock-based and cash awards, \$1.4 million cash awards were recognized as compensation expense on the acquisition date. Refer to Note 10 to these condensed consolidated financial statements for further details on the share-based awards.

The transaction-related costs for the acquisition were not material and are included in general and administrative expenses in the consolidated statements of operations for the three and six months ended June 30, 2022. The preliminary amounts of assets acquired and liabilities assumed on the acquisition date are summarized as follows (in thousands):

Accounts receivable, net	\$	1,634
Prepays and other current assets	\$	953
Acquired Intangible Assets	\$	43,300
Goodwill	\$	120,830
Total assets acquired	\$	166,717
Accounts Payable	\$	(254)
Accrued expense and other current liabilities	\$	(1,895)
Deferred revenue	\$	(5,736)
Deferred revenue, noncurrent	\$	(1,213)
Other noncurrent liabilities	\$	(1,053)
Total purchase price	\$	156,566

The acquired assets and assumed liabilities were recorded at preliminary amounts based on their estimated fair values, except for deferred revenue which was recorded under ASC 606 in accordance with the early adoption of ASU 2021-08 *Business Combinations (Topic 805), Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* effective January 1, 2022. The excess of the purchase price over the fair value of the net assets acquired was allocated to goodwill, none of which is expected to be deductible for tax purposes. Goodwill is primarily attributable to the assembled workforce as well as the anticipated synergies from the integration of Area 1's technology with the Company's technology.

This acquisition did not have a material impact on the Company's reported revenue or net loss amounts for any period presented; therefore, historical and pro forma disclosures have not been presented.

Vectrix

On January 14, 2022, the Company acquired all of the outstanding shares of Vectrix, a company that has developed an online security technology that gives users the ability to scan and monitor SaaS applications for security issues, for a total purchase consideration of \$7.6 million. The total purchase consideration included (i) acquisition-date cash payments of \$4.3 million, net of \$0.8 million of cash acquired, (ii) \$2.0 million in shares of the Company's Class A common stock, and (iii) a cash holdback of \$1.3 million, which the Company is retaining for up to 18 months and will be payable to the previous owners of Vectrix, subject to offset by the Company for any of the previous owners' indemnification obligations in connection with the acquisition. Concurrent with the closing of the acquisition, the Company made a cash payment of \$2.0 million to cancel and settle Vectrix's other existing equity-related agreements, which was part of the acquisition-date cash payments included in the purchase consideration.

In connection with the acquisition, the Company entered into compensation arrangements for stock-based and cash awards with a value totaling \$8.0 million, of which \$2.6 million was recognized as compensation expense on the acquisition date. Additional compensation expense during the three and six months ended June 30, 2022 were not material. The remaining compensation amount of \$4.8 million is being recognized over a future weighted-average period of 3.5 years subject to the recipients' continued service with the Company.

The transaction-related costs for the acquisition were not material and are included in general and administrative expenses in the consolidated statements of operations for the three and six months ended June 30, 2022.

The fair values of assets acquired and liabilities assumed on the acquisition date are summarized as follows (in thousands):

Developed technology	\$	3,100
Goodwill		4,951
Total assets acquired		8,051
Accounts Payable		(20)
Other noncurrent liabilities		(419)
Total purchase price	\$	7,612

The acquired assets and assumed liabilities were recorded at their estimated fair values. The estimated useful life for the acquired developed technology is two years. The excess of the purchase price over the fair value of the net assets acquired was allocated to goodwill, none of which is expected to be deductible for tax purposes. Goodwill is primarily attributable to the assembled workforce as well as the anticipated synergies from the integration of Vectrix's technology with the Company's technology.

This acquisition did not have a material impact on the Company's condensed consolidated financial statements; therefore, historical and pro forma disclosures have not been presented.

Zaraz Inc.

On October 15, 2021, the Company acquired all of the outstanding shares of Zaraz Inc., a remote-first company that has developed a server-side rendering technology, for a total estimated purchase consideration of \$7.2 million. The total purchase consideration included (i) acquisition-date cash payments of \$5.6 million, net of \$0.8 million of cash acquired and (ii) \$1.6 million in shares of the Company's Class A common stock. Concurrent with the closing of the acquisition, the Company made a cash payment of \$1.1 million to cancel and settle Zaraz's existing equity arrangements, which was part of the acquisition-date cash payments included in the purchase consideration.

In connection with the acquisition, the Company entered into compensation arrangements for stock-based and cash awards with a value totaling \$6.5 million, of which \$0.5 million was recorded as total compensation expense during the year ended December 31, 2021. Additional compensation expense during the three and six months ended June 30, 2022 were not material. The remaining compensation amount of \$4.9 million is being recognized over a future weighted-average period of 2.3 years subject to the recipients' continued service with the Company.

The fair values of assets acquired and liabilities assumed on the acquisition date are summarized as follows (in thousands):

Developed technology	\$	1,400
Goodwill		6,176
Total assets acquired		7,576
Accrued compensation		(82)
Other noncurrent liabilities		(322)
Total purchase price	\$	7,172

The acquired assets and assumed liabilities were recorded at their estimated fair values. The estimated useful life for the acquired developed technology is two years. The excess of the purchase price over the fair value of the net assets acquired was allocated to goodwill, none of which is expected to be deductible for tax purposes. Goodwill is primarily attributable to the assembled workforce as well as the anticipated synergies from the integration of Zaraz's technology with the Company's technology. An immaterial purchase accounting adjustment to revise purchase consideration and goodwill was made during the six months ended June 30, 2022.

This acquisition did not have a material impact on the Company's condensed consolidated financial statements; therefore, historical and pro forma disclosures have not been presented.

S2 Systems

In January 2020, the Company acquired all of the outstanding shares of S2, a company based in Kirkland, Washington that has developed browser isolation technology, for a total purchase consideration of \$17.7 million. The Company is incorporating S2's technology into the Company's Cloudflare Gateway product. The total purchase consideration included (i) acquisition-date cash payments of \$13.7 million, net of \$0.1 million of cash acquired, (ii) \$1.8 million in shares of the Company's Class A common stock, and (iii) a cash holdback of \$2.2 million, which the Company is retaining for up to 18 months and will be payable to the previous owners of S2, subject to offset by the Company for any of the previous owners' indemnification obligations in connection with the acquisition. Such cash holdback was paid in full during the year ended December 31, 2021. Concurrent with the closing of the acquisition, the Company made a cash payment of \$6.9 million to repay S2's debt, which was part of the acquisition-date cash payments included in the purchase consideration.

In connection with the acquisition, the Company entered into compensation arrangements for stock-based and cash awards with a value totaling \$20.3 million, of which \$1.4 million and \$2.8 million was recognized as total

compensation expense during the three and six months ended June 30, 2021. Additional compensation expense during the three and six months ended June 30, 2022 and the remaining compensation amount were not material.

The fair values of assets acquired and liabilities assumed on the acquisition date are summarized as follows (in thousands):

Prepaid expenses and other current assets	\$	6
Developed technology		5,600
Goodwill		13,084
Total assets acquired		18,690
Accrued expenses and other current liabilities		(208)
Other noncurrent liabilities		(782)
Total purchase price	\$	17,700

A note payable of \$0.2 million, included in accrued expenses and other current liabilities in the table above, assumed on the acquisition date, was paid off during the fiscal year ended December 31, 2020.

The acquired assets and assumed liabilities were recorded at their estimated fair values. The estimated useful life for the acquired developed technology is two years. The excess of the purchase price over the fair value of the net assets acquired was allocated to goodwill, none of which is expected to be deductible for tax purposes. Goodwill is primarily attributable to the assembled workforce as well as the anticipated synergies from the integration of S2's technology with the Company's technology. A purchase accounting adjustment of \$0.8 million to revise purchase consideration and goodwill was made during the fiscal year ended December 31, 2020.

This acquisition did not have a material impact on the Company's condensed consolidated financial statements; therefore, historical and pro forma disclosures have not been presented.

Note 14. Segment and Geographic Information

The Company's chief operating decision maker (CODM) is its CEO, President and COO, and CFO. Collectively, the CODM reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. The Company has no segment managers who are held accountable by the CODM for operations, operating results, and planning for levels or components below the consolidated unit level. Accordingly, the Company has determined it has a single operating segment.

Refer to Note 3 to these condensed consolidated financial statements for revenue by geography.

The Company's property and equipment, net, by geographic area were as follows:

	June 30, 2022	December 31, 2021
	(in thousands)	
United States	\$ 153,899	\$ 120,357
Rest of the world	90,661	63,379
Total property and equipment, net	\$ 244,560	\$ 183,736

No single country other than the United States accounted for more than 10% of total property and equipment, net as of June 30, 2022 and December 31, 2021.

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 condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q. In addition to historical financial information, the following discussion contains forward-looking statements that are based upon current plans, expectations, and beliefs that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including the impact of the COVID-19 pandemic and those other factors discussed in the section titled "Risk Factors" and in other parts of this Quarterly Report on Form 10-Q. Our fiscal year end is December 31.

Overview

Cloudflare's mission is to help build a better Internet. We have built a global network that delivers a broad range of services to businesses of all sizes and in all geographies—making them more secure, enhancing the performance of their business-critical applications, and eliminating the cost and complexity of managing individual network hardware. Our network serves as a scalable, easy-to-use, unified control plane to deliver security, performance, and reliability across their on-premise, hybrid, cloud, and software-as-a-service (SaaS) applications.

Our Business Model

Our business model benefits from our ability to serve the needs of all customers ranging from individual developers to the largest enterprises, in a cost-effective manner. Our products are easy to deploy and allow for rapid and efficient onboarding of new customers and expansion of our relationships with our existing customers over time. Given the large customer base we have and the immense amount of Internet traffic that we manage, we are able to negotiate mutually beneficial agreements with Internet Service Providers (ISPs) that allow us to place our equipment directly in their data centers, which drives down our bandwidth and co-location expenses. This symbiotic relationship that we have with ISPs and the efficiency of our serverless network architecture allows us to introduce new products on our network at low marginal cost.

We generate revenue primarily from sales to our customers of subscriptions to access our network and products. We offer a variety of plans to our free and paying customers depending on their required features and functionality.

- **Pay-as-you-go customers.** For our pay-as-you-go customers, we offer the ability to purchase our products through our website. We make our pay-as-you-go product solutions available in several configurations. For customers securing and accelerating their Internet properties using our external-facing infrastructure products, we offer Pro and Business subscription plans through our website per registered domain, and it is common for customers to purchase subscriptions to cover multiple Internet properties (e.g., domains, websites, application programming interfaces (APIs), and mobile applications). Our Pro plan provides basic functionality to improve the security, performance, and reliability of applications, such as enhanced web application firewall and image and mobile optimization. Our Business plan includes additional functionality often required by larger organizations, including service level agreements of up to 100% uptime, dynamic content acceleration, and enhanced customer support. For pay-as-you-go customers who need a scalable zero trust solution to secure users and internal resources using our internal infrastructure products, we make our Cloudflare for Team products available on a per seat basis. In addition, for developers building serverless applications, we offer our Cloudflare Workers to our pay-as-you-go customers on a usage-based plan that is metered by requests and execution time. Our implementation period for pay-as-you-go customers is extremely short with most customers implementing our services within a matter of minutes. Pay-as-you-go customers can subscribe to more than one solution and purchase add-on products and network functionality we offer to meet their more advanced needs. Our pay-as-you-go customers typically pay with a credit card on a monthly basis.
- **Contracted customers.** Our contracted customers, which consist of customers that enter into contracts for our Enterprise subscription plan, have contracts that typically range from one to three years and are typically billed on a monthly basis. Our agreements with contracted customers are tailored and priced to meet their varying needs and requirements. Enterprise subscription plan agreements for our contracted customers generally include a base subscription and a smaller portion based on usage.

Key elements of our business model include:

- **Free customer base.** Free customers are an important part of our business. These customers are typically individual developers, early stage startups, hobbyists, and other users and, like our pay-as-you-go customers, sign up for our service through our website. Our free customers create scale, serve as efficient brand marketing, and help us attract developers, customers, and potential employees. These free customers expose us to diverse traffic, threats, and problems, often allowing us to see potential security, performance, and reliability issues at the earliest stage. This knowledge allows us to improve our products and deliver more effective solutions to our paying customers. In addition, the added scale and diversity of this traffic makes us valuable to a diverse set of global ISPs, improving the breadth and economic terms of our interconnections, bandwidth costs, and co-location expenses. Finally, the enthusiastic engagement of our free customer base represents a "virtual quality assurance" function that allows us to maintain a high rate of product innovation, while ensuring our products are extensively tested in real world environments before they are deployed to our paying customers.
- **Significant investment in ongoing product development.** We invest significantly in research and development. Our focus on research and development allows us to continually enhance the capabilities and functionality of our global network with new products that are innovative and powerful and can be quickly adopted by our customers and helps us grow our free and paying customer base, which allows us to serve a greater portion of the world's Internet traffic. That in turn provides us with greater knowledge and insight into the challenges that Internet users face every day.
- **Investments in our network for growth.** We believe that the size, sophistication, and distributed nature of our network provide us with a significant competitive advantage. We intend to continue to make substantial investments in network infrastructure to support the growth of our business. As we invest in our network, we believe the service that we can provide our customers and the insight and knowledge that we can gain will continue to grow.
- **Efficient go-to-market model.** We have built an efficient go-to market model that reflects the flexibility and ease of use our products offer to our customers around the world. This has enabled us to acquire new customers as well as to expand within our existing customer base in a rapid, cost-effective manner. In particular, we have invested heavily in our contracted customer sales efforts.
 - *New customer acquisition.* We believe that any person or business that relies on the Internet to deliver products, services, or content or to operate its business can be a Cloudflare customer. As such, we are focused on driving an increased number of customers onto our network and products to support our long-term growth. Through our pay-as-you-go offering, a customer can subscribe to one of our many plans and begin using our network within minutes, with minimal technical skill and no professional services. This has allowed us to acquire a large portion of paying customers very rapidly and at significantly lower customer acquisition costs. Additionally, we continue to invest to build our direct sales force, increase brand awareness, leverage channel partners, and improve the sophistication of our sales operations.
 - *Expansion of our existing customers.* We believe that our network enables a large opportunity for growth within our existing customer base given the breadth of products we offer on our infrastructure platform. Our relationships with customers often start with servicing a portion of their overall network needs and expand over time as they realize the significant value we deliver. Once a customer has adopted one product on our network it can easily add additional products. As we add more products and functionality to our network, we see opportunities to drive upsell as customers seek to consolidate onto one infrastructure platform to meet all of their security, performance, and reliability network requirements. We also intend to continue to invest in market awareness of our new products to improve growth within our existing customers.
 - *International reach.* Our global network, with a presence in more than 275 cities and over 100 countries worldwide, has helped to foster our strong international growth. International markets represented 47% and 48% of our revenue in the three months ended June 30, 2022 and 2021, respectively, and we intend to continue to invest in our international growth as a strategy to expand our customer base around the world.

Opportunities, Challenges, and Risks

We believe that the growth of our business and our future success are dependent upon many factors, including growing our customer base, expanding our relationships with existing paying customers, developing and successfully launching new products, expanding into additional market segments, expanding our base of free customers, and developing and maintaining favorable peering and co-location relationships. Each of these factors presents significant opportunities for us, but also poses material challenges and risks that we must successfully address in order to grow our business and improve our operating results. We expect that addressing these challenges and risks will increase our operating expenses significantly over the next several years. The timing of our future profitability, if we achieve profitability at all, will depend upon many variables, including the success of our growth strategies and the timing and size of investments and expenditures that we choose to undertake, as well as market growth and other factors that are not within our control. In addition, we must comply with complex, uncertain, and evolving laws, rules, and regulatory requirements across federal, state, and international jurisdictions. If we fail to successfully address these challenges, risks, and variables, our business, operating results, financial condition, and prospects may be adversely affected.

Impact of COVID-19 and Macroeconomic Developments

The ongoing COVID-19 pandemic and the resulting containment measures that have been in effect from time to time in various countries and territories since early 2020 have had, and are expected to continue to have, a number of substantial negative impacts on businesses around the world and on global, regional, and national economies, including widespread disruptions in supply chains for a wide variety of products and resulting increases in the prices of many goods and services. The ongoing emergence and spread of new COVID-19 variants have resulted in authorities around the world periodically implementing and relaxing numerous measures to contain the virus, such as travel restrictions and bans, quarantines, shelter-in-place orders, and limitations on business activities. Although vaccines for COVID-19 have been developed and are being administered in the United States and other countries around the world, the expansion of administering these vaccines to additional people within these countries, the long-term efficacy of these vaccines, and the receptivity of many people to receiving these vaccines, remain uncertain.

While the negative impacts directly attributable to the COVID-19 pandemic have continued to varying degrees, the Russian invasion of Ukraine in the first quarter of 2022 caused further economic instability and contributed to price increases for a wide variety of goods and services, resulting in significant inflationary pressure in the United States, Europe, and other countries around the world. In response to concerns over ongoing inflationary risks, the U.S. Federal Reserve and other central banks began to raise interest rates significantly during the first half of 2022 and signaled the expectation of further interest rate increases in the future. In addition, the increase in global economic uncertainty has resulted in the U.S. dollar increasing significantly in value relative to the currencies of many of the countries in which our operations are located, including the British Pound and Euro.

Although the COVID-19 pandemic, the Russia-Ukraine conflict, and the resulting impacts on inflation, interest rates, and currency exchange rates and resulting macroeconomic uncertainty has not yet had a material adverse impact on our business, financial condition or results of operations to date, we are closely monitoring these global events and macroeconomic developments and how they may impact our and our customers' businesses. During the first half of this year, potentially as a result of these various macroeconomic impacts on our customers, we experienced a lengthening of the sales cycle for our large customers, a slowdown in our pipeline of potential new customers, and a lengthening of the timing of payment from some of our customers. In addition, during the second quarter of 2022, we experienced a meaningful reduction in the number of paying customers under our pay-as-you-go subscription plans due in part to such customers converting to our free plans.

To the extent macroeconomic uncertainty persists or the COVID-19 pandemic, the Russia-Ukraine conflict, or macroeconomic conditions worsen, we may experience an extension and worsening of these effects as well as additional adverse effects on our business, financial condition, or results of operations in future periods. These effects could include, among others, increased slowness in purchasing decisions by existing and potential new paying customers, additional lengthening of the sales cycle for some of our existing and potential new paying customers, further reduction or delays in purchasing decisions by our paying customers, potential customer requests for concessions or delayed payments, potential losses of paying customers as a result of economic distress or bankruptcy (particularly among our small and medium paying customer base), potential reductions in new non-U.S. customers and expansion of sales to existing non-U.S. paying customers as a result of our products, which we currently only sell for U.S. dollars, becoming relatively more expensive for such customers, and increased costs for employee compensation and equipment purchases resulting from continued inflationary cost pressures.

As a result, the broader implications of the COVID-19 pandemic, the Russia-Ukraine conflict, and the deterioration of macroeconomic conditions globally and in various countries in which we and our customers operate on our business and operations and our financial results continue to be uncertain. The duration and severity of any economic downturns resulting from the COVID-19 pandemic, the Russia-Ukraine conflict, and other factors may negatively impact our business and operations, results of operations, financial condition, and cash flows.

For further discussion of the challenges and risks we confront related to the COVID-19 pandemic, the Russia-Ukraine conflict, macroeconomic conditions and otherwise, please refer to Part II, Item 1A “Risk Factors” of this Quarterly Report on Form 10-Q, including the risk factor titled “The ongoing COVID-19 pandemic, the Russia-Ukraine conflict, and the related challenging macroeconomic conditions globally and in various countries in which we and our customers operate may materially adversely affect our customers, vendors, and partners, and the duration and extent to which these factors may impact our future business and operations, results of operations, financial condition, and cash flows remain uncertain.”

Non-GAAP Financial Measures and Key Business Metrics

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in thousands)			
Gross profit	\$ 178,713	\$ 117,399	\$ 343,829	\$ 223,370
Gross margin	76 %	77 %	77 %	77 %
Loss from operations	\$ (64,541)	\$ (28,872)	\$ (104,565)	\$ (60,126)
Non-GAAP income (loss) from operations	\$ (891)	\$ (4,024)	\$ 4,030	\$ (11,514)
Operating margin	(28)%	(19)%	(23)%	(21)%
Non-GAAP operating margin	— %	(3)%	1 %	(4)%
Net cash provided by operating activities	\$ 38,251	\$ 7,455	\$ 2,784	\$ 30,949
Net cash provided by (used in) investing activities	\$ (56,048)	\$ 42,470	\$ (166,853)	\$ 90,246
Net cash provided by (used in) financing activities	\$ 11,143	\$ 10,150	\$ (3,111)	\$ 17,529
Free cash flow	\$ (4,414)	\$ (9,775)	\$ (68,815)	\$ (11,994)
Net cash provided by operating activities (as a percentage of revenue)	16 %	5 %	1 %	11 %
Free cash flow margin	(2)%	(6)%	(15)%	(4)%
Paying customers	151,803	126,735	151,803	126,735
Paying customers (> \$100,000 Annualized Revenue)	1,749	1,088	1,749	1,088

The following table summarizes the revenue by region based on the billing address of customers who use the Company's products:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in thousands)			
	Amount	Percentage of Revenue	Amount	Percentage of Revenue
United States	\$ 124,259	53 %	\$ 79,944	52 %
Europe, Middle East, and Africa	61,147	26 %	39,696	26 %
Asia Pacific	32,755	14 %	22,841	15 %
Other	16,356	7 %	9,947	7 %
Total	\$ 234,517	100 %	\$ 152,428	100 %

Non-GAAP Financial Measures

In addition to our results determined in accordance with generally accepted accounting principles in the United States (U.S. GAAP), we believe the following non-GAAP measures are useful in evaluating our operating performance. We use the following non-GAAP financial information to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that non-GAAP financial information, when taken collectively, may be helpful to investors because it provides consistency and comparability with past financial performance. However, non-GAAP financial information is presented for supplemental informational purposes only, has limitations as an analytical tool, and should not be considered in isolation or as a substitute for financial information presented in accordance with U.S. GAAP. In particular, free cash flow is not a substitute for cash provided by (used in) operating activities. Additionally, the utility of free cash flow as a measure of our liquidity is further limited as it does not represent the total increase or decrease in our cash balance for a given period. In

addition, other companies, including companies in our industry, may calculate similarly-titled non-GAAP measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison. A reconciliation is provided below for each non-GAAP financial measure to the most directly comparable financial measure stated in accordance with U.S. GAAP. Investors are encouraged to review the related U.S. GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable U.S. GAAP financial measures, and not to rely on any single financial measure to evaluate our business.

Non-GAAP Income (Loss) from Operations and Non-GAAP Operating Margin

We define non-GAAP income (loss) from operations and non-GAAP operating margin as U.S. GAAP loss from operations and U.S. GAAP operating margin, respectively, excluding stock-based compensation expense and its related employer payroll taxes, amortization of acquired intangible assets, and acquisition-related and other expenses. We exclude stock-based compensation expense which is a non-cash expense, from certain of our non-GAAP financial measures because we believe that excluding this item provides meaningful supplemental information regarding operational performance. We exclude employer payroll tax expenses related to stock-based compensation, which is a cash expense, from certain of our non-GAAP financial measures, because such expenses are dependent upon the price of our Class A common stock and other factors that are beyond our control and do not correlate to the operation of our business. We exclude amortization of acquired intangible assets, which is a non-cash expense, related to business combinations from certain of our non-GAAP financial measures because such expenses are related to business combinations and have no direct correlation to the operation of our business. We exclude acquisition-related and other expenses from certain of our non-GAAP financial measures because such expenses are related to business combinations and have no direct correlation to the operation of our business. Acquisition-related and other expenses can be cash or non-cash expenses incurred in connection with the acquisition, and include third-party transaction costs and compensation expense for key acquired personnel.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in thousands)			
Loss from operations	\$ (64,541)	\$ (28,872)	\$ (104,565)	\$ (60,126)
Add:				
Stock-based compensation expense and related employer payroll taxes	57,455	24,148	99,254	47,212
Amortization of acquired intangible assets	4,887	700	5,394	1,400
Acquisition-related and other expenses	1,308	—	3,947	—
Non-GAAP income (loss) from operations	<u>\$ (891)</u>	<u>\$ (4,024)</u>	<u>\$ 4,030</u>	<u>\$ (11,514)</u>
Operating margin	(28)%	(19)%	(23)%	(21)%
Non-GAAP operating margin (non-GAAP income (loss) from operations as a percentage of revenue)	— %	(3)%	1 %	(4)%

Free Cash Flow and Free Cash Flow Margin

Free cash flow is a non-GAAP financial measure that we calculate as net cash provided by (used in) operating activities less cash used for purchases of property and equipment and capitalized internal-use software. Free cash flow margin is calculated as free cash flow divided by revenue. We believe that free cash flow and free cash flow margin are useful indicators of liquidity that provide information to management and investors about the amount of cash generated from our operations that, after the investments in property and equipment and capitalized internal-use software, can be used for strategic initiatives, including investing in our business, and strengthening our financial position. We believe that historical and future trends in free cash flow and free cash flow margin, even if negative, provide useful information about the amount of cash generated (or consumed) by our operating activities that is available (or not available) to be used for strategic initiatives. For example, if free cash flow is negative, we may need to access cash reserves or other sources of capital to invest in strategic initiatives. One limitation of free cash flow and free cash flow margin is that they do not reflect our future contractual commitments. Additionally, free cash flow does not represent the total increase or decrease in our cash balance for a given period.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in thousands)			
Net cash provided by operating activities	\$ 38,251	\$ 7,455	\$ 2,784	\$ 30,949
Less: Purchases of property and equipment	(37,084)	(13,572)	(61,565)	(35,840)
Less: Capitalized internal-use software	(5,581)	(3,658)	(10,034)	(7,103)
Free cash flow	\$ (4,414)	\$ (9,775)	\$ (68,815)	\$ (11,994)
Net cash provided by (used in) investing activities	\$ (56,048)	\$ 42,470	\$ (166,853)	\$ 90,246
Net cash provided by (used in) financing activities	\$ 11,143	\$ 10,150	\$ (3,111)	\$ 17,529
Net cash provided by operating activities (as a percentage of revenue)	16 %	5 %	1 %	11 %
Less: Purchases of property and equipment (as a percentage of revenue)	(16)%	(9)%	(14)%	(12)%
Less: Capitalized internal-use software (as a percentage of revenue)	(2)%	(2)%	(2)%	(3)%
Free cash flow margin	(2)%	(6)%	(15)%	(4)%

Key Business Metrics

In addition to our results determined in accordance with U.S. GAAP and the non-GAAP measures discussed above, we also review the key business metrics discussed below to assist us in evaluating our business, measuring performance, identifying trends, formulating business plans, and making strategic decisions. There are a number of limitations associated with the use of key business metrics as analytical tools, however, and we do not rely upon any single key business metric to evaluate our business. In addition, other companies, including companies in our industry, may calculate similarly-titled business metrics differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of these business metrics as tools for comparison to such companies.

Paying Customers

We believe our ability to grow the number of paying customers on our network provides a key indicator of growth of our business and our future business opportunities. We define a paying customer at the end of the quarter as a person or entity who has generated revenue during such quarter, excluding (i) customers that were not acquired through ordinary sales channels, (ii) customers using only our registrar product, and (iii) customers using our consumer applications, such as 1.1.1.1 and Warp, which agreements and customers together represent an insignificant amount of our revenue. An entity is defined as a company, a government institution, a non-profit organization, or a distinct business unit of a large company that has an active contract with us or one of our partners. The number of paying customers was 151,803 and 126,735 as of June 30, 2022 and June 30, 2021, respectively. During the quarter ended March 31, 2022, we experienced a system error that caused our paying customer count to be overstated for such quarter by 5,925 pay-as-you-go customers. The corrected number of paying customers for the quarter ended March 31, 2022 is 148,184. This error had a less than \$0.2 million impact on our revenue for the quarter ended March 31, 2022.

Paying Customers (> \$100,000 Annualized Revenue)

While we continue to grow customers across all sizes, over time, our large customers have contributed an increasing share of our revenue. We view the number of customers with Annualized Revenue greater than \$100,000 as indicative of our penetration within large enterprise accounts. To measure Annualized Revenue at the end of a quarter, we take the sum of revenue for each customer in the quarter and multiply that amount by four. For example, if we signed a new customer that generated \$1,800 of revenue in a quarter, that customer would account for \$7,200 of Annualized Revenue for that year. Our Annualized Revenue calculation excludes (i) agreements that were not entered into through our ordinary sales channels, (ii) revenue generated from customers using only our registrar product, and (iii) customers using our consumer applications, such as 1.1.1.1 and Warp, which agreements and customers together represent an insignificant amount of our revenue. Our Annualized Revenue metric also

includes any usage charges by a customer during a period, which represents a small portion of our total revenue and may not be recurring. As a result, Annualized Revenue may be higher than actual revenue over the course of the year. The number of paying customers with Annualized Revenue greater than \$100,000 was 1,749 and 1,088 as of June 30, 2022 and June 30, 2021, respectively. We believe this trend will continue as customers increasingly adopt cloud technology and we are able to compete with an increasing share of our customers' legacy hardware solutions by adding new capabilities to our global network.

Dollar-Based Net Retention Rate

Our ability to maintain long-term revenue growth and achieve profitability is dependent on our ability to retain and grow revenue generated from our existing paying customers. We believe that we will achieve these objectives by continuing to focus on customer loyalty and adding additional products and functionality to our network. Our dollar-based net retention rate is a key way we measure our performance in these areas. Dollar-based net retention measures our ability to retain and expand recurring revenue from existing customers. To calculate dollar-based net retention for a quarter, we compare the Annualized Revenue from paying customers four quarters prior to the Annualized Revenue from the same set of customers in the most recent quarter. Our dollar-based net retention includes expansion and is net of contraction and attrition, but excludes Annualized Revenue from new customers in the current period. Our dollar-based net retention excludes the benefit of free customers that upgrade to a paid subscription between the prior and current periods, even though this is an important source of incremental growth. We believe this provides a more meaningful representation of our ability to add incremental business from existing paying customers as they renew and expand their contracts. Our dollar-based net retention rates for the three months ended June 30, 2022 and June 30, 2021 were 126% and 124%, respectively.

Components of Our Results of Operations

Revenue

We generate revenue primarily from sales to our customers of subscriptions to access our network and products, together with related support services. Arrangements with customers generally do not provide the customer with the right to take possession at any time of our software operating our global network. Instead, customers are granted continuous access to our network and products over the contractual period. A time-elapsed output method is used to measure progress because we transfer control evenly over the contractual period. Accordingly, the fixed consideration related to subscription and support revenue is generally recognized on a straight-line basis over the contract term beginning on the date that the service is made available to the customer. Usage-based consideration is primarily related to fees charged for our customer's use of excess bandwidth when accessing our network in a given period and is recognized as revenue in the period in which the usage occurs.

The typical subscription and support term for our contracted customers is one year and subscription and support term lengths range from one to three years. Most of our contracts with contracted customers are non-cancelable over the contractual term. Customers may have the right to terminate their contracts for cause if we fail to perform in accordance with the contractual terms. For our pay-as-you-go customers, subscription and support term contracts are typically monthly.

Cost of Revenue

Cost of revenue consists primarily of expenses that are directly related to providing our service to our paying customers. These expenses include expenses related to operating in co-location facilities, network and bandwidth costs, depreciation of our equipment located in co-location facilities, certificate authority services costs for paying customers, related overhead costs, the amortization of our capitalized internal-use software, and the amortization of acquired developed technologies. Cost of revenue also includes employee-related costs, including salaries, bonuses, benefits, and stock-based compensation for employees whose primary responsibilities relate to supporting our paying customers. Other costs included in cost of revenue include credit card fees related to processing customer transactions and allocated overhead costs.

As our customers expand and increase the use of our global network and products driven by additional applications and connected devices, we expect that our cost of revenue will increase due to higher network and bandwidth costs and expenses related to operating in additional co-location facilities. However, we expect to continue to benefit from economies of scale as our customers increase the use of our global network and products. We intend to continue to

invest additional resources in our global network and products and our customer support organizations as we grow our business. The level and timing of investment in these areas could affect our cost of revenue in the future.

Gross Profit and Gross Margin

Gross profit is revenue less cost of revenue and gross margin is gross profit as a percentage of revenue. Our gross profit and gross margin have and are expected to continue to fluctuate from period to period due to the timing of acquisition of new customers and our renewals with existing customers, expenses related to operating in co-location facilities and network and bandwidth costs to operate and expand our global network, and amortization of costs associated with capitalized internal-use software. We expect our gross profit to increase in absolute dollars and our gross margin to remain consistent over the long term, although our gross margin could fluctuate from period to period depending on the interplay of all of these factors.

Operating Expenses

Sales and Marketing

Sales and marketing expenses consist primarily of employee-related costs, including salaries, benefits, and stock-based compensation expense, sales commissions that are recognized as expenses over the period of benefit, marketing programs, certificate authority services costs for free customers, travel-related expenses, bandwidth and co-location costs for free customers, and allocated overhead costs. Sales commissions earned by our sales force and the associated payroll taxes that are direct and incremental to the acquisition of channel partner and direct customer contracts are deferred and amortized over an estimated period of benefit of three years for the initial acquisition of a contract and over the contractual term of the renewals for renewal contracts. We plan to continue to invest in sales and marketing to grow our customer base and increase our brand awareness, including marketing efforts to continue to drive our pay-as-you-go business model. As a result, we expect our sales and marketing expenses to increase in absolute dollars for the foreseeable future. However, we expect our sales and marketing expenses to decrease as a percentage of our revenue over the long term, although our sales and marketing expenses may fluctuate as a percentage of our revenue from period to period due to the timing and extent of these expenses.

Research and Development

Research and development costs consist primarily of employee-related costs, including salaries, benefits, and stock-based compensation expense, consulting costs, depreciation of equipment used in research and development, and allocated overhead costs. Research and development costs support our efforts to add new features to our existing offerings and to ensure the security, performance, and reliability of our global network. We expect our research and development expenses to increase in absolute dollars for the foreseeable future as we continue to invest in research and development efforts to enhance the functionality of our global network and products. We expect our research and development expenses to remain generally consistent as a percentage of our revenue over the long term, although our research and development expenses may fluctuate as a percentage of our revenue from period to period due to the timing and extent of these expenses.

General and Administrative

General and administrative expenses consist primarily of employee-related costs, including salaries, benefits, and stock-based compensation expense for our finance, legal, human resources, and other administrative personnel, professional fees for external legal services, accounting, and other consulting services, bad debt expense, and allocated overhead costs. We expect our general and administrative expenses to continue to increase in absolute dollars for the foreseeable future to support our growth as well as due to additional costs associated with legal, accounting, compliance, insurance, investor relations, and other costs as a result of operating as a public company. However, we expect our general and administrative expenses to decrease as a percentage of our revenue over the long term, although our general and administrative expenses may fluctuate as a percentage of our revenue from period to period due to the timing and extent of these expenses.

Non-Operating Income (Expense)

Interest Income

Interest income consists primarily of interest earned on our cash, cash equivalents, and our investment holdings.

Interest Expense

Interest expense consists primarily of contractual interest expense and amortization of the debt issuance costs on our 0.75% Convertible Senior Notes due 2025 (the 2025 Notes) and 0% Convertible Senior Notes due 2026 (the 2026 Notes, and together with the 2025 Notes, the Notes). Upon adoption of the Accounting Standards Update (ASU) 2020-06, the Company is no longer recording the conversion feature of its convertible senior notes in equity. Instead, the Company combined the previously separated equity component with the liability component, which together is now classified as debt, thereby eliminating the subsequent amortization of the debt discount as interest expense.

Other Income (Expense), Net

Other income (expense), net consists primarily of gain on sale of property and equipment and foreign currency transaction gains and losses.

Provision for (Benefit from) Income Taxes

Provision for (benefit from) income taxes consists primarily of income taxes in certain foreign jurisdictions in which we conduct business, as well as state income taxes in the United States. We have a full valuation allowance on our U.S. federal, U.S. state, and U.K. deferred tax assets as we have concluded that it is more likely than not that the deferred tax assets will not be realized.

Results of Operations

The following tables set forth our condensed consolidated results of operations for the periods presented in dollars and as a percentage of our revenue for those periods:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in thousands)			
Revenue	\$ 234,517	\$ 152,428	\$ 446,684	\$ 290,483
Cost of revenue ⁽¹⁾	55,804	35,029	102,855	67,113
Gross profit	178,713	117,399	343,829	223,370
Operating expenses:				
Sales and marketing ⁽¹⁾	117,622	75,995	217,679	145,969
Research and development ⁽¹⁾	75,114	41,349	142,168	80,876
General and administrative ⁽¹⁾	50,518	28,927	88,547	56,651
Total operating expenses	243,254	146,271	448,394	283,496
Loss from operations	(64,541)	(28,872)	(104,565)	(60,126)
Non-operating income (expense):				
Interest income	1,641	373	2,702	917
Interest expense	(1,040)	(10,444)	(2,597)	(20,678)
Other income (expense), net	233	(877)	(254)	(729)
Total non-operating income (expense), net	834	(10,948)	(149)	(20,490)
Loss before income taxes	(63,707)	(39,820)	(104,714)	(80,616)
Provision for (benefit from) income taxes	(170)	(4,310)	204	(5,143)
Net loss	\$ (63,537)	\$ (35,510)	\$ (104,918)	\$ (75,473)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
	(dollars in thousands)			
Cost of revenue	\$ 1,888	\$ 579	\$ 2,966	\$ 993
Sales and marketing	12,216	6,608	21,135	12,253
Research and development	26,659	9,509	45,488	17,873
General and administrative	14,052	3,855	19,191	7,470
Total stock-based compensation expense	\$ 54,815	\$ 20,551	\$ 88,780	\$ 38,589

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Percentage of Revenue Data:				
Revenue	100 %	100 %	100 %	100 %
Cost of revenue	24	23	23	23
Gross margin	76	77	77	77
Operating expenses:				
Sales and marketing	50	50	48	50
Research and development	32	27	32	28
General and administrative	22	19	20	20
Total operating expenses	104	96	100	98
Loss from operations	(28)	(19)	(23)	(21)
Non-operating income (expense):				
Interest income	1	—	1	—
Interest expense	—	(7)	(1)	(7)
Other income (expense), net	—	—	—	—
Total non-operating income, net	1	(7)	—	(7)
Loss before income taxes	(27)	(26)	(23)	(28)
Provision for (benefit from) income taxes	—	(3)	—	(2)
Net loss	(27)%	(23)%	(23)%	(26)%

Comparison of Three and Six Months Ended June 30, 2022 and 2021

Revenue

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2022	2021	\$	%	2022	2021	\$	%
	(dollars in thousands)							
Revenue	\$ 234,517	\$ 152,428	\$ 82,089	54 %	\$ 446,684	\$ 290,483	\$ 156,201	54 %

Revenue increased by \$82.1 million, or 54%, for the three months ended June 30, 2022, compared to the three months ended June 30, 2021. The increase in revenue was primarily due to the addition of new paying customers, as our number of paying customers increased by 20% for the three months ended June 30, 2022 compared to the three months ended June 30, 2021, as well as the expansion within our existing paying customers, which was reflected by our dollar-based net retention rate of 126% for the three months ended June 30, 2022.

Revenue increased by \$156.2 million, or 54%, for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. The increase in revenue was primarily due to the addition of new paying customers, as our number of paying customers increased by 20% as of June 30, 2022 compared to the prior period ended June 30, 2021, as well as the expansion within our existing paying customers, which was reflected by our dollar-based net retention rate of 126% for the three months ended June 30, 2022.

Cost of Revenue and Gross Margin

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2022	2021	\$	%	2022	2021	\$	%
(dollars in thousands)								
Cost of revenue	\$ 55,804	\$ 35,029	\$ 20,775	59 %	\$ 102,855	\$ 67,113	\$ 35,742	53 %
Gross margin	76 %	77 %			77 %	77 %		

Cost of revenue increased by \$20.8 million, or 59%, for the three months ended June 30, 2022 compared to the three months ended June 30, 2021. The increase in the cost of revenue was primarily due to an increase of \$5.9 million in expenses related to operating in co-location facilities and network and bandwidth costs for operating our global network for our expanded customer base as well as increased capacity to support our growth, an increase of \$4.8 million in employee-related costs due to a 56% increase in headcount in our customer support and technical operations organizations, an increase of \$3.8 million of amortization expense of acquired developed technology and capitalized internal-use software, and an increase of \$2.9 million in depreciation expense related to purchases of equipment located in co-location facilities. The remainder of the increase was primarily due to \$2.8 million of increased third-party technology services costs, registry fees, and payment processing fees.

Gross margin did not significantly fluctuate during the three months ended June 30, 2022 as compared to the three months ended June 30, 2021.

Cost of revenue increased by \$35.7 million, or 53%, for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. The increase in the cost of revenue was primarily due to an increase of \$12.0 million in expenses related to operating in co-location facilities and network and bandwidth costs for operating our global network for our expanded customer base as well as increased capacity to support our growth, an increase of \$8.2 million in employee-related costs due to a 56% increase in headcount in our customer support and technical operations organizations, an increase of \$5.8 million in depreciation expense related to purchases of equipment located in co-location facilities, and an increase of \$4.2 million of amortization expense of acquired developed technology and capitalized internal-use software. The remainder of the increase was primarily due to \$4.1 million of increased third-party technology services costs, registry fees, and payment processing fees.

Gross margin did not significantly fluctuate during the three and six months ended June 30, 2022 compared to the six months ended June 30, 2021.

Operating Expenses

Sales and Marketing

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2022	2021	\$	%	2022	2021	\$	%
(dollars in thousands)								
Sales and marketing	\$ 117,622	\$ 75,995	\$ 41,627	55 %	\$ 217,679	\$ 145,969	\$ 71,710	49 %

Sales and marketing expenses increased by \$41.6 million, or 55%, for the three months ended June 30, 2022 compared to the three months ended June 30, 2021. The increase was primarily driven by \$25.9 million in increased employee-related costs due to a 45% increase in headcount in our sales and marketing organization, including an increase of \$5.6 million in stock-based compensation expense. The remainder of the increase was primarily due to an increase of \$6.3 million in co-location and bandwidth expenses for free customers, an increase of \$3.9 million in expenses for marketing programs due to investments in brand awareness advertising, third-party industry events, and digital performance marketing, an increase of \$2.2 million in travel-related expenses, and increase of \$1.2 million in allocated overhead costs, and an increase of \$1.1 million in subscriptions.

Sales and marketing expenses increased by \$71.7 million, or 49% for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. The increase was primarily driven by \$42.8 million in increased employee-related costs due to a 45% increase in headcount in our sales and marketing organization, including an

increase of \$8.9 million in stock-based compensation expense. The remainder of the increase was primarily due to an increase of \$11.4 million in co-location and bandwidth expenses for free customers, an increase of \$8.1 million in expenses for marketing programs due to investments in brand awareness advertising, third-party industry events, and digital performance marketing, an increase of \$3.0 million in travel-related expenses, and increase of \$2.0 million in allocated overhead costs, and an increase of \$1.7 million in subscriptions.

Research and Development

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2022	2021	\$	%	2022	2021	\$	%
(dollars in thousands)								
Research and development	\$ 75,114	\$ 41,349	\$ 33,765	82 %	\$ 142,168	\$ 80,876	\$ 61,292	76 %

Research and development expenses increased by \$33.8 million, or 82%, for the three months ended June 30, 2022 compared to the three months ended June 30, 2021. The increase was primarily driven by \$33.7 million in increased employee-related costs due to a 53% increase in headcount in our research and development organization, including an increase of \$17.9 million in stock-based compensation expense. The remainder of the increase was primarily due to an increase of \$1.8 million in allocated overhead costs, partially offset by an increased capitalized internal-use software development costs of \$2.9 million.

Research and development expenses increased by \$61.3 million, or 76%, for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. The increase was primarily driven by \$61.0 million in increased employee-related costs due to a 53% increase in headcount in our research and development organization, including an increase of \$28.8 million in stock-based compensation expense. The remainder of the increase was primarily due to an increase of \$2.5 million in allocated overhead costs, partially offset by an increased capitalized internal-use software development costs of \$4.3 million.

General and Administrative

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2022	2021	\$	%	2022	2021	\$	%
(dollars in thousands)								
General and administrative	\$ 50,518	\$ 28,927	\$ 21,591	75 %	\$ 88,547	\$ 56,651	\$ 31,896	56 %

General and administrative expenses increased by \$21.6 million, or 75%, for the three months ended June 30, 2022 compared to the three months ended June 30, 2021. The increase was primarily driven by \$16.7 million in increased employee-related costs due to a 52% increase in headcount in our general and administrative organization, an increase of \$2.9 million in rent and office related costs, primarily driven by our new office space in Austin, Texas, and an increase of \$2.8 million in travel-related expenses. These increases were partially offset by \$3.4 million of decreased allocated overhead costs.

General and administrative expenses increased by \$31.9 million, or 56%, for the six months ended June 30, 2022 compared to the six months ended June 30, 2021. The increase was primarily driven by \$23.9 million in increased employee-related costs due to a 52% increase in headcount in our general and administrative organization, an increase of \$5.2 million in rent and office related costs, primarily driven by our new office space in Austin, Texas, an increase of \$3.3 million in travel-related expenses, an increase of \$1.8 million in professional fees for third-party accounting, consulting, and legal services, and an increase of \$1.5 million in software subscription costs, cloud computing services, and payment processing fees. These increases were partially offset by \$5.9 million of decreased allocated overhead costs.

Non-Operating Income (Expense)

Interest Income

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2022	2021	\$	%	2022	2021	\$	%
(dollars in thousands)								
Interest income	\$ 1,641	\$ 373	\$ 1,268	340 %	\$ 2,702	\$ 917	\$ 1,785	195 %

Interest income increased by \$1.3 million and \$1.8 million, or 340% and 195%, for the three and six months ended June 30, 2022 compared to the three and six months ended June 30, 2021. The increase was primarily driven by an increase in interest rates.

Interest Expense

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2022	2021	\$	%	2022	2021	\$	%
(dollars in thousands)								
Interest expense	\$ (1,040)	\$ (10,444)	\$ 9,404	*	\$ (2,597)	\$ (20,678)	\$ 18,081	*

Interest expense decreased by \$9.4 million and \$18.1 million, for the three and six months ended June 30, 2022 compared to the three and six months ended June 30, 2021. The decrease was primarily driven by the adoption of ASU 2020-06. Upon adoption of the ASU, the Company is no longer recording the conversion feature of its convertible senior notes in equity. Instead, the Company combined the previously separated equity component with the liability component, which together is now classified as debt, thereby eliminating the subsequent amortization of the debt discount as interest expense. The remainder of the decrease was due to the decrease in the debt principal as a result of the 2025 Notes Exchange. Refer to Note 7 to these condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for more information regarding the 2025 Notes Exchange.

* Not meaningful

Other Income (Expense), net

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2022	2021	\$	%	2022	2021	\$	%
(dollars in thousands)								
Other income (expense), net	\$ 233	\$ (877)	\$ 1,110	*	\$ (254)	\$ (729)	\$ 475	*

* Not meaningful

Other income (expense), net did not significantly fluctuate during the three and six months ended June 30, 2022, as compared to the three and six months ended June 30, 2021.

Provision for (Benefit from) Income Taxes

	Three Months Ended June 30,		Change		Six Months Ended June 30,		Change	
	2022	2021	\$	%	2022	2021	\$	%
(dollars in thousands)								
Provision for (benefit from) income taxes	\$ (170)	\$ (4,310)	\$ 4,140	*	\$ 204	\$ (5,143)	\$ 5,347	*

* Not meaningful

The net change in income taxes for the three months ended June 30, 2022 compared to the three months ended June 30, 2021 is \$4.1 million. The benefit from income taxes of \$0.2 million for the three months ended June 30, 2022 was primarily related to the partial release of the U.S. valuation allowance in connection with an acquisition, offset by withholding taxes in the U.S. and income tax expense from profitable foreign jurisdictions. The benefit from income taxes of \$4.3 million for the three months ended June 30, 2021 was primarily related to excess tax benefits from stock-based compensation deductions and the remeasurement of deferred tax assets from an enacted rate change in the United Kingdom, offset by withholding taxes in the U.S. and income tax expense from profitable foreign jurisdictions.

The net change in income taxes for the six months ended June 30, 2022 compared to the six months ended June 30, 2021 is \$5.3 million. The provision for income taxes of \$0.2 million for the six months ended June 30, 2022 was primarily related to withholding taxes in the U.S. and income tax expense from profitable foreign jurisdictions, offset by the partial release of the U.S. valuation allowance in connection with acquisitions. The benefit from income taxes of \$5.1 million for the six months ended June 30, 2021 was primarily related to excess tax benefits from stock-based compensation deductions and the remeasurement of deferred tax assets from an enacted tax rate change in the United Kingdom, offset by withholding taxes in the U.S. and income tax expense from profitable foreign jurisdictions.

Liquidity and Capital Resources

Since our inception, we have financed our operations primarily through net proceeds from the sale of our equity and debt securities, as well as payments received from customers using our global network and products, and we expect to continue to finance our operations using the same sources for the foreseeable future. In May 2020, we issued \$575.0 million aggregate principal amount of the 2025 Notes in a private offering to qualified institutional buyers pursuant to Rule 144A promulgated under the Securities Act, from which we received total proceeds, net of initial purchaser discounts and commissions and debt issuance costs, of \$562.5 million. In August 2021, we issued \$1,293.8 million aggregate principal amount of the 2026 Notes in a private offering to qualified institutional buyers pursuant to Rule 144A promulgated under the Securities Act, from which we received total proceeds, net of initial purchaser discounts and commissions and debt issuance costs of \$1,274.0 million. Concurrently with the completion of the offering of the 2026 Notes, we also entered into privately-negotiated exchange agreements with certain holders of the 2025 Notes to exchange approximately \$400 million in aggregate principal amount of the 2025 Notes for an aggregate of \$400.7 million in cash (including accrued interest) and approximately 7.6 million shares of our Class A common stock.

As of June 30, 2022, we had cash and cash equivalents of \$142.7 million, including \$11.0 million held by our foreign subsidiaries. Our cash and cash equivalents primarily consist of cash and highly liquid money market funds. We also had available-for-sale securities of \$1,499.2 million consisting of U.S. treasury securities, commercial paper, and corporate bonds. As of June 30, 2022, the Company's investment portfolio consisted of investment grade securities with an average credit rating of AA. We have generated significant operating losses from our operations as reflected in our accumulated deficit of \$751.4 million as of June 30, 2022. We expect to continue to incur operating losses and cash flow from operations that may fluctuate between positive and negative for the foreseeable future due to the investments we intend to make in our business, and as a result we may require additional capital resources to execute on our strategic initiatives to grow our business.

We believe that our existing cash, cash equivalents, and available-for-sale securities will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months. For the period beyond the next 12 months, we believe we will be able to meet our working capital and capital expenditure needs from our existing cash, cash equivalents, and available-for-sale securities, the cash flows from our operating activities and, if necessary, proceeds from potential equity or debt financings. Our assessments of the period of time through which our existing financial resources will be adequate to support our operations and our expected sources of capital for the future operation of our business after such period of time are forward-looking statements and involve risks and uncertainties. Our actual results could vary as a result of, and our near- and long-term future capital requirements will depend on, many factors, including our growth rate, subscription renewal activity, the timing and extent of spending to support our infrastructure and research and development efforts, the expansion of sales and marketing activities, the timing of new introductions of products or features, the continuing market adoption of our global network and products, and the impact of the ongoing COVID-19 pandemic and other macroeconomic conditions to our and our customers', vendors', and partners' businesses. We may in the future enter into arrangements to

acquire or invest in complementary businesses, services and technologies, including intellectual property rights, and such acquisitions and investments could increase our need for additional capital. We have based our estimates on assumptions that may prove to be wrong, and we could use our available capital resources sooner than we currently expect. Additionally, some of the factors that may influence our operations are not within our control, such as general economic conditions and the length and severity of the COVID-19 pandemic. We may be required to seek additional equity or debt financing from time to time in the future. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, or if we cannot expand our operations or otherwise capitalize on our business opportunities because we lack sufficient capital, our business, operating results, and financial condition would be adversely affected.

As of June 30, 2022, our material cash requirements include contractual obligations from the Notes, purchase commitments and lease obligations. Refer to Notes 6, 7, and 8 to these condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for more information regarding these material cash requirements.

In addition to the contractual obligations described above, as of June 30, 2022, we had \$11.1 million recognized as total restricted cash on our consolidated balance sheets which mainly consisted of \$10.6 million of indemnity holdback consideration associated with business combinations.

Cash Flows

The following table summarizes our cash flows for the periods presented:

	Six Months Ended June 30,	
	2022	2021
	(in thousands)	
Net cash provided by operating activities	\$ 2,784	\$ 30,949
Net cash provided by (used in) investing activities	\$ (166,853)	\$ 90,246
Net cash provided by (used in) financing activities	\$ (3,111)	\$ 17,529

Operating Activities

Net cash provided by operating activities during the six months ended June 30, 2022 was \$2.8 million, which resulted from a net loss of \$104.9 million, adjusted for non-cash charges of \$179.0 million and net cash outflow of \$71.3 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of \$88.8 million for stock-based compensation expense, \$45.4 million for depreciation and amortization expense, \$20.2 million for amortization of deferred contract acquisition costs, \$18.1 million for non-cash operating lease costs, \$3.8 million for net accretion of discounts and amortization of premiums on available-for-sale securities, \$2.3 million for amortization of convertible note issuance costs, and \$2.0 million for provision of bad debt, which were partially offset by \$1.8 million for deferred income taxes. The net cash outflow from changes in operating assets and liabilities were primarily the result of a \$30.6 million increase in deferred contract acquisition costs due to the addition of new customers, a \$30.5 million decrease in accrued expenses and other current liabilities, a \$26.9 million increase in accounts receivable, net, which increased due to our growing customer base and timing of collections from our customers, a \$20.5 million decrease in operating lease liabilities, a \$5.1 million increase in prepaid expenses and other assets, and a \$1.1 million increase in contract assets, which were partially offset by a \$34.5 million increase in deferred revenue and a \$8.2 million increase in accounts payable.

Net cash provided by operating activities during the six months ended June 30, 2021 was \$30.9 million, which resulted from a net loss of \$75.5 million, adjusted for non-cash charges of \$111.2 million and net cash outflow of \$4.8 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of \$38.6 million for stock-based compensation expense, \$31.2 million for depreciation and amortization expense, \$18.2 million for amortization of convertible note discount and issuance costs, \$12.9 million for amortization of deferred contract acquisition costs, \$11.0 million for non-cash operating lease costs, \$3.9 million for net accretion of discounts and amortization of premiums on available-for-sale securities, and \$2.0 million for provision of bad debt, which were partially offset by \$6.6 million for deferred income taxes. The net cash outflow from changes in operating assets and liabilities were primarily the result of a \$25.3 million increase in deferred contract acquisition costs due to the addition of new customers, a \$14.4 million increase in accounts receivable, net, which increased due to our growing

customer base and timing of collections from our customers, and a \$10.4 million decrease in operating lease liabilities, which were partially offset by a \$27.7 million increase in deferred revenue, a \$10.9 million increase in accrued expenses and other current liabilities, a \$6.8 million increase in accounts payable, a \$1.7 million increase in contract assets, and a \$1.6 million increase in other non-current assets.

Investing Activities

Net cash used in investing activities during the six months ended June 30, 2022 of \$166.9 million resulted primarily from the purchases of available-for-sale securities of \$422.4 million, cash paid for acquisitions, net of cash acquired of \$86.9 million, capital expenditures of \$61.6 million, and capitalization of internal-use software development costs of \$10.0 million, which were partially offset by the maturities of available-for-sale securities of \$414.0 million.

Net cash provided by investing activities during the six months ended June 30, 2021 of \$90.2 million resulted primarily from the maturities of available-for-sale securities of \$514.3 million, which was partially offset by the purchases of available-for-sale securities of \$381.2 million, capital expenditures of \$35.8 million, and the capitalization of internal-use software development costs of \$7.1 million.

Financing Activities

Net cash used in financing activities of \$3.1 million during the six months ended June 30, 2022 was primarily due to \$16.6 million of repayments of convertible senior notes, and \$1.3 million payment of tax withholding on RSU settlements, which were partially offset by \$8.7 million proceeds from the issuance of common stock under the 2019 Employee Stock Purchase Plan (ESPP), and \$6.0 million of proceeds from the exercise of vested and unvested stock options.

Net cash provided by financing activities of \$17.5 million during the six months ended June 30, 2021 was primarily due to \$11.6 million of proceeds from the exercise of vested and unvested stock options and \$7.2 million of proceeds from the issuance of common stock pursuant to the ESPP, which was partially offset by a \$1.1 million payment of tax withholding on RSU settlements.

Off-Balance Sheet Arrangements

As of June 30, 2022, we did not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Critical Accounting Estimates

Our condensed consolidated financial statements are prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosures. Such estimates include, but are not limited to, allowance for doubtful accounts, deferred contract acquisitions costs, the period of benefit generated from the deferred contract acquisition costs, the capitalization and estimated useful life of internal-use software, the assessment of recoverability of intangible assets and their estimated useful lives, useful lives of property and equipment, the determination of the incremental borrowing rate used for operating lease liabilities, the valuation and recognition of stock-based compensation expense, uncertain tax positions, and the recognition and measurement of current and deferred income tax assets and liabilities. None of these estimates are critical accounting estimates for the preparation of our consolidated financial statements. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances, and we evaluate our estimates and assumptions on an ongoing basis. Due in part to the ongoing COVID-19 pandemic and other geopolitical conditions, there is ongoing uncertainty and significant disruption in the global economy and financial markets. We are not aware of any specific event or circumstance that would require an update to our estimates or assumptions or a revision of the carrying value of assets or liabilities as of August 4, 2022, the date of issuance of this Quarterly Report on Form 10-Q. These estimates and assumptions may change in the future, however, as new events occur and additional information is obtained. Our actual results could differ from these estimates.

Our significant accounting policies are discussed in Note 2 to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021. There have been no significant changes

to these policies for the six months ended June 30, 2022, except as described in Note 2 to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Recently Issued Accounting Pronouncements

Refer to Note 2 to these condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for more information regarding recently issued accounting pronouncements.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

As of June 30, 2022, we had cash and cash equivalents of \$142.7 million and available-for-sale securities of \$1,499.2 million. The carrying amount of our cash equivalents approximates fair value, due to the short maturities of these instruments. The primary objectives of our investment activities are the preservation of capital, the fulfillment of liquidity needs, and the fiduciary control of cash and investments. Our available-for-sale securities are held for capital preservation purposes. We do not enter into investments for trading or speculative purposes.

Our cash equivalents and our investment portfolio are subject to market risk due to fluctuations in interest rates. Our future investment income may fall short of our expectations due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. However, because we classify our securities as "available-for-sale," no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary.

In August 2021, we issued \$1,293.8 million in aggregate principal amount of the 2026 Notes. The 2026 Notes do not have regularly scheduled interest payments; therefore, we do not have economic interest rate exposure on the 2026 Notes. We carry the 2026 Notes at face value less the unamortized issuance costs on our condensed consolidated balance sheets. Generally, the fair market value of the 2026 Notes will increase as interest rates decline and decrease as interest rates rise. In addition, the fair market value of the 2026 Notes fluctuates when the market price of our Class A common stock fluctuates.

In May 2020, we issued \$575.0 million in aggregate principal amount of the 2025 Notes. In August 2021, we entered into privately-negotiated exchange agreements with certain holders of the 2025 Notes to exchange approximately \$400 million in aggregate principal amount of the 2025 Notes for an aggregate of \$400.7 million in cash (including accrued interest) and approximately 7.6 million shares of our Class A common stock. The 2025 Notes have a fixed annual interest rate; therefore, we do not have economic interest rate exposure on the 2025 Notes. We carry the 2025 Notes at face value less the unamortized issuance costs on our condensed consolidated balance sheets. Generally, the fair market value of the 2025 Notes will increase as interest rates decline and decrease as interest rates rise. In addition, the fair market value of the 2025 Notes fluctuates when the market price of our Class A common stock fluctuates.

We do not believe a hypothetical 10% increase or decrease in interest rates during any of the periods presented would have a material impact on our condensed consolidated financial statements.

Foreign Currency Risk

The functional currency of our foreign subsidiaries is the U.S. dollar and our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates relative to the U.S. dollar. The majority of our revenue is denominated in U.S. dollars. Our expenses are generally denominated in the currencies of the countries in which our operations are located and are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the British Pound, Euro, and Singapore Dollar. As exchange rates may fluctuate significantly between periods, revenue and operating expenses, when converted into U.S. dollars, may also experience significant fluctuations between periods. During the six months ended June 30, 2022 and 2021, a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have had a

material impact on our condensed consolidated financial statements. To date, we have not had a formal hedging program with respect to foreign currency, but we may do so in the future if our exposure to foreign currency should become more significant.

Inflation Risk

We do not believe that inflation has had a material effect on our business, results of operations, or financial condition. Nonetheless, if our costs in connection with the operation of our business were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and 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 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, have 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, in design and operation, effective at a reasonable assurance level.

Changes in Internal Controls Over Financial Reporting

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 the Effectiveness of Controls

The effectiveness of any system of internal control over financial reporting, including ours, is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, in designing and evaluating the disclosure controls and procedures, management recognizes that any system of internal control over financial reporting, including ours, no matter how well designed and operated, can only provide reasonable, not absolute assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business but cannot assure you that such improvements will be sufficient to provide us with effective internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

From time to time we are subject to legal proceedings and claims arising in the ordinary course of business. We are not presently a party to any legal proceeding that we believe is likely to have a material impact on our business, results of operations, or financial condition.

Future litigation may be necessary, among other things, to defend ourselves or our customers by determining the scope, enforceability, and validity of third-party proprietary rights or to establish our proprietary rights. The results of any litigation cannot be predicted with certainty, particularly in the areas of unsettled and evolving law in which we operate, and an unfavorable resolution in any legal proceedings could materially affect our future business, results of operations, or financial condition. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors. For additional information, see "Risk Factors - Activities of our paying and free customers or the content of their websites and other Internet properties may violate applicable laws and/or our terms of service and could subject us to lawsuits, regulatory enforcement actions, and/or liability in various jurisdictions" and "We are currently, and may be in the future, party to intellectual property rights claims and other litigation matters that, if resolved adversely, could have a material impact on our business, results of operations, or financial condition" and Note 8 to the condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

Item 1A. RISK FACTORS

Our business involves significant risks, some of which are described below. 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 consolidated financial statements and related notes. Any of the following risks could have an adverse effect on our business, results of operations, financial condition, or prospects, and could cause the trading price of our Class A common stock to decline. Our business, results of operations, financial condition, or prospects could also be harmed by risks and uncertainties that are not presently known to us or that we currently believe are not material. In that event, the market price of our Class A common stock could decline, and you could lose part or all of your investment. Our Risk Factors are not guarantees that no such conditions exist as of the date of this report and should not be interpreted as an affirmative statement that such risks or conditions have not materialized, in whole or in part.

Risks Related to Our Business and Our Industry

We have a history of net losses and may not be able to achieve or sustain profitability in the future.

We have incurred net losses in all periods since we began operations and we may not achieve or maintain profitability in the future. We experienced net losses of \$63.5 million and \$35.5 million for the three months ended June 30, 2022 and 2021, respectively, and \$104.9 million and \$75.5 million for the six months ended June 30, 2022 and 2021, respectively, and as of June 30, 2022, we had an accumulated deficit of \$751.4 million. Because the markets for our products are rapidly evolving, it is difficult for us to predict our future results of operations. We expect our operating expenses to increase over the next several years as we continue to hire additional personnel, expand our operations and infrastructure both domestically and internationally, and continue to develop our products. In addition to the expected costs to grow our business, we also are incurring significant additional legal, accounting, and other expenses as a public company, as described in greater detail in the risk factors below. If we fail to increase our revenue to offset the increases in our operating expenses, we may not achieve or sustain profitability in the future.

We have experienced rapid revenue growth, which may not be indicative of our future performance.

We have experienced rapid revenue growth in recent periods, with revenue of \$234.5 million and \$152.4 million for the three months ended June 30, 2022 and 2021, respectively and \$446.7 million and \$290.5 million for the six months ended June 30, 2022 and 2021, respectively. You should not consider our recent growth in revenue as indicative of our future performance. In particular, our revenue growth rates may slow or decline in the future and

may not be sufficient to achieve and sustain profitability, as we also expect our costs to increase in future periods. We believe that historical comparisons of our revenue may not be meaningful and should not be relied upon as an indication of future performance. Accordingly, you should not rely on our revenue and other growth for any prior quarter or year as an indication of our future revenue or revenue growth.

Our rapid growth may also make it difficult to evaluate our future prospects. Our ability to forecast our future results of operations is subject to a number of uncertainties, including our ability to effectively plan for and model future growth. If we fail to achieve the necessary level of efficiency in our organization as it grows, or if we are not able to accurately forecast future growth, our business, results of operations, and financial condition could be harmed.

If we are unable to attract new paying and free customers, our future results of operations could be harmed.

The success of our business principally depends on our ability to attract new paying and free customers. To do so, we must persuade decision makers at potential customers that our products offer significant advantages over those of our competitors. Other factors, many of which are out of our control, may now or in the future impact our ability to add new paying and free customers, including:

- potential customers' commitments to existing equipment or vendors;
- potential customers' greater familiarity and/or comfort with on-premises, appliance-based products and concerns about potential risks associated with using cloud-based solutions;
- actual or perceived switching costs;
- our failure to develop new products and features, and to adapt to technological developments, that our potential customers' demand;
- delays in the general availability release of products and features after we have announced their development or beta availability;
- our failure to generate demand for our products through effective marketing efforts related to our business and products;
- our failure to obtain or maintain government or industry security certifications for our network and products, such as the Federal Risk and Authorization Management Program (FedRAMP);
- negative media, industry, or financial analyst commentary regarding our products and our network and the identities and activities of some of our paying and free customers;
- the adoption of new, or amendment of existing, laws, rules, or regulations that negatively impact the utility of, or increase the risk of using, cloud-based solutions generally or our network and products specifically, including changes in privacy and data protection laws;
- our failure to expand, retain, and motivate our sales and marketing personnel;
- our failure to develop or expand relationships with existing channel partners or to attract new channel partners;
- our failure to help our customers to successfully deploy and use our products;
- our failure to educate our customers about our network and products;
- the perceived risk, commencement, or outcome of litigation; and
- deteriorating general economic conditions, including inflation, rising interest rates, and other impacts of the ongoing COVID-19 pandemic or the Russia-Ukraine conflict.

We believe that the importance of brand recognition for attracting new customers will increase as we introduce new products and continue to expand into new markets. However, the promotion of our brand may require substantial expenditures. We have invested, and expect to continue to invest, substantial resources to increase our brand awareness, both generally and in specific geographies and to specific customer groups. There can be no assurance that our brand development strategies and investment of resources will enhance recognition of our brand or lead to an increased customer base.

If our efforts to attract new paying customers are not successful, our revenue and rate of revenue growth may decline, we may not achieve profitability, and our future results of operations could be materially harmed. If our

efforts to attract new free customers are not successful, the benefits to our network and product development cycles from our strategy of providing a free subscription plan will be diminished.

Our business depends on our ability to retain and upgrade paying customers and, to a lesser extent, convert free customers to paying customers, and any decline in renewals, upgrades, or conversions could adversely affect our future results of operations.

Our business is subscription-based and it is important for our business and financial results that our paying customers renew their subscriptions for our products when existing contract terms expire. Our pay-as-you-go customers pay with a credit card on a monthly basis and can terminate their subscriptions at will with little advance notice. Because pay-as-you-go customers that subscribe to our basic subscription plans are an important source of revenue, this ease of termination could cause our results of operations to fluctuate significantly from quarter to quarter. Our contracted customers, which consist of customers that sign up for our Enterprise plan, enter into longer term agreements typically ranging from one to three years, and they generally have no obligation to renew their subscriptions for our products after the expiration of their contractual period and are allowed to cancel their subscriptions in the case of an uncured material breach of the agreement. Some contracted customers also have agreements that allow them to terminate the agreement without cause upon little or no advance written notice, or upon our failure to meet certain service level commitments, or to obtain and maintain industry security certifications within a specified time frame. Should certain of our contracted customers, especially our large customers, terminate their agreements with us, our financial condition and results of operations may materially suffer. In addition, as we continue to increase our number of large customers, and the amount of revenue we receive from large customers, this risk may increase.

Due to our varied customer base and short average subscription periods, it is difficult to accurately predict our long-term customer retention rate. Our customer retention may decline or fluctuate as a result of a number of factors, including our customers' satisfaction with the security, performance, and reliability of our products and our global network, our development and general availability release of new products and features, and adoption to technological developments, required by customers, our prices and subscription plans, our customers' budgetary restrictions (including reductions in spending as a result of uncertain economic conditions), mergers, acquisitions, joint ventures, and business partnerships and relationships involving our customers, the perception that competitive products provide better or less expensive options, negative public perception of us or our free and paying customers, concerns about new or amended laws, rules, or regulations that increase the risk of using cloud-based solutions or our network and products specifically, and deteriorating general economic conditions.

Our future financial performance also depends in part on our ability to continue to upgrade paying customers to higher-tier subscriptions or additional paid products and, to a lesser extent, to convert free customers into paying customers. Conversely, our paying customers may convert to lower-cost or free plans if they do not see the marginal value in paying for our higher-cost plans, thereby impacting our ability to increase revenue. For example, during the second quarter of 2022, we experienced a meaningful reduction in the number of paying customers under our pay-as-you-go subscription plans due in part to such customers converting to our free plans. Moreover, our free customers have no obligation to transition to paying customers at any point. In order to expand our commercial relationship with our customers, existing paying and free customers must decide that the incremental cost associated with such an upgrade is justified by the additional functionality. For example, some of our paying customers may decide that our Enterprise plan offerings do not provide sufficient incremental value to upgrade from our pay-as-you-go offering or to continue any such previously chosen upgrade. Our customers' decision whether to upgrade their subscription or to continue any such previously chosen upgrade is driven by a number of factors, including customer satisfaction with the security, performance, and reliability of our network and products, customer security and networking issues and requirements, general economic conditions, and customer reaction to the price for additional products. If our efforts to expand our relationship with our existing paying and free customers are not successful, our financial condition and results of operations may materially suffer.

If we are unable to effectively attract, expand, and retain sales to large customers, or we fail to mitigate the additional risks associated with serving such customers, our business, results of operation, and financial condition may suffer.

Our growth strategy is dependent, in large part, upon attracting, expanding, and retaining sales to large customers. For our definition of "large customers," see Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. Attracting, expanding, and retaining sales to large customers involve risks that may not be present, or that are present to a lesser extent, with sales to smaller customers, including:

- competition from companies that traditionally target larger enterprises and that may have pre-existing relationships or purchase commitments from such customers or that may have greater resources available or committed to such customers;
- longer evaluation periods, more detailed evaluations, and more cumbersome contract negotiation and approval processes, including potential requirements for such purchasing decisions to be approved by senior executives of such companies;
- increased purchasing power and leverage in negotiating contractual arrangements with us;
- requirements for more technically complex configurations, integrations, deployments, or features;
- more stringent requirements in our support and compliance obligations;
- increased usage of our global network that may require us to incur greater network infrastructure expenditures; and
- longer sales cycles and the associated risk that substantial time and resources may be spent on a potential customer that elects not to purchase, expand, or continue to purchase our products.

Historically, the implementation period to start using, or expanding the use of, our products has been short, with most customers under our pay-as-you-go plans implementing usage of our products within a matter of minutes and our sales cycle for customers under our Enterprise plan lasted less than one quarter. We have, however, in recent quarters experienced a lengthening of the sales cycle for new large customers, and such lengthening of our sales cycle could be further exacerbated in the future to the extent that macroeconomic conditions further deteriorate. As our sales force continues to target an increasing number of large customers for new and expanded product sales, these larger enterprises may undertake a more significant evaluation and negotiation processes than we have experienced in the past, which could further lengthen our sales cycle materially.

In addition, our sales efforts typically involve educating our prospective large customers about the uses, benefits, and value proposition of our network and products. Our sales force develops relationships directly with our customers and our channel partners through account penetration, account coordination, sales, and overall market development. Potential large customers often view the subscription to our products, including any expansion of those subscriptions, as a significant strategic decision and, as a result, in some cases require considerable time to evaluate, test, and qualify our network and products prior to entering into or expanding a relationship with us. As a result, we spend substantial time and resources on our sales efforts without any assurance that our efforts will produce a sale. Subscriptions to our products, including expanded subscriptions, often are subject to budget constraints, multiple approvals, and unanticipated administrative, processing, and other delays. In addition, some of our subscription agreements with our large customers may have more favorable early termination rights or may have greater usage-based pricing than is the case with our customary subscription-based agreements with our contracted customers and our pay-as-you-go customers. As a result, it is difficult to predict whether or when a sale to a prospective large customer will be completed, how much incremental revenue will result from such sales over the duration of the agreement, and when revenue from a subscription will be recognized or will cease.

Further, our ability to improve our sales of products to large customers is dependent on us continuing to attract and retain sales personnel with experience in selling to larger enterprises. Also, because security breaches or a network outage with respect to larger, high-profile enterprises are likely to be heavily publicized, there is increased liability and reputational risks associated with serving these customers if we experience a security breach or network outage. We also believe that large customers may be more likely than our smaller customers to terminate or reduce their usage of our products in such circumstances.

Once we begin selling to a large customer or expand our sales to a large customer, if we fail to retain the large customer or to retain the same amount of sales to the large customer, then the adverse impact on our result of operations and financial conditions could be significant during any specific quarter and could also result in potentially greater and unexpected variability in our results of operations and financial condition from quarter to quarter.

The ongoing COVID-19 pandemic, the Russia-Ukraine conflict, and the related challenging macroeconomic conditions globally and in various countries in which we and our customers operate may materially adversely affect our customers, vendors, and partners, and the duration and extent to which these factors may impact our future business and operations, results of operations, financial condition, and cash flows remain uncertain.

The ongoing COVID-19 pandemic, as well as intensified measures undertaken from time to time in various countries and territories to contain the spread of new COVID-19 variants, the Russia-Ukraine conflict, and the related challenging macroeconomic conditions globally and in many countries, could decrease the spending of our existing and potential new customers, adversely affect demand for our products, cause one or more of our customers, vendors, and partners to file for bankruptcy protection or go out of business, cause one or more of our customers to fail to renew, terminate, or seek to renegotiate their contracts with us, affect the ability of our sales team to travel to potential customers, impact expected spending from existing and potential new customers, and negatively impact collections of accounts receivable, all of which could adversely affect our business, results of operations, and financial condition. Further, the sales cycle for new customers of our technology and services could lengthen in the future as a result of the pandemic and macroeconomic conditions, resulting in a potentially longer delay between increasing operating expenses and the generation of corresponding revenue, if any. We may also experience increases in new and existing customers requesting concessions in terms of payment amounts and/or timing and earlier or additional termination rights in the future as the COVID-19 pandemic and Russia-Ukraine conflict continue. For example, during the first half of this year, potentially as a result of these various macroeconomic impacts on our customers, we experienced a lengthening of the sales cycle for our large customers, a slowdown in our pipeline of potential new customers, and a lengthening of the timing of payment from some of our customers.

Any of the negative impacts of the ongoing COVID-19 pandemic, the Russia-Ukraine conflict, and the related challenging macroeconomic conditions, including, among others, those described above, alone or in combination with others, may have a material adverse effect on our business and operations, results of operations, financial condition, and cash flows. Any of these negative impacts, alone or in combination with others, also could exacerbate many of the other risk factors discussed below in this Part II, Item 1A “Risk Factors” of this Quarterly Report on Form 10-Q, including volatility in the trading prices of our Class A common stock. The full extent to which these factors will negatively affect our business and operations, results of operations, financial condition, and cash flows will depend on future developments that are highly uncertain and cannot be predicted, including the scope, severity, and duration of the COVID-19 pandemic, the Russia-Ukraine conflict, and any economic downturns and the actions taken by governmental authorities and other third parties in response.

Activities of our paying and free customers or the content of their websites or other Internet properties, as well as our response to those activities, could cause us to experience significant adverse political, business, and reputational consequences with customers, employees, suppliers, government entities, and others.

Activities of our paying and free customers or the content of their websites and other Internet properties could cause us to experience significant adverse political, business, and reputational consequences with customers, employees, suppliers, government entities, and other third parties. Even if we comply with legal obligations to remove or disable customer content, we may maintain relationships with customers that others find hostile, offensive, or inappropriate. For example, we experienced significant negative publicity in connection with the use of our network by *The Daily Stormer*, a neo-Nazi, white supremacist website, around the time of the 2017 protests in Charlottesville, Virginia. We also received negative publicity in connection with the use of our network by 8chan, a forum website that served as inspiration for the 2019 attacks in El Paso, Texas and Christchurch, New Zealand. We are aware of some potential customers that have indicated their decision to not subscribe to our products was impacted, at least in part, by the actions or potential actions of certain of our paying and free customers. We may also experience other adverse political, business and reputational consequences with prospective and current customers, employees, suppliers, and others related to the activities of our paying and free customers, especially if such hostile, offensive, or inappropriate use is highly publicized.

Conversely, actions we take in response to the activities of our paying and free customers, up to and including banning them from using our products, may harm our brand and reputation. Following the events in Charlottesville, Virginia, we terminated the account of *The Daily Stormer*. Similarly, following the events in El Paso, Texas, we terminated the account of 8chan. We received significant adverse feedback for these decisions from those concerned about our ability to pass judgment on our customers and the users of our network and products, or to censor them by limiting their access to our products, and we are aware of potential customers who decided not to subscribe to our products because of this.

Although offering a free plan for certain of our products is an important part of our business strategy, we may not be able to realize all of the expected benefits of this strategy and the costs and other detriments associated with our free plan could outweigh the benefits we receive from our free customers.

We have historically offered a free plan for certain of our products. We believe that this strategy is valuable to us and it is an important part of our overall business strategy. However, to the extent that we do not achieve the expected benefits of this strategy, our business may be adversely affected by the costs and detriments of making certain of our products available on a free basis. While we do not receive any revenue from our free customers, we bear incremental expenses and other liabilities as a result of our free customers' continuing free use of our network and certain of our products. Adverse political, business, and reputational consequences associated with Internet properties we serve that are perceived as hostile, offensive, or inappropriate may also be disproportionately common among our free customers. The vast majority of our customers do not pay for our products. In addition, a substantial majority of our free customers historically have not converted to paying customers and we expect this will continue in the future.

We face intense and increasing competition, which could adversely affect our business, financial condition, and results of operations.

The markets for our network and products are intensely competitive and characterized by rapid changes in technology, customer requirements, industry standards, and frequent introductions of new, and improvements of, existing products. Our broad portfolio of products exposes us to competition from a large number of competitors in a number of different markets, including companies and their product and services offerings in, among others, virtual private networks, internal and external firewalls, web security (including web application firewalls and content filtering), distributed denial of service prevention, intrusion detection and prevention, application delivery controls, content delivery networks, domain name systems, advanced threat prevention, and wide area network (WAN) technology.

Our competitors provide both on-premises, appliance-based solutions, and cloud-based services that have functionality similar to our network and products. We expect competition to increase as other established and emerging companies and start-ups enter the markets for products and solutions for security, performance, and reliability, in particular with respect to cloud-based solutions, as customer requirements evolve and as new products, services, and technologies are introduced. If we are unable to anticipate or effectively react to these competitive challenges, our competitive position could weaken, and we could experience a decline in revenue or our growth rate that could materially and adversely affect our business and results of operations.

Our potential competitors include large companies with substantial infrastructure, such as global telecommunications services provider partners and public cloud providers. These companies could choose to enter the markets for products and solutions for security, performance, and reliability, including by acquiring existing companies, developing their own internal solutions, or establishing cooperative relationships with businesses that may allow them to offer more comprehensive solutions or to offer solutions for lower prices or to adapt more quickly than us to new technologies and customer needs. As our business continues to grow and we increase our market share for various products and services, these larger companies may increase their focus on us as a competitor and the actions they undertake to compete with our business and products. Additionally, if an increasing portion of web content is housed on another company's network or portions of the Internet are otherwise privatized, it could reduce the demand for our products and increase competitive pressure on us. These competitive pressures in our markets or our failure to compete effectively may result in price reductions, fewer subscriptions, reduced revenue and gross margin, increased net losses, and loss of market share.

Our current and potential future competitors include a number of different types of companies, including:

- on-premise hardware network vendors, such as Cisco Systems Inc., F5 Networks, Inc., Check Point Software Technologies Ltd., FireEye, Inc., Imperva, Inc., Palo Alto Networks, Inc., Juniper Networks, Inc., Riverbed Technology, Inc., and Broadcom Inc.;
- point-cloud solution vendors, including cloud security vendors such as Zscaler, Inc., Cisco Systems Inc. through Umbrella, and Menlo Security, Inc., content delivery network vendors such as Akamai Technologies, Inc., Fastly, Inc., and Edgio, Inc., domain name system vendors services such as Oracle Corporation through DYN, Neustar Security Services, email security vendors such as Mimecast Limited and Proofpoint, Inc., and cloud SD-WAN vendors; and
- traditional public cloud vendors, such as Amazon.com, Inc. through Amazon Web Services, Alphabet Inc. through Google Cloud Platform, Microsoft Corporation through Azure, and Alibaba Group Holding Limited through Alibaba Cloud.

Many of our existing and potential competitors have or could have substantial competitive advantages including, among others:

- greater name recognition;
- longer operating histories and larger customer bases;
- larger sales and marketing budgets and capital resources;
- broader distribution and established relationships with channel partners and customers;
- greater customer support resources;
- greater resources to make acquisitions and enter into strategic partnerships;
- lower labor and research and development costs;
- larger and more mature intellectual property rights portfolios;
- control of significant technologies, standards, or networks, including operating systems, with which our products must interoperate;
- higher or more difficult to obtain security certifications than we possess; and
- substantially greater financial, technical, and other resources.

In particular, some of our larger competitors have substantially broader and more diverse product and services offerings, which may allow them to leverage existing commercial relationships, incorporate functionality into existing products, sell products and services with which we compete at zero or negative margins, offer fee waivers and reductions or other economic and non-economic concessions, bundle products and solutions, maintain closed technology platforms, or render our products unable to interoperate with such platforms. If they were to engage in predatory practices, it could harm our existing product offerings or prevent us from creating viable products in other segments of the markets in which we participate. If our competitors are able to exploit their advantages or are able to persuade our customers or potential customers that their products are superior to ours, we may not be able to compete effectively and our business, financial condition, and results of operations may be materially affected.

If we do not effectively expand, train, and retain our sales force, we may be unable to add new contracted customers, or increase sales to our existing customers and our business would be adversely affected.

A majority of our revenue in the six months ended June 30, 2022 was from contracted customers that were acquired through our inside and field sales teams, and we expect the amount of our revenue from these customers will continue to increase for the foreseeable future. As a result, our financial condition and results of operations are dependent to a significant degree on our ability to attract and retain qualified sales personnel and the ability of our dedicated sales personnel to acquire new contracted customers and expand our relationships with our existing contracted customers. Our sales representatives typically engage in direct interaction with our prospective contracted customers. Increasing our customer base and achieving broader market acceptance of our network and products will depend, to a significant extent, on our ability to expand and further invest in our sales and marketing operations and activities. There is significant competition for sales personnel with the advanced sales skills and technical knowledge we need. We believe that selling subscriptions to our products requires particularly talented sales personnel that understand both cloud-based and appliance-based solutions, as well as the key differences between them. Our ability to achieve significant growth in revenue in the future will depend, in large part, on our success in recruiting, training, and retaining sufficient numbers of these talented sales personnel in both the United States and international markets. In addition, our ability to effectively recruit and retain qualified sales personnel outside the United States is reduced if we do not have a local subsidiary and office in that country or, if we do have such a subsidiary and office, we will experience increased costs in operating in that country.

As we continue to focus on revenue growth, we are seeking to increase our rate of hiring sales personnel and any delays in making these sales hires could have an adverse impact on our ability to increase revenue, particularly with respect to our sales to contracted customers. In addition, new sales hires require significant training and may take significant time before they achieve full productivity. As a result, our new sales hires and planned sales hires may not become as productive as we would like or as quickly as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals. In addition, due to our rapid growth, a large percentage of our sales team is new to our company and inexperienced in selling subscriptions to our products, and therefore these personnel may be less effective than our more seasoned employees. Experienced sales personnel are particularly sought

after in our industry and we believe our company's recent growth and increased profile may result in increased efforts by other companies to hire our sales personnel. As a result, we may have to expend significant resources to retain our most productive sales employees. Even with considerable effort, we may be unsuccessful at retaining our experienced sales employees, which would adversely impact our business, results of operations, and financial condition.

Furthermore, hiring sales personnel in new countries, or expanding our existing presence in the countries in which we currently operate, requires upfront and ongoing expenditures that we may not recover if the sales personnel fail to achieve full productivity or that may be recovered on a more delayed basis than expected. We cannot predict whether, or when or to what extent, our sales will increase as we expand our sales force or how long it will take for sales personnel to become productive. If we are unable to hire, train, and retain a sufficient number of effective sales personnel, or the sales personnel we hire are not successful in obtaining new customers or increasing sales to our existing customer base, our business and future growth prospects will be materially and adversely affected.

If we fail to effectively manage our growth, we may be unable to execute our business plan, maintain high-quality levels of customer support, ensure the reliability and security of our network, adequately address competitive challenges, or maintain our corporate culture, and our business, financial condition, and results of operations would be harmed.

We have recently experienced, and continue to experience, a period of rapid growth. For example, our headcount grew from 2,050 employees as of June 30, 2021 to 3,063 employees as of June 30, 2022. We also have opened offices in a number of new locations around the world during the past several years. The number of customers, users, and requests on our network also has increased rapidly in recent years. While we expect to continue to expand our operations and to increase our headcount, network, and products significantly in the future, both domestically and internationally, our growth may not be sustainable. Our growth has placed, and future growth will continue to place, a significant strain on our management and our administrative, operational, and financial infrastructure. Our success will depend in part on our ability to manage this growth effectively, which will require that we continue to improve our administrative, operational, financial, and management systems and controls by, among other things:

- effectively attracting, training, and integrating a large number of new employees, particularly members of our sales, engineering, and management teams;
- effectively managing a rapidly increasing number of employees in a growing number of countries around the world, particularly in circumstances when employees are working completely remotely;
- ensuring the integrity and security of our network and IT infrastructure throughout the world;
- maintaining our corporate culture, which we believe fosters innovation, teamwork, and an emphasis on customer-focused results and contributes to our cost-effective business model;
- successfully acquiring and integrating companies and assets to improve, expand, and diversify our business and products through strategic acquisitions, investments, and partnerships;
- further improving our key business applications, processes, and IT infrastructure, including our core co-location facilities, to support our business needs;
- enhancing our information and communication systems to ensure that our employees and offices around the world are well coordinated and can effectively communicate with each other and our growing base of channel partners, customers, and users;
- maintaining high levels of customer support; and
- appropriately documenting and testing our IT systems and business processes.

Managing our growth will require significant capital expenditures and allocation of valuable management and employee resources. If we fail to manage our expected growth, the uninterrupted and secure operation of our network and products and key business systems, our corporate culture, our compliance with the rules and regulations applicable to our operations, the quality of our products, and our ability to compete could suffer. Any failure to preserve our culture also could further harm our ability to retain and recruit personnel, innovate and create new products, operate effectively, and execute on our business strategy.

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

Our quarterly results of operations, including, without limitation, our revenue, gross margin, operating margin, profitability, cash flow from operations, deferred revenue, and backlog, may vary significantly in the future and period-to-period comparisons of our results of operations may not be meaningful. 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 paying customers and, to a lesser extent, convert free customers to paying customers;
- our ability to retain and upgrade paying customers;
- the timing of expenses and recognition of revenue;
- the amount and timing of operating expenses related to the maintenance and expansion of our business, operations, and infrastructure, as well as entry into operating and capital leases and co-location, interconnection, and similar agreements related to the expansion of our network;
- the timing of expenses related to acquisitions;
- any large indemnification payments to our customers or other third parties;
- changes in our pricing policies or those of our competitors;
- the timing and success of new product feature and service introductions by us or our competitors;
- network outages or actual or perceived security breaches or incidents;
- our involvement in litigation or regulatory enforcement efforts, or the threat thereof;
- changes in the competitive dynamics of our industry, including consolidation among competitors;
- increases in length of the sales cycle for our contracted customers, particularly as the relative proportion of our revenue from large customers increases and as the sizes of our large customers increase;
- changes in laws and regulations that impact our business; and
- general political, regulatory, economic, market, and social conditions, including inflation, rising interest rates, and other impacts of the ongoing COVID-19 pandemic or the Russia-Ukraine conflict.

We rely on our co-founders and other key technical, sales, and management personnel to grow our business, and the loss of one or more key employees or the inability to attract and retain qualified personnel could harm our business.

Our future success is substantially dependent on our ability to attract, retain, and motivate the members of our management team and other key employees throughout our organization. In particular, we are highly dependent on the services of our co-founders, Matthew Prince, our Chief Executive Officer, and Michelle Zatlyn, our President and Chief Operating Officer. We rely on our leadership team in the areas of operations, security, marketing, sales, support, research and development, and general and administrative functions, and on individual contributors on our research and development team. Although we have entered into employment offer letters with our key personnel, these agreements have no specific duration and constitute at-will employment. We also do not maintain key person life insurance policies on any of our employees. The loss of one or more of our co-founders or our other executive officers or key employees could seriously harm our business.

To execute our growth plan, we must attract and retain large numbers of highly qualified personnel in a number of job markets globally. In particular, it is critical for us to attract and retain engineering talent in our fast growing industry. Competition for these personnel in the San Francisco Bay Area, where our headquarters is located, and in London, Singapore, Austin, Texas, and other locations where we maintain offices or employ remote personnel, is intense, especially for experienced sales professionals and for engineers experienced in designing and developing cloud applications. We have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications. For example, in recent years, recruiting, hiring, and

retaining employees with expertise in the cybersecurity industry has become increasingly difficult as the demand for cybersecurity professionals has increased as a result of high-profile cybersecurity attacks on global corporations and governments. Many of the companies with which we compete for experienced personnel have greater resources than we have and may provide higher levels of compensation or benefits. We may need to increase our existing compensation levels in response to competition, rising inflation, or labor shortages, which may increase our operating costs and reduce our margins. In addition, job candidates and existing employees often consider the value of the equity awards they receive in connection with their employment. Volatility or lack of performance in our stock price may affect our ability to attract and retain our key employees. In addition, upon vesting of equity awards, particularly after the significant increase in the price of our Class A common stock since our initial public offering (IPO) in 2019, many of our employees have acquired or may soon acquire a substantial amount of personal wealth. This may make it more difficult for us to retain and motivate these employees, and this wealth could affect their decision about whether or not they continue to work for us. Any failure to successfully attract, integrate, or retain qualified personnel to fulfill our current or future needs could materially and adversely affect our business, results of operations, and financial condition.

We believe our long-term value as a company will be greater if we focus on growth, which may negatively impact our profitability.

A significant part of our business strategy is to focus on long-term growth and to reinvest our cash flow from operations into our business, including the expansion of our global network, the development of new products and features, the expansion of our global workforce, and the potential acquisition of complementary businesses. For example, we increased our operating expenses to \$243.3 million from \$146.3 million in the three months ended June 30, 2022 and 2021, respectively, and increased our operating expenses to \$448.4 million and \$283.5 million in the six months ended June 30, 2022 and 2021, respectively. In the three months ended June 30, 2022 and 2021, our net loss increased to \$63.5 million from \$35.5 million, respectively, and in the six months ended June 30, 2022 and 2021, our net loss increased to \$104.9 million from \$75.5 million, respectively. As a result, we may continue to operate at a loss or our profitability may be lower than it would be if our strategy were to maximize short-term profitability. Significant expenditures on sales and marketing efforts, and expenditures on growing our network and expanding our research and development and portfolio of products, each of which we intend to continue to invest in, may not ultimately grow our business or cause long-term profitability. If we are ultimately unable to achieve or improve profitability at the level or during the time frame anticipated by industry or financial analysts and our stockholders, our stock price may decline.

If we are not able to maintain and promote our brand, our business and results of operations may be adversely affected.

We believe that maintaining and enhancing our reputation as a provider of products with the highest levels of security, performance, and reliability is critical to our relationship with our existing customers and our ability to attract new customers. The successful promotion of our brand will depend on a number of factors, including the reliability of our network on which we provide our products and the record of security, performance, and reliability of our products; the timing of releases of our products and related features after the public announcement of such expected products and features; our marketing efforts; our ability to continue to develop high-quality features and products for our network; and our ability to successfully differentiate our products from competitive products and services. Our brand promotion activities may not be successful or yield increased revenue.

Independent industry and financial analysts often provide reviews of our products, as well as those of our competitors. Perception of our offerings in the marketplace may be significantly influenced by these expert reviews. In addition, the difficulty or inability of us to periodically provide certain types of financial information about our business and products requested by industry analysts could adversely impact these analysts' reviews of our products. If reviews of our products are negative, or less positive than those of our competitors', our brand may be adversely affected. The performance of our channel partners also may affect our brand and reputation, particularly if customers do not have a positive experience with our channel partners. The promotion of our brand requires us to make substantial expenditures, and we anticipate that the expenditures will increase as our markets become more competitive and we expand into new markets. 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, or we could fail to attract potential new customers or expand sales to our existing customers, all of which could materially and adversely affect our business, results of operations, and financial condition.

Adverse economic conditions, including reduced spending on products and solutions for network security, performance, and reliability, and the impacts of geopolitical developments and uncertainty, 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 products and solutions for network security, performance, and reliability. 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 products.

The United States has recently experienced historically high levels of inflation. According to the U.S. Department of Labor, the annual inflation rate for the United States was approximately 9.1% for June 2022. In response to high levels of inflation and recession fears, the U.S. Federal Reserve has raised, and may continue to raise, interest rates and implement fiscal policy interventions. Even if these interventions lower inflation, they may also reduce economic growth rates, create a recession, and other similar effects. A further downturn in economic conditions, including inflation, rising interest rates, a reduction in business confidence and activity, the curtailment of government or corporate spending, volatile financial markets, ongoing supply chain disruptions, reduced demand for products and services across a variety of industries, and the impacts of COVID-19, the Russia-Ukraine conflict, and other geopolitical developments and uncertainty have in the past and may in the future affect our business and our current and prospective customers and their industries adversely. For example, during an economic downturn, our customers may suffer from reduced operating budgets. Some of our paying customers may view a subscription to our products as a discretionary purchase and may reduce their discretionary spending on our products. Moreover, our competitors may respond to market conditions by lowering prices and attempting to lure away our customers. Weak economic conditions, including a reduction in spending on products and solutions for security, performance, and reliability, could reduce sales, lengthen sales cycles, increase churn, and lower demand for our products, any of which could adversely affect our business, results of operations, and financial condition.

We continue to monitor the ongoing economic and geopolitical conditions to assess possible implications to our business and to take appropriate actions in an effort to mitigate the adverse consequences of uncertainty or negative trends. However, there can be no assurances that initiatives we undertake will be sufficient or successful. If there is an economic downturn or adverse geopolitical developments that affect our current and prospective customers, or if we are unable to address and mitigate the risks associated with any of the foregoing, our business, results of operations and financial condition could be adversely affected.

Our relatively limited operating history makes it difficult to evaluate our current business and prospects, and may increase the risk that we will not be successful.

Our relatively limited operating history makes it difficult to evaluate our current business and prospects, and to plan for our anticipated future growth. We began operations in 2010 and much of our growth has occurred in recent years. As a result, our business model has not been fully proven, which subjects us to a number of uncertainties, including our ability to plan for and model future growth. While we have continued to expand our network and develop additional security, performance, and reliability products, we have encountered, and will continue to encounter, risks and uncertainties frequently experienced by rapidly growing companies in developing industries, including our ability to achieve broad market acceptance of our products, attract additional customers, identify and grow partnerships, withstand increasing competition in our existing and future markets, and manage expenses as we continue to grow our business. If our assumptions regarding these risks and uncertainties are incorrect or change in response to changes in the markets for products and solutions for network security, performance, and reliability, our business could suffer and our results of operations and financial condition could differ materially from our expectations.

We have limited experience with our pricing models, particularly for our newer products and solutions, and we may not accurately predict the long-term rate of paying customer adoption or renewal, or the impact these will have on our revenue or results of operations.

We generate revenue primarily from subscriptions to our network and products. We offer subscription plans that provide varying degrees of functionality, and also offer separate subscriptions to various add-on products and network functionality. We have limited experience with respect to determining the optimal prices and pricing models for our subscription plans and products, particularly with respect to our newer products and solutions. As the markets for our products mature, as we enter into newer product markets for our business, or as new competitors introduce new products or services that compete with ours, we may be unable to attract new customers or retain existing customers at the same price or based on the same pricing model as we have used historically. Moreover,

our increasing focus on larger customers may lead to greater price concessions in the future or have a more significant impact period to period on our revenue and results of operations. As a result, in the future we may be required to reduce our prices, which could adversely affect our revenue, gross margin, profitability, financial condition, and cash flow.

We also have limited experience in determining which products and functionality to offer as part of our subscription plans and which to offer as add-on products. Our limited experience in determining the optimal manner in which to bundle our various products and functionalities could reduce our ability to capture the value delivered by our offerings, which could adversely impact our business, results of operations, and financial condition.

Our growth depends, in part, on the success of our strategic relationships with third parties, and if we fail to continue to expand, grow, and retain these relationships then our business, results of operations, and financial condition may be adversely impacted.

To grow our business, we anticipate that we will continue to depend on relationships with third parties, such as value-added channel partners, referral partners, systems integrators, global platform providers, telecommunications companies, and managed security service providers. Developing, expanding, and retaining these strategic relationships has played, and will continue to play, an increasingly greater role in our sales efforts to our large customers. However, identifying these types of strategic partners, negotiating and documenting our business and contractual relationships with them, maintaining APIs that some of our strategic partners use to interact with our business, and monitoring the actions of our partners and their relationships with our end customers, each require significant time and resources. While in some cases our contractual arrangements with our strategic partners have terms of one year or longer, in many cases these arrangements are short-term in nature and can be terminated on 90 days advance notice. Our competitors also may be effective in providing incentives to third parties to favor their products or services over subscriptions to our products. In addition, acquisitions of such partners by our competitors could result in a decrease in the number of our current and potential customers, as these partners may no longer facilitate the adoption of our applications by potential customers. Further, some of our partners are or may become competitive with certain of our products and may elect to no longer integrate with our network and products. If we are unsuccessful in establishing, expanding, or maintaining our relationships with these third parties, our ability to compete in the marketplace or to grow our revenue could be impaired, and our business, results of operations, and financial condition may suffer. Even if we are successful, we cannot assure you that these relationships will result in increased customer usage of our products by, or increased revenue from, our paying customers and large customers.

Our ability to maintain customer satisfaction depends in part on the quality of our customer support. Failure to maintain high-quality customer support could have an adverse effect on our business, results of operation, and financial condition.

We believe that the successful use of our network and products requires a high level of support and engagement for many of our customers, particularly our large customers. In order to deliver appropriate customer support and engagement, we must successfully assist our customers in deploying and continuing to use our network and products, resolving performance issues, addressing interoperability challenges with the customers' existing IT infrastructure, and responding to security threats and cyber attacks and performance and reliability problems that may arise from time to time. The IT architecture of our contracted customers, particularly the larger organizations, is very complex and may require high levels of focused support to effectively utilize our network and products. Because our network and products are designed to be highly configurable and to rapidly implement customers' reconfigurations, customer errors in configuring our network and products can result in significant disruption to our customers. Our support organization faces additional challenges associated with our international operations, including those associated with delivering support, training, and documentation in languages other than English. Increased demand for customer support, without corresponding increases in revenue, could increase our costs and adversely affect our business, results of operations, and financial condition.

We also rely on channel partners in order to provide frontline support to some of our customers, including in regions where we do not have a significant physical presence or the customers primarily speak languages other than English. If our channel partners do not provide support to the satisfaction of our customers, we may be required to hire additional personnel and to invest in additional resources in order to provide an adequate level of support, generally at a higher cost than that associated with our channel partners. There can be no assurance that we will be able to hire sufficient support personnel as and when needed, particularly if our sales exceed our internal forecasts. To the extent that we are unsuccessful in hiring, training, and retaining adequate support resources, our ability to

provide high-quality and timely support to our customers will be negatively impacted, and our customers' satisfaction with our network and products could be adversely affected. Any failure to maintain high-quality customer support, or a market perception that we do not maintain high-quality customer support, could adversely affect our reputation, business, results of operations, and financial condition, particularly with respect to our large customers.

Our business depends, in part, on sales to the United States and foreign government organizations, which are subject to a number of challenges and risks.

We derive a portion of our revenue from contracts with government organizations, and we believe the success and growth of our business will in part depend on adding additional public sector customers. However, demand from government organizations is often unpredictable, and we cannot assure you that we will be able to maintain or grow our revenue from the public sector. Sales to government entities are subject to substantial additional risks that are not present in sales to other customers, including:

- selling to government agencies can be more highly competitive, expensive, and time-consuming than sales to other customers, often requiring significant upfront time and expense without any assurance that such efforts will generate a sale;
- U.S., European, or other government certification and audit requirements potentially applicable to our network, including FedRAMP in the United States, are often difficult and costly to obtain and maintain, and failure to do so will restrict our ability to sell to government customers;
- government demand and payment for our products may be impacted by public sector budgetary cycles, funding authorizations, or government shutdowns;
- governments routinely investigate and audit government contractors' administrative processes and any unfavorable audit could result in fines, civil or criminal liability, further investigations, damage to our reputation, and debarment from further government business;
- governments often require contract terms that differ from our standard customer arrangements, including terms that can lead to those customers obtaining broader rights in our products than would be expected under a standard commercial contract and terms that can allow for early termination; and
- governments may demand better pricing terms and public disclosure of such pricing terms, which may harm our ability to negotiate pricing terms with our non-government customers.

In addition, we must comply with laws and regulations relating to the formation, administration, and performance of contracts with the public sector, including U.S. federal, state, and local governmental organizations, as well as foreign governmental organizations, which affect how we and our channel partners do business with governmental agencies. Selling our products to the U.S. government, whether directly or through channel partners, also subjects us to certain regulatory and contractual requirements, including expanded compliance obligations under the Federal Acquisition Regulations (FARs). Failure to comply with these requirements by either us or our channel partners could subject us to investigations, fines, and other penalties, which could have an adverse effect on our business, results of operations, and financial condition. For example, the U.S. Department of Justice (the DOJ) and the General Services Administration (the GSA) have in the past pursued claims against and financial settlements with vendors under the False Claims Act and other statutes related to pricing and discount practices and compliance with certain provisions of GSA contracts for sales to the federal government. The DOJ and GSA continue to actively pursue such claims. Violations of certain regulatory and contractual requirements could also result in us being suspended or debarred from future government contracting. Any of these outcomes could have a material adverse effect on our revenue, results of operations, and financial condition. Any inability to address these risks and challenges could reduce the commercial benefit to us or otherwise preclude us from selling subscriptions to our products to government organizations.

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 NetSuite, Salesforce, Atlassian, and Workday. Many of these vendors are less established and have shorter operating histories than traditional software vendors. Moreover, 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.

Our business is exposed to risks associated with credit card and other online payment processing methods.

Many of our customers pay for our service using a variety of different payment methods, including credit and debit cards, prepaid cards, direct debit, and online payment applications and wallets. We rely on internal systems as well as those of third parties 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. In addition, from time to time, we encounter fraudulent use of payment methods, which could impact our results of operations and if not adequately controlled and managed could create negative consumer perceptions of our service. If we are unable to maintain our chargeback rate at acceptable levels, card networks may impose fines and our card approval rate may be impacted. If we fail to comply with the rules or requirements applicable to processing payments, or if our data security systems are breached, compromised, or otherwise unable to detect or prevent fraudulent activity, we may be liable for card issuing banks' costs, subject to fines and higher transaction fees, and lose our ability to accept certain payments from our customers. The termination of our ability to process payments using any major payment method our business, results of operations, and financial condition could be harmed.

Because we recognize revenue from subscriptions for our products over the term of the subscription, downturns or upturns in new business may not be immediately reflected in our results of operations and may be difficult to discern.

We generally recognize revenue from customers ratably over the term of their subscription, which in the case of our contracted customers typically range from one to three years and in the case of our pay-as-you-go customers is typically monthly. Consequently, any increase or decline in new sales or renewals to these customers in any one period may not be immediately reflected in our revenue for that period. Any such change, however, may affect our revenue in future periods. Accordingly, the effect of downturns or upturns in new sales and potential changes in our rate of renewals may not be fully reflected in our results of operations until future periods. We may also be unable to reduce our cost structure in line with a significant deterioration in sales or renewals. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers must be recognized over the applicable subscription term.

By contrast, a significant majority of our costs are expensed as incurred, which occurs as soon as a customer starts using our network and products. As a result, an increase in customers could result in our recognition of more costs than revenue in the earlier portion of the subscription term. We may not attain sufficient revenue to maintain positive cash flow from operations or achieve profitability in any given period.

If our estimates, assumptions, or judgments relating to our critical accounting policies prove to be incorrect or financial reporting standards or interpretations change, our results of operations could be adversely affected.

The preparation of financial statements in conformity with generally accepted accounting principles in the United States (U.S. GAAP) requires our management to make estimates, assumptions, and judgments that affect the amounts reported and disclosed in our condensed consolidated financial statements and accompanying notes. We base our estimates and assumptions on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. The results of these estimates and assumptions 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, assumptions, and judgments used in preparing our condensed consolidated financial statements include those related to allowance for doubtful accounts, deferred contract acquisitions costs, the period of benefit generated from our deferred contract acquisition costs, the capitalization and estimated useful life of internal-use software, the assessment of recoverability of intangible assets and their estimated useful lives, useful lives of property and equipment, liability and equity allocation of our 0.75%

Convertible Senior Notes due 2025 (the 2025 Notes) and our 0% Convertible Senior Notes due 2026 (the 2026 Notes, and together with the 2025 Notes, the Notes), the determination of the incremental borrowing rate used for operating lease liabilities, the valuation and recognition of stock-based compensation expense, uncertain tax positions, and the recognition and measurement of current and deferred income tax assets and liabilities. Due to the COVID-19 pandemic and other geopolitical and macroeconomic uncertainties, including but not limited to the ongoing conflict between Russia and Ukraine, inflationary pressures, and changes in interest rates, there is ongoing uncertainty and significant disruption in the global economy and financial markets. We are not aware of any specific event or circumstance that would require an update to our estimates or assumptions or a revision of the carrying value of assets or liabilities as of August 4, 2022, the date of issuance of this Quarterly Report on Form 10-Q. These estimates and assumptions may change in the future, however, as new events occur and additional information is obtained. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of industry or financial analysts and investors, resulting in a decline in the trading price of our Class A common stock.

Additionally, we regularly monitor our compliance with applicable financial reporting standards and review new pronouncements and drafts thereof that are relevant to us. As a result of new standards, or changes to existing standards, and changes in their interpretation, we might be required to change our accounting policies, alter our operational policies and implement new or enhance existing systems so that they reflect new or amended financial reporting standards, or we may be required to restate our published financial statements. Such changes to existing standards or changes in their interpretation may have an adverse effect on our reputation, business, financial condition, and profit and loss, or cause an adverse deviation from our revenue and operating profit and loss target, which may negatively impact our results of operations.

Future acquisitions, strategic investments, partnerships, or alliances could be difficult to identify and integrate, divert the attention of key management personnel, disrupt our business, dilute stockholder value, and adversely affect our results of operations, financial condition, and prospects.

Part of our business strategy is to make acquisitions of other companies, products, and technologies. To date, our acquisitions typically have consisted of companies that have developed technology that is complementary to our business but have small numbers of employees and little, if any, customers and revenue. For example, in January 2020, we acquired S2 Systems Corporation, a company that has developed browser isolation technology that we now sell as part of our Zero Trust solutions but had less than ten employees and generally no revenue. However, we expect the number of acquisitions that we undertake to increase and some of the businesses we acquire will have significantly larger numbers of employees and customers and more global operations. For example, in April 2022, we acquired Area 1 Security, Inc., a company that has developed cloud-native email security technology and has a significantly greater number of employees and customers than our prior acquisitions.

We have limited experience in making acquisitions and integrating acquired businesses into our company, particularly companies with large numbers of employees and customers. We also may not be able to find suitable acquisition candidates and we may not be able to complete acquisitions on favorable terms, if at all. In addition, if we identify companies that we would like to buy, we may face antitrust, competition, and other regulatory scrutiny that may limit our ability to complete such acquisitions. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve our goals, and any acquisitions we complete could be viewed negatively by customers, developers, or investors. In addition, we may not be able to integrate acquired businesses successfully or effectively manage the combined company following an acquisition. If we fail to successfully integrate our acquisitions, or integrate and retain the people or technologies associated with those acquisitions, into our company, the results of operations of the combined company could be adversely affected. Any integration process will require significant time and resources, require significant attention from management, and disrupt the ordinary functioning of our business, and we may not be able to manage the process successfully, which could adversely affect our business, results of operations, and financial condition. We also frequently provide significant incentives for key employees of acquired companies to remain as our employees after the completion of the acquisition in order to facilitate integration and allow us to achieve the benefits we expect from the acquisition, but these incentives may not prove to be successful in retaining those new key employees. In addition, we may not successfully evaluate or utilize the acquired technology and accurately forecast the financial impact of an acquisition transaction, including accounting charges.

In order to expand our network and product offerings, we also may enter into relationships with other businesses, which could involve joint ventures, preferred or exclusive licenses, additional channels of distribution, or investments in other companies. Negotiating these transactions can be time-consuming, difficult, and costly, and our ability to

close these transactions may be subject to third-party approvals, such as government regulatory approvals, which are beyond our control. Consequently, we cannot assure you that these transactions, once undertaken and announced, will close or will lead to commercial benefit for us.

In connection with the foregoing strategic transactions, we may:

- issue additional equity securities that would dilute our stockholders;
- use cash that we may need in the future to operate our business;
- incur debt on terms unfavorable to us or that we are unable to repay;
- incur large charges or substantial actual or contingent liabilities associated with acquired businesses;
- encounter difficulties integrating diverse business cultures and retaining employees and customers of acquired companies; and
- become subject to adverse tax consequences, substantial depreciation, or deferred compensation charges.

These challenges related to acquisitions or other strategic transactions could adversely affect our business, results of operations, financial condition, and prospects.

Certain of our key business metrics could prove to be inaccurate, and any real or perceived inaccuracies may harm our reputation and negatively affect our business.

We rely on assumptions and estimates to calculate certain of our key business metrics, such as dollar-based net retention rate. We regularly review and may adjust our processes for calculating our key business metrics to improve their accuracy. Our key business metrics may differ from estimates published by third parties or from similarly titled metrics of our competitors due to differences in methodology or we may discover inaccuracies in our process for calculating such metrics. For example, during the quarter ended March 31, 2022, we experienced a system error that caused the calculation of our paying customers for such quarter to be overstated by 5,925 pay-as-you-go customers. If investors or analysts do not perceive our key business metrics to be accurate representations of our business, or if we discover material inaccuracies in our key business metrics, our reputation, business, results of operations, and financial condition would be harmed.

We may need additional capital, and we cannot be certain that additional financing will be available on favorable terms, or at all.

Historically, we have financed our operations primarily through the sale of our equity and equity-linked securities as well as payments received from customers using our global cloud network and products. For example, we received substantial proceeds from the issuance and sale of our Class A common stock in our IPO and in the issuances and sales of the Notes in 2020 and 2021. Although we currently anticipate that our existing cash, cash equivalents, and available-for-sale securities, and cash flow from operations will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months, we may require additional financing. We evaluate financing opportunities from time to time, and our ability to obtain financing will depend, among other things, on our development efforts, business plans, and operating performance, and the condition of the capital markets at the time we seek financing. We cannot assure you that additional financing will be available to us on favorable terms when required, or at all. For example, volatility in equity capital markets has adversely affected and may continue to adversely affect market prices of our shares of Class A common stock. This may materially and adversely affect our ability to fund our business through the sale of our equity and equity-linked securities if such funding were to become necessary. If we raise additional funds through the issuance of equity or equity-linked or debt securities, those securities may have rights, preferences or privileges senior to the rights of our Class A common stock, and, in the case of equity or equity-linked securities, our stockholders may experience dilution.

Risks Related to Our Network and Products

Problems with our internal systems, networks, or data, including actual or perceived breaches or failures, could cause our network or products to be perceived as insecure, underperforming, or unreliable, our customers to lose trust in our network and products, our reputation to be damaged, and our financial results to be negatively impacted.

We face security threats from malicious third parties that could obtain unauthorized access to our internal systems, networks, and data, including the equipment at our network and core co-location facilities. It is virtually impossible for us to entirely mitigate the risk of these security threats and the security, performance, and reliability of our network and products may be disrupted by third parties, including nation-states, competitors, hackers, disgruntled employees, former employees, or contractors. We also face the possibility of security threats from other sources, such as employee or contractor errors, or malfeasance. For example, hostile third parties, including nation-states, may seek to bribe, extort, or otherwise manipulate our employees or contractors to compromise our network and products. In addition, as our business grows and we employ more employees in more countries around the world, our ability to supervise the actions of our employees will decrease and the risk of an employee or contractor error or act of malfeasance will increase. These security threats from third parties are also likely to increase as the numbers, sizes, and types of customers using our network and products increases, particularly those customers that are involved in particularly sensitive industries or activities, such as banking and finance companies and governmental entities.

While we have implemented security measures internally and have integrated security measures into our network and products, these measures may not function as expected and may not detect or prevent all unauthorized activity, prevent all security breaches or incidents, mitigate all security breaches or incidents, or protect against all attacks or incidents. For example, we have experienced multiple social engineering attacks where third parties have attempted, and in limited cases succeeded, in breaching our network perimeter security. While these attacks did not effectively get beyond our network perimeter security and we have not suffered any material consequences as a result of these breaches, we cannot be certain that future breaches will be avoided or, if future breaches are successful, that we will not experience material detrimental impacts, particularly if those breaches involve third party access to decrypted or other sensitive data.

The global network that we use to provide our products to our customers is made up of equipment at co-location facilities located in more than 275 cities and over 100 countries worldwide and we expect to continue to increase the size of our network in the future. As we grow the size and scope of our network, the number of our employees and third party contractors that have access to our equipment at these facilities will continue to increase, which will also increase the risk of potential errors or malfeasance such as potential equipment theft or potential attempts to interfere with, or intercept, network and customer data that is held in, or flows through, this equipment. In addition, local government officials may attempt to, or successfully take control of, our equipment in an attempt to interfere with our services or intercept data. Because the equipment in our network co-location facilities is designed to run all of our products, any insertion of ransomware or other malicious code on, unauthorized access to, or other security breach or incident with respect to, any of this equipment at any of these locations around the world could potentially impact all of our products running on this equipment. We may also experience security breaches and other incidents that may remain undetected for an extended period and, therefore, may have a greater impact on our products and the networks and systems used in our business, and the proprietary and other confidential data contained on our network or otherwise stored or processed in our operations, and ultimately on our business. We expect to incur significant costs in our efforts to detect and prevent security breaches and other security-related incidents, and we may face increased costs in the event of an actual or perceived security breach or other security-related incident. Our internal systems are exposed to the same cybersecurity risks and consequences of a breach as the systems of our customers and other enterprises, any of which could have an adverse effect on our business or reputation. These cybersecurity risks pose a particularly significant risk to a business like ours that is focused on providing highly secure products to customers. With the increase in remote work during the ongoing COVID-19 pandemic, we and our customers face increased risks to the security of infrastructure and data, and we cannot guarantee that our security measures will prevent security breaches or incidents. We also may face increased costs relating to maintaining and securing our infrastructure and data that we maintain and otherwise process.

There can be no assurance that any security measures that we or our third-party service providers have implemented or that are included in the equipment and related third-party software that we use to operate our global network will be effective against current or future security threats, and we cannot guarantee that our systems and networks or those of our third-party service providers or the equipment and related third-party software that we use to operate our global network have not been breached or otherwise compromised, or that they and any software in our or their supply chains do not contain bugs, vulnerabilities, or compromised code that could result in a breach of or disruption to our systems and networks or the systems and networks of third parties that support us and our services. Unauthorized access to, other security breaches of, or security incidents affecting, systems, networks, equipment, and data used in our business, including those of our vendors, contractors, or those with which we have strategic relationships, even if not resulting in an actual or perceived introduction of ransomware, malware, or other malicious code or other actual or perceived breach of our customers' networks, systems, or data, could result in the loss, compromise, corruption or other unavailability of data, disruptions to our and our customers' products,

systems, networks, and operations, loss of business, reputational damage adversely affecting customer or investor confidence, regulatory investigations and orders, litigation, indemnity obligations, damages for contract breach, penalties for violation of applicable laws or regulations, significant costs for remediation, and other liabilities.

Additionally, in the absence of malicious actions, our network and products may experience errors, failures, vulnerabilities, or bugs that cause our products not to perform as intended and the likelihood of these problems may increase as we continue to expand the number and complexity of products that we offer to our customers through our global network. For example, from time to time we are subject to “route leaks” that involve the accidental or, less commonly, illegitimate advertisement of prefixes, or blocks of IP addresses, which propagate across networks such as ours and can lead to incorrect routing of traffic across our network, taking traffic offline, or in extreme cases, potential interception of customers’ traffic by attackers. For example, in June 2019, a route leak spread by a major telecommunications services provider caused significant disruption to our traffic and that of many other providers. Although events like this are outside our control, they could materially harm our reputation and diminish the confidence of our current and potential customers in our network and products. In addition, deployment of our network and products into other computing environments may expose these errors, failures, vulnerabilities, or bugs in our products. Any such errors, failures, vulnerabilities, or bugs may not be found until after they are deployed to our customers and may create the perception that our network and products are insecure, underperforming, or unreliable. For example, in July 2019, we deployed an update to our web application firewall and certain aspects of the related software code resulted in excessive consumption of computing resources across our network, resulting in an outage on our network. In April 2020, our core co-location facility in the U.S. Pacific Northwest experienced an outage of approximately 4-1/2 hours as a result of an error that occurred during planned maintenance activities at that facility and, during the outage, our customers lost access to certain features included in our products. In July 2020, a configuration error in our backbone network caused increased latency and slowness for customers using our products in certain areas lasting approximately 30 minutes. In June 2022, we suffered an outage of approximately 1-1/2 hours that affected traffic in 19 of our co-location facilities as a result of an internal change to the network configuration in those locations. While the June 2019 route leak and the July 2019, April 2020, July 2020, and June 2022 outages did not have a material impact on our results of operations or financial condition, any similar events that may occur in the future may have a material adverse impact on our results of operations or financial condition. In addition, in the event network outages or similar events occur, these events can require additional capital expenditures to lessen the chance that similar events will occur in the future.

We also provide frequent updates and enhancements to our network and products, which increase the possibility of errors. Our quality assurance procedures and efforts to report, track, and monitor issues with our network may not be sufficient to ensure we detect any such defects in a timely manner. For example, in February 2017, a bug in our software code that processes computer information requests was identified. Instead of the requested data, in certain circumstances this bug, which became known as “Cloudbleed,” caused our servers to output data that was not requested. The erroneous data output by our system included, but was not limited to, a portion of our customers’ secure data. There can be no assurance that our software code is or will remain free from actual or perceived errors, failures, vulnerabilities, or bugs, or that we will accurately route or process all requests and traffic on our network. Given the trillions of Internet requests that route through our network on a monthly basis and the large array of Internet properties (e.g., domains, websites, application programming interfaces (APIs), and mobile applications) we service, the impact of any such error, failure, vulnerability, or bug can be large in terms of absolute numbers of affected requests and customers.

Actual or perceived problems with our network or systems, or those of our vendors, contractors, or those with which we have strategic relationships, could result in actual or perceived breaches of our or our customers’ networks and systems or data. Actual or perceived breaches or other security incidents from these or other causes could lead to claims and litigation, indemnity obligations, regulatory audits, proceedings, and investigations and significant legal fees, significant costs for remediation, the expenditure of significant financial resources in efforts to analyze, correct, eliminate, remediate, or work around errors or defects, to address and eliminate vulnerabilities, and to address any applicable legal or contractual obligations relating to any actual or perceived security breach or incident. They also could damage our relationships with our existing customers and have a negative impact on our ability to attract and retain new customers. Because our business is focused on providing secure and high performing network services to our customers, we believe that our products and the networks and systems we use in our business could be targets for hackers and others, and that an actual or perceived breach of, or security incident affecting, our networks, systems, or data, could be especially detrimental to our reputation, customer and channel partner confidence in our solution, and our business. Additionally, our products are designed to operate without interruption, including up to a 100% uptime guarantee for our Business and Enterprise plans. If a breach or security incident

were to impact the availability of our network and products, our business, results of operations, and financial condition, as well as our reputation, could be adversely affected.

Any cybersecurity insurance that we carry may be insufficient to cover all liabilities incurred by us in connection with any privacy or cybersecurity incidents or may not cover the kinds of incidents for which we submit claims. For example, insurers may consider cyber attacks by a nation-state as an “act of war” and any associated damages as uninsured. We also cannot be certain that our insurance coverage will be adequate for data handling or data security liabilities actually incurred, that insurance will continue to be available to us on economically reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, results of operations, and financial condition, as well as our reputation.

If our global network that delivers our products or the core co-location facilities we use to operate our network are damaged, interfered with, or otherwise fail to meet the requirements of our business or local regulations, our ability to provide access to our network and products to our customers and maintain the performance of our network could be negatively impacted, which could cause our business, results of operations and financial condition to suffer.

As of June 30, 2022, we hosted our global network and served our customers from co-location and ISP-partner facilities located in more than 275 cities and over 100 countries worldwide. In addition to these global facilities, much of the infrastructure for our global network and for our business and operations is maintained through a core co-location facility located in the U.S. Pacific Northwest, a second core co-location facility located in Luxembourg that provides certain redundancy to the U.S. core facility, and through a limited number of other U.S. co-location facilities that provide limited subsets of our network support. While we have electronic and, to a lesser extent, physical access to the components and infrastructure of our network and co-location facilities that are hosted by third parties—including ISP-partner facilities—we do not control the operation of these third-party facilities. Consequently, we may be subject to service disruptions as well as failures to provide adequate support for reasons that are outside of our direct control. All of our co-location and ISP-partner facilities and network infrastructure are vulnerable to damage or interruption from a variety of sources including earthquakes; floods; fires; power loss; system failures; computer viruses; physical or electronic break-ins; human error; malfeasance; or interference, including by disgruntled employees, former employees, or contractors; terrorism; and other catastrophic events. For example, in April 2020, our core co-location facility in the U.S. Pacific Northwest experienced an outage of approximately 4-1/2 hours as a result of an error that occurred during planned maintenance activities at that facility and, during the outage, our customers lost access to certain features included in our products. We also previously experienced other network interruptions in a June 2019 route leak and other network outages in July 2019, April 2020, July 2020, and June 2022. Co-location facilities housing our network infrastructure may also be subject to local governmental or other administrative actions, changes to legal or permitting requirements, labor disputes, and litigation to stop, limit, or delay operations. Despite precautions taken at these facilities, such as disaster recovery and business continuity arrangements, the occurrence of a natural disaster or an act of terrorism, a decision to close the co-location facilities without adequate notice, interference with, or sabotage of, our equipment at these facilities, or other unanticipated problems at these facilities could result in interruptions or delays in the availability of our network and products, impede our ability to scale our operations, or have other adverse impacts upon our business, results of operations, and financial condition. In addition, errors or defects in our customers' software can result in unexpected and unintentional upward spikes in their usage of our products and network, and those spikes can cause strains on, and adversely affect the availability and functioning of, our co-location facilities and our network.

As we have expanded our global network, for efficiency reasons we have increased the amount of automation that is used to update and maintain our network. While we believe this increased automation generally makes our network more reliable and robust, if portions of this automation were to fail then the impact could apply to all or substantially all of our co-location facilities, instead of the more localized impact if we were not using automation. In addition, the components of our global network are interrelated, such that disruptions or outages affecting one or more of our network co-location facilities may increase the strain on other components of our network. Concurrent disruptions or outages at a number of our network co-location facilities may lead to a cascading effect in which heightened strain on our network causes further disruptions or outages, particularly within the regions where the disruptions and outages occur. In addition, the failure of any of our core co-location facilities for any significant period of time, particularly our U.S. core co-location facility, could place a significant strain upon the ongoing

operation of our business, as we have only limited redundant functionality for these facilities. Such a failure of a core co-location facility could degrade and slow down our network, reduce the functionality of our products for our customers, impact our ability to bill our customers, and otherwise materially and adversely impact our business, reputation, and results of operations.

If our customers' or channel partners' access to our network and products is interrupted or delayed for any reason, our business could suffer.

Any interruption or delay in our customers' or channel partners' access to our network and products will negatively impact our customers. Our customers depend on the continuous availability of our network for the delivery and use of our products, and our products are designed to operate without interruption, including up to 100% uptime guarantee for our Business and Enterprise plans. If all or a portion of our network were to fail, our customers and partners could lose access to their internal network and/or the Internet as a whole until such disruption is resolved or they deploy disaster recovery options that allow them to bypass our network. The adverse effects of any network interruptions on our reputation and financial condition may be heightened due to the nature of our business and our customers' expectation of continuous and uninterrupted Internet access and low tolerance for interruptions of any duration. In addition, because some of our customers' most critical applications are protected by our products and network and these customers may not be using other providers for similar services, the adverse effect of network disruptions to these customers could be particularly severe. The impact of an interruption in access to our network and products could also impact the ability to run our own business because we use a number of our products in the operation of our business.

While we do not consider them to have been material, we have experienced, and may in the future experience, network disruptions and other performance problems due to a variety of factors. For example, in July 2019, we deployed an update to our web application firewall and certain aspects of the related software code resulted in excessive consumption of computing resources across our network, resulting in an outage on our network. In April 2020, our core co-location facility in the U.S. Pacific Northwest experienced an outage of approximately 4-1/2 hours as a result of an error that occurred during planned maintenance activities at that facility and, during the outage, our customers lost access to certain features included in our products. In addition, in July 2020, a configuration error in our backbone network caused increased latency and slowness for customers using our products in certain areas lasting approximately 30 minutes, and in June 2022, we suffered an outage of approximately 1-1/2 hours that affected traffic in 19 of our co-location facilities as a result of an internal change to the network configuration in those locations.

The following factors, many of which are beyond our control, can affect the delivery, performance, and availability of our network and products:

- the development, maintenance, and functioning of the infrastructure of the Internet as a whole;
- the performance and availability of third-party telecommunications services with the necessary speed, data capacity, and security for providing reliable Internet access and services;
- decisions by the owners and operators of the co-location and ISP-partner facilities where our network infrastructure is deployed or by global telecommunications service provider partners who provide us with network bandwidth to terminate our contracts, discontinue services to us, shut down operations or facilities, increase prices, change service levels, limit bandwidth, declare bankruptcy, breach their contracts with us, or prioritize the traffic of other parties;
- the occurrence of earthquakes, floods, fires, power loss, system failures, physical or electronic break-ins, acts of war or terrorism (including the ongoing conflict between Russia and Ukraine), human error or interference (including by disgruntled employees, former employees, or contractors), and other catastrophic events;
- cyber attacks targeted at us, facilities where our network infrastructure is located, our global telecommunications service provider partners, or the infrastructure of the Internet;
- errors, defects, or performance problems in the software we use to operate our network and products and provide our related products to our customers;
- our customers' or channel partners' improper deployment or configuration of our customers' access to our network and products;
- the maintenance of the APIs in our systems that our partners use to interact with us;

- the failure of our redundancy systems, in the event of a service disruption at one of the facilities hosting our network infrastructure, to redistribute load to other components of our network; and
- the failure of our disaster recovery and business continuity arrangements.

The occurrence of any of these factors, or our inability to efficiently and cost-effectively fix such errors or other problems that may be identified, could damage our reputation, negatively impact our relationship with our customers, or otherwise materially harm our business, results of operations, and financial condition.

Detrimental changes in, or the termination of, any of our co-location relationships, ISP partnerships, or our other interconnection relationships with ISPs could adversely impact our business, results of operations, and financial condition.

Our relationships with ISP partners and other vendors that provide co-location services for our network infrastructure and the pricing and other material contract terms we have with these vendors are important for the maintenance, development, and expansion of our global network. If any of our co-location agreements were to expire or the pricing and other material terms of these agreements were to worsen, our business, results of operations, and financial condition would be adversely affected unless we were able to find a substitute vendor for the impacted facility on comparable or better terms. Moreover, a significant number of our important co-location agreements are with a single company and if our arrangements with this company were to change in a manner adverse to us, we could face difficulty in maintaining or growing our network on commercially viable terms. In addition, as part of our arrangements with some of our ISP partners, the ISP partner has agreed to host our equipment for free or at a discount to the partner's customary rate. There can be no assurances that these ISP partners will continue to provide these types of favorable equipment hosting arrangements in the future.

The efficient and effective operation of our network also relies upon a series of mutually beneficial arrangements with other Internet infrastructure companies. These arrangements are often referred to as "peering" or "interconnection" agreements, and allow us and our ISP partners to reduce bandwidth costs related to operating our respective networks. If the underlying competitive, business, or operational incentives supporting these arrangements were to change, we or our partners might terminate these agreements or allow them to expire. Many of our peering or interconnection agreements have a term of three years or less, after which such agreements auto-renew on an annual basis. Changes to the underlying incentive structure of peering arrangements may result from parties seeking to take advantage of an essential position or enter into exclusive arrangements, changes to U.S. or international laws, regulations, or policies, increasing competition between us and these Internet infrastructure providers, or changes in the norms governing the relationships among Internet infrastructure providers. Without favorable peering arrangements, we would incur significantly increased costs to continue to provide our products at their current levels and such increased costs could adversely impact our business, results of operations, and financial condition. In addition, to the extent that additional countries begin to regulate peering with outside networks, our costs may increase and our business and results of operations could be adversely impacted.

If our network and products do not interoperate with our customers' internal networks and infrastructure or with third-party products, websites, or services, our network may become less competitive and our results of operations may be harmed.

Our network and products must interoperate with our customers' existing internal networks and infrastructure. These complex internal systems are developed, delivered, and maintained by the customer and a myriad of vendors and service providers. As a result, the components of our customers' infrastructure have different specifications, rapidly evolve, utilize multiple protocol standards, include multiple versions and generations of products, and may be highly customized. We must be able to interoperate and provide products to customers with highly complex and customized internal networks, which requires careful planning and execution between our customers, our customer support teams and, in some cases, our channel partners. Further, when new or updated elements of our customers' infrastructure or new technology or industry standards or protocols are introduced, we may have to update or enhance our network to allow us to continue to provide our products to customers. Our competitors or other vendors may refuse to work with us to allow their products to interoperate with our network and products, which could make it difficult for our network and products to function properly in customer internal networks and infrastructures that include these third-party products.

We may not deliver or maintain interoperability quickly or cost-effectively, or at all. These efforts require capital investment and engineering resources. If we fail to maintain compatibility of our network and products with our customers' internal networks and infrastructures, our customers may not be able to fully utilize our network and

products, and we may, among other consequences, lose or fail to increase our market share and number of customers and experience reduced demand for our products, which would materially harm our business, results of operations, and financial condition.

Because we provide some of our products through a reverse-proxy, which is a network arrangement in which Internet user requests initially are directed to our network's servers rather than those of our customers, the source of some traffic may be difficult to ascertain. When they cannot identify the source of the traffic, some governments, third-party products, websites, or services may block our traffic or blacklist our IP addresses. If our customers experience significant instances of traffic blockages, they will experience reduced functionality or other inefficiencies, which would reduce customer satisfaction with our network and products and likelihood of renewal.

We rely on a limited number of suppliers for certain components of the equipment we use to operate our network and any disruption in the availability of these components could delay our ability to expand or increase the capacity of our global network or replace defective equipment.

We rely on a limited number of suppliers for several components of the equipment we use to operate our network and provide products to our customers. Our reliance on these suppliers exposes us to risks, including reduced control over production costs and constraints based on the then current availability, terms, and pricing of these components. For example, we generally rely on a limited number of suppliers for the servers that we use in our network and we ordinarily purchase these components on a purchase-order basis, without any long-term contracts guaranteeing supply. While the network equipment and servers we purchase generally are commodity equipment and we believe an alternative supply source for servers on substantially similar terms could be identified quickly, our business could be adversely affected until those efforts were completed. In addition, the technology equipment industry has experienced component shortages and delivery delays in the past, and we may experience shortages or delays, including as a result of natural disasters, increased demand in the industry, or our suppliers lacking sufficient rights to supply the components in all jurisdictions in which we have co-location facilities that support our global network. For example, starting during the first quarter of 2021 and continuing through the first quarter of 2022, a global shortage of CPUs, RAM, SSDs, and other electronics has resulted in supply constraints for a number of electronics firms, including manufacturers of servers, and the duration and ultimate severity of this ongoing shortage is uncertain. This ongoing global shortage has disrupted, and in the future may continue to disrupt, some of our expected purchases of network equipment and servers. If our supply of certain components is disrupted or delayed, there can be no assurance that additional supplies or components can serve as adequate replacements for the existing components or that supplies will be available on terms that are favorable to us, if at all. Any disruption or delay in the supply of our hardware components may delay the opening of new co-location facilities, limit capacity expansion or replacement of defective or obsolete equipment at existing co-location facilities, or cause other constraints on our operations that could damage our customer relationships.

The actual or perceived failure of our products to block malware or prevent a security breach or incident could harm our reputation and adversely impact our business, results of operations, and financial condition.

Our security products are designed to reduce the threat to our customers posed by malware and other Internet security threats. Our security products may fail to detect or prevent malware or security breaches or incidents for any number of reasons. Even where our security products perform as intended, the performance of our security products can be negatively impacted by our failure to enhance, expand, or update our network and products; improper classification of websites by our employees, automated systems, and partners which identify and track malicious websites; improper deployment or configuration of our products; and many other factors.

Companies are increasingly subject to a wide variety of attacks on their networks and systems, including traditional computer hackers; malicious code, such as viruses and worms; distributed denial-of-service attacks; sophisticated attacks conducted or sponsored by nation-states; advanced persistent threat intrusions; ransomware; phishing attacks and other forms of social engineering; employee, vendor, or contractor errors or malfeasance; and theft or misuse of intellectual property or business or personal data, including by disgruntled employees, former employees, or contractors. External events, like the ongoing conflict between Russia and Ukraine, can increase the likelihood of attacks. No security solution, including our products, can address all possible security threats or block all methods of penetrating a network or otherwise perpetrating a security incident. Accordingly, our security products may be unable to detect or prevent a threat until after our customers are impacted. As our products are adopted by an increasing number of enterprises and by increasingly larger enterprises, it is possible that the individuals and

organizations behind cyber threats will focus on identifying ways to circumvent or defeat our security products. If our network is targeted by attacks specifically designed to disrupt it, it could create the perception that our security products are not capable of providing adequate security. As a provider of security products, any perceived lack of security to our network or any of our products could erode our customers' and potential customers' trust in our network and products. Moreover, a high-profile security breach of, or security incident impacting, another cloud services provider could cause our customers and potential customers to lose trust in cloud solutions generally, and cloud-based products like ours in particular. Any such loss of trust could materially and adversely impact our ability to retain existing customers or attract new customers.

Our customers must rely on complex network and security infrastructures, which include products and services from multiple vendors, to secure their networks. If any of our customers becomes infected with malware, or experiences a security breach or incident, they could be disappointed with our products, regardless of whether our security products are intended to block the attack or would have blocked the attack if the customer had properly configured our products or their network, or taken other steps within their control. For example, in April 2017, we published details of a web cache deception attack method that exploits the misconfiguration of websites to circumvent reverse-proxy systems such as ours. While the vulnerability associated with this attack method relates to misconfiguration of websites outside of our control, a customer experiencing a security event related to this vulnerability may nevertheless blame us or become dissatisfied with our products as a result. Additionally, if any enterprises that are publicly known to use our network and products are the subject of a cyber attack that becomes publicized, this could harm our reputation and our current or potential customers may look to our competitors for alternatives to our network and products. Customers subject to cyber attack also may seek to hold us legally liable for any loss or lack of access to sensitive data or highly valued assets that results from such an attack. Although our customer agreements provide significant limitations on our potential liability to our customers for such claims and we do not believe current legal theories would hold a service provider like us liable for such customers' losses, potential adverse future changes in laws applicable to such claims could result in significant liabilities for us.

From time to time, industry or financial analysts and research firms test our network and related security products against other security products. Our products may fail to detect or prevent threats in any particular test for a number of reasons, including misconfiguration. To the extent potential customers, industry or financial analysts, or testing firms believe that the occurrence of a failure to detect or prevent any particular threat is a flaw or indicates that our products do not provide significant value or provide less value than competitive solutions, our reputation and business could be materially harmed.

Any real or perceived flaws in our network, or any actual or perceived security breaches of, or security incidents impacting, our customers, could result in:

- a loss of existing or potential customers or channel partners;
- delayed or lost sales and harm to our financial condition and results of operations;
- a delay in attaining, or the failure to attain, market acceptance of our products;
- the expenditure of significant financial resources in efforts to analyze, correct, eliminate, remediate, or work around errors or defects, to address and eliminate vulnerabilities, and to address any applicable legal or contractual obligations relating to any actual or perceived security breach or incident;
- negative publicity and damage to our reputation and brand; and
- legal claims and demands (including for stolen assets or information, repair of system damages, and compensation to customers and business partners), litigation, regulatory audits, proceedings or investigations, and other liability.

Any of the above results could materially and adversely affect our business, results of operations, and financial condition.

Abuse, misuse, or other unauthorized use of our internal network, including network services tools, could cause significant harm to our business and reputation.

Our employees and contractors use our internal network to support the operation of our global network and products for our customers. In addition, in order to provide real-time support to our customers, we have created internal network services tools that are used by our employees and contractors to diagnose and correct customer

security, performance, and reliability issues. If any of our employees or contractors were to intentionally abuse our internal network, including these tools, by interfering with or altering our customers' Internet properties, our customers could be significantly harmed. Similarly, our customers could be harmed if government personnel in any countries in which our employees operate were to pressure our employees, including through the threat of potential prosecution or imprisonment, to use our internal network, including these tools, to access customer data or interfere with or alter our customers' Internet properties. Our employees' inadvertent misuse of our internal network, including these tools, could similarly harm our customers. For example, third parties have in the past attempted to induce our employees to use their administrative access to reveal, remove, or disable our customers' information and content, including by submitting fraudulent law enforcement requests, copyright takedown requests, or other content-based complaints. Any such improper disclosure or removal could significantly and adversely impact our business and reputation. While our internal network and tools have been developed only for authorized use by our employees and contractors, any unauthorized use of, or access to, our internal network by, or release of network service tools to, third parties would represent a significant vulnerability in our products. Accordingly, any abuse or misuse of our internal network and services tools could significantly harm our business and reputation. If it became necessary to further restrict the availability or use of our internal network and services tools by our employees and customers in response to any abuse or misuse, our ability to deliver high-quality and timely customer support could be harmed.

We may choose to make public disclosures in press releases, on our website and blog, through social media, and in other ways about our network, systems, products, and technology, which may include negative events, when we are not otherwise required by applicable law and those disclosures could materially and adversely impact our business, reputation, and results of operations.

In the past we have been, and in the future we expect to be, transparent about our network, systems, products, and technology with our customers and the public in general. We believe that being rigorously and promptly transparent is an essential part of maintaining trust with our customers. At times, this transparency may result in us publicly disclosing information, including negative events, about our network, systems, products, and technology in circumstances where we may not be required to do so by applicable law. If and when we choose to make these types of non-legally required public disclosures, we may suffer reputational damage, loss of business, litigation, indemnity obligations, damages for contract breach, penalties for violation of applicable laws or regulations, significant costs for remediation, and other liabilities that could materially and adversely impact our business, reputation, and results of operations.

We provide service level commitments under our Enterprise subscription plan customer contracts and our Business subscription plan terms of service. If we fail to meet these contractual commitments, we could be obligated to provide credits for future service or allow customers to terminate their subscriptions and our business could suffer.

Our Enterprise subscription plan agreements and our Business subscription plan terms of service typically provide for service level commitments, which contain specifications regarding the availability and performance of our network. In particular, our Enterprise subscription plan and our Business subscription plan terms of service include up to a 100% uptime guarantee. Any failure of or disruption to our infrastructure could adversely impact the security, performance, and reliability of our network and products for our customers. If we are unable to meet our stated service level commitments or if we suffer extended periods of poor performance or unavailability of our network and products, these customers could seek to bring claims against us or terminate their agreements with us and, in the case of our contracted customers, we may be contractually obligated to provide affected customers with service credits that they may apply against future subscription fees otherwise owed to us, and, in certain cases, refunds of pre-paid and other fees. For example, the June 2019 route leak and July 2019, April 2020, July 2020, and June 2022 outages triggered certain of these types of obligations. The impact of the June 2019 route leak and the July 2019, April 2020, July 2020, and June 2022 outages did not have a material impact on our results of operations or financial condition; however, other future events like these may materially and adversely impact our results of operations or financial condition. Our revenue, other results of operations, and financial condition could be harmed if we suffer performance issues or downtime that exceeds the service level commitments under our agreements and terms of service with our paying customers.

If our products do not obtain and maintain market acceptance, our ability to grow our business and our results of operations may be adversely affected.

Our products are still evolving and it is difficult to predict customer demand and adoption rates for our product offerings. We believe that our network and cloud-based products represent a major shift from traditional solutions. Many of our potential customers, particularly large enterprises and government entities, face barriers to adopting our offerings because of their prior investment in, and the familiarity of their IT personnel with, on-premises, appliance-based solutions or other providers of cloud-based solutions. As a result, our sales process often involves extensive efforts to educate our customers about our products, particularly as we continue to pursue customer relationships with large organizations. Our customers also expect us to meet voluntary certifications or adhere to standards established by third parties and may demand that they be provided a report from our auditors that we are in compliance. Although we currently have certain certifications such as SOC2 Type 2, PCI DSS, ISO 27001, ISO 27701, and ISO 27018, we may not be successful in continuing to maintain those certifications or in obtaining other certifications. In addition, sales to government entities and other large enterprises may in particular be conditioned upon adherence to the FedRAMP and Electronic Identification and Trust Services Regulation standards in the United States and the EU, respectively, and we do not currently have these certifications. The costs of obtaining and maintaining certification pursuant to any of these standards are significant, and any failure to obtain and maintain such certifications for our network and products could reduce demand for them, which would harm our business, results of operations, and financial condition. To the extent our competitors have, and we do not have, these certifications, we may lose the opportunity to obtain subscriptions from certain potential paying customers.

Despite our efforts, we can provide no assurance that our cloud-based products will obtain market acceptance or that competing products or services based on other cloud-based and/or on-premises technologies will not achieve market acceptance. If we fail to achieve market acceptance of our products or are unable to keep pace with industry changes or obtain necessary product certifications, our ability to grow our business, results of operations, and financial condition will be materially and adversely affected.

We may not be able to respond to rapid technological changes or develop new products and features that are attractive to our current and prospective future customers.

The industry in which we compete is characterized by rapid technological change, including frequent introductions of new products and services, evolving industry standards, changing regulations, and the development of novel cyber attacks by hostile parties, as well as changing customer needs, requirements, and preferences. Our need for continuous innovation is driven not only by competitive forces within our industry but also by our need to out-innovate the highly motivated third parties seeking to breach or compromise our network and those of our customers for economic, political, military, or other purposes.

Our ability to attract new customers and increase revenue from existing customers will depend in significant part on our ability to anticipate and respond effectively to these forces on a timely basis and continue to introduce enhancements to our network and develop new products. If new technologies emerge that deliver competitive products and services at lower prices, more efficiently, more conveniently, more securely or reliably, or are higher performing, these technologies could render our network and existing products less attractive to our current and prospective future customers, or obsolete. The development of novel attacks or exploits by criminal or malicious elements or hostile state actors also could render our network and existing products less effective or obsolete. The success of our business depends on our continued investment in our research and development organization to increase the integrity, reliability, availability, and scalability of our products. We may experience difficulties with development, design, or marketing of such enhancements to our network and products that could delay or prevent their development, introduction, or implementation. For example, in the past we have announced the development of new products and features or the release of new products or features for beta testing and the timing for the general release of the product or feature has been substantially later than we initially expected. We also have in the past experienced delays in the planned expansion of our network and in our internally planned or publicly announced release dates of new products and new features and capabilities, and there can be no assurance that planned expansions of our network will occur on schedule and that new products, features, or capabilities will be released according to schedule. Any delays could result in adverse publicity, loss of revenue or market acceptance, or claims by customers brought against us, all of which could have a material and adverse effect on our reputation, business, results of operations, and financial condition.

In connection with our Web3 suite of products and our potential future participation in various Web 3 protocol governance activities, we expect to hold certain types of cryptocurrency and similar types of digital assets that may be subject to unique regulatory and accounting risks, volatile market prices, and risks of loss, which could harm our business and reputation.

In connection with our Web3 suite of products and our potential future participation in Web 3 protocol governance activities, we expect to hold certain cryptocurrency and similar types of digital assets. The regulatory status of digital assets is subject to significant change. Some or all of these assets are subject to significant regulatory restrictions and have even been prohibited or effectively prohibited in some countries. If we fail to comply with regulations or prohibitions applicable to us based on these types of digital assets, we could face regulatory or other enforcement actions and potential fines and other consequences.

The prices of digital assets have been in the past and may continue to be highly volatile, including as a result of various associated risks and uncertainties. For example, the prevalence of such assets is a relatively recent trend, and their long-term adoption by investors, consumers, and businesses remains uncertain. Moreover, digital assets' lack of a physical form, their reliance on technology for their creation, existence, and transactional validation, and their decentralization may subject their integrity to the threat of malicious attacks and technological obsolescence. In addition, if the market value of the digital assets we hold increases significantly relative to the purchase prices, we could be deemed an "investment company" for purposes of the Investment Company Act of 1940, as amended, and may be required to institute burdensome compliance requirements, restricting our activities in a way that could adversely affect our business, financial condition, and results of operations.

Moreover, digital assets are currently considered indefinite-lived intangible assets under applicable accounting rules, meaning that any decrease in their fair values below our carrying values for such assets at any time subsequent to their acquisition will require us to recognize impairment charges, whereas we may make no upward revisions for any market price increases until a sale, which may adversely affect our operating results in any period in which such impairment occurs. Moreover, there is no guarantee that future changes in U.S. GAAP will not require us to change the way we account for digital assets held by us.

Further, digital assets have been, and may in the future be, subject to security breaches, cyberattacks, or other malicious activities, including unauthorized access and theft, as well as human errors or computer malfunctions that may result in the loss or destruction of private keys needed to access such assets. While we expect to implement appropriate security measures with respect to any future digital assets holdings, those measures may not function as expected and may not detect or prevent all unauthorized activity, prevent all security breaches or incidents, mitigate all security breaches or incidents, or protect against all attacks or incidents. If such threats are realized or the measures or controls that we create or implement to secure such assets fail, it could result in a partial or total misappropriation or loss of such digital assets.

Risks Related to Legal, Tax, and Regulatory Matters

Activities of our paying and free customers or the content of their websites and other Internet properties may violate applicable laws and/or our terms of service and could subject us to lawsuits, regulatory enforcement actions, and/or liability in various jurisdictions.

Through our network, we provide a wide variety of products that enable our customers to exchange information, conduct business, and engage in various online activities both domestically and internationally. Our customers may use our network and products in violation of applicable law or in violation of our terms of service or the customer's own policies. The existing laws relating to the liability of providers of online products and services for activities of their users are highly unsettled and in flux both within the United States and internationally. We are currently and, in the future, may be subject to lawsuits and/or liability arising from the conduct of our customers. Additionally, the conduct of our customers may subject us to regulatory enforcement actions and/or liability. We are a defendant in lawsuits, both in the United States and abroad, seeking injunctive relief and/or damages against us based on content that is made available through our customers' websites. A number of these lawsuits involve copyright infringement claims, and courts in Italy and Germany have at times directed us to take action by removing access to content of certain sites on our network. There can be no assurance that we will not face similar litigation in the future or that we will prevail in any litigation we are facing or may face. An adverse decision in one or more of these lawsuits could materially and adversely affect our business, results of operations, and financial condition.

Several U.S. federal statutes may apply to us with respect to various activities of our customers, including: the Digital Millennium Copyright Act (the DMCA), which provides recourse for owners of copyrighted material who believe their rights under U.S. copyright law have been infringed on the Internet; and section 230 of the Communications Decency Act (the CDA), which addresses blocking and screening of content on the Internet. Although these and other similar legal provisions provide limited protections from liability for service providers like us, those protections may not be interpreted in a way that applies to us, may be amended or removed in the future, or may not provide us with complete protection from liability claims. If we are found not to be protected by the safe

harbor provisions of the DMCA, CDA or other similar laws, or if we are deemed subject to laws in other countries that may not have the same protections or that may impose more onerous obligations on us, we may owe substantial damages and our brand, reputation, and financial results may be harmed.

Policies and laws in this area remain highly dynamic, and we may face additional theories of intermediary liability in various jurisdictions. Many policymakers in the United States have called for a re-examination of CDA section 230 and copyright law, and the EU has agreed on a new Digital Services Act and Digital Markets Act to update the rules governing digital services like ours, including replacing the eCommerce Directive and imposing additional legal requirements on certain service providers. In addition, in 2019, the EU approved a Copyright Directive that will impose additional obligations on service providers and failure to comply could give rise to significant liability. Other laws and pending legislation at the EU level (terrorist content, child sexual abuse materials), in the United Kingdom (online harms), Australia (online harms), and India (Information Technology Rules), as well as other new laws like them, may also expose Internet companies like us to significant liability. We may incur additional costs to comply with these new laws, which may have an adverse effect on our business, results of operations, and financial condition.

Current and future litigation subjects us to claims for very large potential damages based on a significant number of online occurrences under statutory or other damage theories. Such claims may result in liability that exceeds our ability to pay or our insurance coverage. Even if claims against us are ultimately unsuccessful, defending against such claims will increase our legal expenses and divert management's attention from the operation of our business, which could materially and adversely impact our business and results of operations.

Our policies regarding user privacy could cause us to experience adverse business and reputational consequences with customers, employees, suppliers, government entities, and other third parties.

As a company, we strive to protect our customers' privacy consistent with applicable law. Consequently, we generally do not provide personal information about our customers or their users without legal process. In accordance with our contractual commitments to our customers, we may need to challenge legal process requesting disclosure of personal information where such requests are inconsistent with applicable data protection laws. In addition, from time to time, government entities may seek or demand our assistance with obtaining information about our customers or could request that we modify our network and products in a manner to permit access or monitoring. In light of our privacy commitments, we may legally challenge law enforcement requests to provide a feed of content transiting our network, to obtain encryption keys, or to modify or weaken encryption. We also may face complaints from individuals who assert we have provided their information improperly to law enforcement or in response to third-party abuse complaints, despite policies we have in place to protect that information. To the extent that we do not provide assistance to or comply with requests from government entities or challenge those requests publicly or in court, we may experience adverse political, business, and reputational consequences. We may also face such adverse political, business, and reputational consequences to the extent that we provide, or are perceived as providing, assistance to government entities that exceeds our legal obligations. For example, we periodically receive requests for information purportedly originating from law enforcement agencies or pursuant to legal process, but which are fraudulent or improper attempts to cause us to reveal customer information. Any such disclosure could significantly and adversely impact our business and reputation.

We publish a transparency report on a semi-annual basis to provide details of law enforcement and government requests we receive. Our transparency report also includes a list of certain actions we have not taken in response to law enforcement requests. If we are ever required by law enforcement to take one or more of the actions covered by those disclosures, then we would have to remove the applicable disclosures from our transparency report. Both the publishing of our transparency report and, conversely, the potential narrowing of the list of actions we have not taken in response to law enforcement requests could damage our business and reputation.

Our business could be adversely impacted by changes in Internet access for our customers as a result of competitive behavior or laws specifically governing the Internet.

Our network performance and reliability depends on the quality of our customers' access to the Internet. Certain features of our network require significant bandwidth and fidelity to work effectively. Internet access is frequently provided by companies that have significant market power that could take actions that degrade, disrupt, or increase the cost of user access to our network, which would negatively impact our business. We could incur greater operating expenses and our customer acquisition and retention could be negatively impacted if other network operators:

- implement usage-based pricing;
- discount pricing for competitive products;
- otherwise materially change their pricing rates or schemes;
- charge us to deliver our traffic at certain levels or at all;
- throttle traffic based on its source or type;
- implement bandwidth caps or other usage restrictions; or
- otherwise try to monetize or control access to their networks.

In addition, there are various laws and regulations that could impede the growth of the Internet or online services, and new laws and regulations may be adopted in the future. These laws and regulations could involve interconnection and network management; taxation; tariffs; privacy; data protection; information security; content; copyrights; distribution; electronic contracts and other communications; consumer protection; and requirements for the characteristics and quality of services, any of which could decrease the demand for, or the usage of, our products. Legislators and regulators may make legal and regulatory changes, or interpret and apply existing laws, in ways that require us to incur substantial costs, expose us to unanticipated civil or criminal liability, or cause us to change our business practices. If these changes are implemented, it could have an adverse and negative impact on our business. In addition, we may be banned from providing our products in certain countries, which would prevent our ability to grow our business in such markets and would also have a detrimental impact on the performance and scope of our network. Russia, for example, announced their intent to block designated virtual private networks in December 2021, and has included one of our products, Cloudflare WARP, to its list of banned services. These changes or increased costs could materially harm our business, results of operations, and financial condition.

Failure to comply with laws and regulations applicable to our business could subject us to fines and penalties and could also cause us to lose customers or otherwise harm our business.

Our business is subject to regulation by various federal, state, local, and non-U.S. governmental agencies, including agencies responsible for monitoring and enforcing compliance with various legal obligations, such as privacy, data protection, and information security laws and regulations, intellectual property laws, telecommunications laws and regulations, employment and labor laws, workplace safety, environmental laws, consumer protection laws, anti-bribery laws, governmental trade sanctions laws, import and export controls, anti-corruption and anti-bribery laws, federal securities laws, and tax laws and regulations. In certain jurisdictions, these regulatory requirements may be more stringent than in the United States.

In addition, many countries are considering expanding or have expanded regulatory requirements for services such as ours, with potential requirements such as collection and verification of customer data, limitations on the use of non-personal data, cybersecurity incident reporting obligations, expanded registration requirements, or requirements to have personnel in the country. The rapid expansion of proposed regulations, as well as possible conflicting requirements, may make it challenging for us to identify and comply with all new global regulations that may apply to our services.

These laws and regulations impose added costs on our business. Noncompliance with applicable regulations or requirements could subject us to:

- investigations, enforcement actions, and sanctions;
- mandatory changes to our network and products;
- disgorgement of profits, fines, and damages;
- civil and criminal penalties or injunctions;
- claims for damages by our customers or channel partners;
- termination of contracts;
- loss of intellectual property rights; and
- temporary or permanent debarment from sales to government organizations.

If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, results of operations, and financial condition could be adversely affected. In addition, responding to any

action will likely result in a significant diversion of our management's attention and resources and an increase in professional fees. Enforcement actions and sanctions could materially harm our business, results of operations, and financial condition.

Additionally, companies in the technology industry have recently experienced increased regulatory scrutiny. The rapid growth of our business and the products that we offer may also result in increased regulatory scrutiny of our company in particular. Any reviews by regulatory agencies or legislatures may result in substantial regulatory fines, changes to our business practices, and other penalties, which could negatively affect our business and results of operations. Changes in social, political, and regulatory conditions or in laws and policies governing a wide range of topics may cause us to change our business practices. Further, our expansion into a variety of new fields also could raise a number of new regulatory issues. These factors could negatively affect our business and results of operations in material ways.

Our actual or perceived failure to comply with privacy, data protection, and information security laws, regulations, and obligations could harm our business.

We receive, store, use, and otherwise process personal information and other information relating to individuals. There are numerous federal, state, local, and international laws and regulations regarding privacy, data protection, information security, and the storing, sharing, use, processing, transfer, disclosure, and protection of personal information and other content, the scope of which are changing, subject to differing interpretations, and may be inconsistent among jurisdictions, or conflict with other rules. These laws and regulations are evolving and may result in ever-increasing regulatory and public scrutiny and escalating levels of enforcement and sanctions. For example, the EU's General Data Protection Regulation (the GDPR) imposes stringent data protection requirements and provides for penalties for noncompliance of up to the greater of €20 million or four percent of worldwide annual revenues. The number of data protection laws globally is rising as well as more countries have in place or are exploring new or updated comprehensive data protection regimes. Some countries are also considering or have enacted legislation requiring local storage and processing of data that could increase the cost and complexity of delivering our services. For example, both China and Japan maintain comprehensive privacy and data protection regimes that, among other matters, regulate cross-border data transfers. In addition, the interpretation of existing privacy, data protection, and information security laws and regulations by governmental entities and the courts may change significantly over time in a manner that can have a significantly adverse impact on both our business and our customers' businesses. For example, in July 2020, the Court of Justice of the European Union (CJEU) in the "Schrems II" case invalidated the U.S.-EU Privacy Shield that was widely used under the GDPR to allow for the lawful transfer of personal data of European Economic Area (EEA) residents to the United States for processing and placed additional requirements on the use of the EU Standard Contractual Clauses (EU SCCs) as a mechanism for transferring EEA personal data to the United States. In order to comply with the applicable deadlines to have updated EU SCCs, and the U.K. addendum to the EU SCCs or other appropriate contractual provisions, in place with our customers and vendors, we may incur substantial costs or need to engage in additional contract negotiations.

The CJEU decision created regulatory uncertainty that has been compounded by varying interpretations of the decision by independent data protection regulators throughout Europe, including in the EEA and Switzerland. For example, on April 27, 2021, the Portuguese data protection authority, Comissão Nacional de Protecção de Dados (CNPD), issued an opinion directing the Portuguese National Statistics Institute, I.P. (INE) to discontinue use of our services based on the GDPR. Since that time, other EU data protection authorities have also issued decisions directing EU private- and public-sector entities to stop using specific U.S. cloud service providers where they found that use of those providers resulted in the transfer of EEA personal data to the United States in a manner that did not meet the standard set in the Schrems II case. In March 2022, the European Commission and the United States committed to a new Trans-Atlantic Data Privacy Framework designed to address the concerns raised in the Schrems II case. While this new framework, if and when implemented, may serve as a means for cloud service providers to address concerns raised in the Schrems II case, many aspects of this new framework and steps necessary for its implementation remain uncertain, and it is unclear we will find it appropriate for our use or seek to use it. It also may be subject to legal challenge. We may continue to see more findings from privacy regulators against cloud service providers relating to cross-border personal data transfers, and may find it necessary or appropriate to modify our policies and practices to address any such findings or other legislative developments relating to cross-border personal data transfers. Implementing any new guidance from applicable regulatory authorities and otherwise responding to or addressing developments relating to cross-border personal data transfers may result in substantial costs, require changes to our policies and business practices, require us to engage in additional contractual negotiations, limit our ability to provide certain products in certain jurisdictions, limit our ability to provide certain products to certain customers, or materially adversely affect our business and operating results.

Meanwhile, although the United Kingdom has enacted legislation that is substantially consistent with the GDPR and the European Commission formally adopted an adequacy decision under GDPR to provide for the free flow of personal data between the EU and the United Kingdom, it remains to be seen how data transfers to and from the United Kingdom will be regulated and enforced in the longer term. To the extent future United Kingdom data protection requirements diverge significantly from the GDPR, they may result in substantial costs, require changes to our business practices, limit our ability to provide certain products in certain jurisdictions, limit our ability to provide certain products to certain customers, or materially adversely affect our business and operating results.

We also expect that there will continue to be new laws, regulations, and industry standards concerning privacy, data protection, and information security proposed and enacted in the United States and various individual U.S. states. In the United States, various federal laws and regulations already apply to the collection, processing, disclosure and security of certain types of data, including the Electronic Communications Privacy Act, the Computer Fraud and Abuse Act, the Health Insurance Portability and Accountability Act of 1996, and the Gramm-Leach-Bliley Act. In addition, there are also a number of recently enacted or proposed U.S. federal and state privacy and data protection bills in Congress and state legislatures across the country. For example, the California Consumer Privacy Act (the CCPA) went into effect on January 1, 2020 and requires covered companies to provide new disclosures to California consumers and afford such consumers new abilities to access and delete their personal information, and to opt-out of certain sales of personal information. An additional California privacy law and privacy laws in Colorado, Connecticut, Utah, and Virginia will go into effect in 2023. Moreover, numerous other U.S. states in which we operate and the U.S. federal government are also considering privacy legislation.

We are also subject to the terms of our privacy policies and contractual obligations to third parties related to privacy, data protection, and information security. We strive to comply with applicable laws, regulations, policies, and other legal obligations relating to privacy, data protection, and information security to the extent possible. However, the regulatory framework for privacy and data protection worldwide is evolving rapidly, and it is possible that these or other actual or alleged obligations may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices.

Any failure or perceived failure by us to comply with our privacy policies, our privacy-related obligations to customers or other third parties, applicable laws or regulations, or any of our other legal obligations relating to privacy, data protection, or information security may result in governmental investigations or enforcement actions, litigation, claims, or public statements against us by consumer advocacy groups or others and could result in significant liability or cause our customers to lose trust in us, which could cause them to cease or reduce use of our products and otherwise have an adverse effect on our reputation and business. Furthermore, the costs of compliance with, and other burdens imposed by, the laws, regulations, and policies that are applicable to the businesses of our customers may limit the adoption and use of, and reduce the overall demand for, our products.

Additionally, if third parties we work with, such as sub-processors, vendors, or developers, violate applicable laws or regulations, contractual obligations, or our policies—or if it is perceived that such violations have occurred—such actual or perceived violations may also have an adverse effect on our business. Further, any significant change to applicable laws, regulations, or industry practices regarding the collection, use, retention, security, disclosure, or other processing of users' content, or regarding the manner in which the express or implied consent of users for the collection, use, retention, disclosure, or other processing of such content is obtained, could increase our costs and require us to modify our network, products, and features, possibly in a material manner, which we may be unable to complete, and may limit our ability to store and process customer data or develop new products and features.

We are subject to anti-corruption, anti-bribery, and similar laws, and noncompliance with such laws can subject us to criminal penalties or significant fines and harm our business and reputation.

We are subject to the U.S. Foreign Corrupt Practices Act of 1977, the UK Bribery Act 2010, and other anti-corruption, anti-bribery, anti-money laundering, and similar laws in the United States and other countries in which we conduct activities. Anti-corruption and anti-bribery laws, which have been enforced aggressively and are interpreted broadly, prohibit companies and their employees and agents from promising, authorizing, making, or offering improper payments or other benefits to government officials and others in the public sector. We leverage third parties, including channel partners, to sell subscriptions to our products, host many of our co-location facilities for our network, and conduct our business abroad. We and these third parties may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and we may be held liable for the corrupt or other illegal activities of our business partners and intermediaries, our employees, representatives, contractors, channel partners and agents, even if we do not explicitly authorize such activities. Further, some of our international sales activity occurs, and some of our network infrastructure is located, in parts of

the world that are recognized as having a greater potential for business practices that violate anti-corruption, anti-bribery, or similar laws.

We cannot assure you that all of our employees and agents have complied with, or in the future will comply with, our policies and applicable law. As we continue to increase our international sales and business and expand our network globally, our risks under these laws may increase. The investigation of possible violations of these laws, including internal investigations and compliance reviews that we may conduct from time to time, could have a material adverse effect on our business. Noncompliance with these laws could subject us to investigations, severe criminal or civil sanctions, settlements, prosecution, loss of export privileges, suspension or debarment from U.S. government contracts and other contracts, other enforcement actions, the appointment of a monitor, disgorgement of profits, significant fines, damages, other civil and criminal penalties or injunctions, whistleblower complaints, adverse media coverage and other consequences. Other internal and government investigations, regulatory proceedings, or litigation, including private litigation filed by our stockholders, may also follow as a consequence. Any investigations, actions, or sanctions could materially harm our reputation, business, results of operations, and financial condition. Further, the promulgation of new laws, rules or regulations or new interpretations of current laws, rules or regulations could impact the way the we do business in other countries, including requiring us to change certain aspects of our business to ensure compliance, which could reduce revenue, increase costs, or subject us to additional liabilities.

We may face fines, penalties, or other costs, either directly or vicariously, if any of our partners, resellers, contractors, vendors or other third parties fail to adhere to their compliance obligations under our policies and applicable law.

We use a number of third parties to perform services or act on our behalf in areas like sales, network infrastructure, administration, research, and marketing. It may be the case that one or more of those third parties fail to adhere to our policies or violate applicable federal, state, local, and international laws, including but not limited to, those related to corruption, bribery, economic sanctions, and export/import controls. Despite the significant challenges in asserting and maintaining control and compliance by these third parties, we may be held fully liable for third parties' actions as fully as if they were a direct employee of ours. Such liabilities may create harm to our reputation, inhibit our plans for expansion, or lead to extensive liability either to private parties or government regulators, which could adversely impact our business, results of operations, and financial condition.

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

We operate in a number of tax jurisdictions globally, including in the United States at the federal, state, and local levels, and in many other countries, and plan to continue to expand the scale of our operations in the future. Accordingly, we are subject to income taxes in the United States and various jurisdictions outside of the United States. While to date we have not incurred significant income taxes in operating our business, we may in the future face significant tax liabilities. Our tax expense could also be impacted by changes in non-deductible expenses, changes in excess tax benefits from stock-based compensation, changes in the valuation of deferred tax assets and liabilities and our ability to utilize them, the applicability of withholding taxes, and effects from acquisitions.

Our tax provision could also be impacted by changes in accounting principles, changes in U.S. federal, state, or international tax laws applicable to corporate multinationals, other fundamental law changes currently being considered by many countries, and changes in taxing jurisdictions' administrative interpretations, decisions, policies, and positions.

Additionally, in March 2018, the European Commission released a proposal for a European Council directive on taxation of specified digital services. The proposal calls for an interim tax on certain revenues from digital activities, as well as a longer-term regime that creates a taxable presence for digital services and imposes tax on digital profits. We do not yet know the impact this proposal, if implemented, would have on our financial results. A number of other jurisdictions are considering enacting similar digital tax regimes. These efforts are alongside the OECD's ongoing work, as part of its Base Erosion and Profit Shifting Action Plan that, if implemented, provides a long-term, multilateral proposal on taxation of the digital economy. Any of the foregoing changes could have an adverse impact on our results of operations, cash flows, and financial condition.

Our results of operations may be harmed if we are required to collect sales and use, gross receipts, value-added, or similar taxes for our products in jurisdictions where we have not historically done so.

Sales and use, value-added, goods and services, and similar tax laws and rates vary greatly by jurisdiction. Our customers can be located in one jurisdiction, utilize our network and products through our network equipment in a different jurisdiction, and pay us from an account located in a third jurisdiction. This divergence, along with the jurisdiction-by-jurisdiction variance in tax laws, causes significant uncertainty in the tax treatment of our business. There is further uncertainty as to what constitutes sufficient physical presence or nexus for a national, state, or local jurisdiction to levy taxes, fees, and surcharges for sales made over the Internet, and there is also uncertainty as to whether our characterization of our network and products as not taxable in certain jurisdictions will be accepted by national, state, and local taxing authorities. In determining our tax filing obligations, management has made judgments regarding whether our activities in a jurisdiction rise to the level of taxability. These judgments may prove inaccurate, and one or more states or countries may seek to impose additional sales, use, or other tax collection obligations on us, including for past sales by us. We currently face, and in the future may continue to face, sales tax audits, and in the event of an adverse outcome in those audits our liability for these taxes could exceed our estimates as state and other tax authorities could assert that we are obligated to collect additional amounts as taxes from our customers and remit those taxes to those authorities. 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 network and products could, among other things, result in substantial tax liabilities for past sales, create significant administrative burdens for us, discourage customers from purchasing our network and products, or otherwise harm our business, results of operations, and financial condition.

Our international operations require us to exercise judgment in determining the applicability of tax laws, which may subject us to potentially adverse tax consequences.

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

Our future effective tax rate may be affected by such factors as changes in tax laws, regulations, or rates, changing interpretation of existing laws or regulations, the impact of accounting for stock-based compensation, the impact of accounting for business combinations, changes in our international organization, and changes in our overall levels of income before tax. In addition, in the ordinary course of our global business, there are many intercompany transactions and calculations where the ultimate tax determination is uncertain. Although we believe that our tax estimates are reasonable, we cannot ensure that the final determination of tax audits or tax disputes will not be different from what is reflected in our historical income tax provisions and accruals. There can be no assurance that the outcomes from these continuous examinations will not have an adverse effect on our results of operations.

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 \$1,121.0 million, net of uncertain tax positions, available to offset future U.S. federal taxable income that will begin to expire in 2029 for tax years beginning before December 31, 2017. As of December 31, 2021, we had net operating loss carryforwards for state income tax purposes of \$770.3 million, net of uncertain tax positions, available to offset future state taxable income that will begin to expire in 2030. As of December 31, 2021, we had net operating loss carryforwards for U.K. income tax purposes of \$153.2 million, net of uncertain tax positions, available to offset future U.K. taxable income, that can be carried forward indefinitely. As of December 31, 2021, we had foreign tax credit carryforwards for federal income tax purposes of \$1.8 million that will begin to expire, if not utilized, in 2025. Also as of December 31, 2021, we had federal research and development tax credit carryforwards of \$19.1 million, net of uncertain tax positions, that will begin to expire in 2029 and state research and development tax credit carryforwards of \$11.1 million, net of uncertain tax positions, that can be carried forward indefinitely.

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,” the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change attributes, such as research tax credits, to offset its post-change income may be limited. In general, an “ownership change” will occur if there is a cumulative change in our ownership by “5-percent shareholders” that exceeds 50 percentage points over a rolling three-year period. Similar rules may apply under state tax laws. We may have experienced various ownership changes, as defined by the Code, as a result of past financing transactions (or other activities), and 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.

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. It is also possible that Congress will enact additional legislation, some of which may adversely impact our business.

Risks Related to International Operations

Our international operations expose us to significant risks, and failure to manage those risks could materially and adversely impact our business and results of operations.

Historically, we have derived a significant portion of our revenue from outside the United States. We derived 47% and 48% of our revenue from our international customers for the three months ended June 30, 2022 and 2021, respectively, and 47% and 48% of our revenue from our international customers for the six months ended June 30, 2022 and 2021, respectively. We are continuing to adapt to and develop strategies to address international markets and our growth strategy includes expansion into geographies around the world, but there is no guarantee that such efforts will be successful. In addition, our global network includes co-location facilities located in more than 275 cities and over 100 countries worldwide as of June 30, 2022. We expect that our international sales and network activities will continue to grow in the future, as we continue to pursue opportunities in international markets and further grow our network around the world. These international operations will require significant management attention and financial resources and are subject to substantial risks, including:

- geopolitical, economic, and social uncertainties, including the potential nationalization of key peering partners by foreign governments or political unrest that affects our ability to continue to work with particular peering partners, potential terrorist activities, military conflict or war, trade policies and sanctions, and the unknown impact of regional or global health crises, or epidemic or pandemic diseases, such as the ongoing COVID-19 pandemic;
- changes in a specific country’s or region’s political or economic conditions;
- unexpected costs for the localization of our products, including translation into foreign languages and adaptation for local practices and legal and regulatory requirements;
- greater difficulty in enforcing contracts and accounts receivable collection, and longer collection periods;
- reduced or uncertain protection for intellectual property rights in some countries;
- requirements to open local offices or otherwise maintain a local presence in some countries, including Russia;
- greater risk of unexpected changes in regulatory practices, tariffs, and tax laws and treaties, including with respect to our business in China;
- increased risk to our local employees of government pressure, including potential threats of prosecution or imprisonment, in connection with enforcement of local legal and regulatory requirements;
- greater risk of a failure of foreign employees and channel partners to comply with both U.S. and foreign laws, including antitrust regulations, anti-bribery laws, export and import control laws, and any applicable trade regulations ensuring fair trade practices;
- heightened security risks associated with our co-location facilities and related equipment in high-risk countries and the software code and systems access shared with our service providers located in such countries, including in the Hong Kong region as a result of the National Security Law passed in June 2020;

- greater security and oversight risks associated with third-party contractors that we use to install and maintain our hardware in co-location facilities in foreign countries and the limited background checks and screening that we can perform on such service providers;
- laws and regulations related to privacy, data protection, security requirements, data localization, or content restriction that could pose risks to our intellectual property, increase the cost of doing business in a country, subject us to greater risks of claims and enforcement actions by regulators or others, subject us and our current and potential customers to burdensome requirements, increase the chance that current and potential customers may be unable to use our products or may be required to lessen or alter how they use our products, or create other disadvantages to our business or negative impacts on our results of operations;
- increased expenses incurred in establishing and maintaining office space and equipment for our international operations;
- greater difficulty in identifying, attracting, and retaining local qualified personnel and the costs and expenses associated with such activities;
- differing employment practices and labor relations issues, which may make expansion or contraction of our workforce, or changes in the terms of employment, in such countries more costly and time-consuming and subject us to a greater risk of disputes or litigation;
- increased regulatory requirements and litigation risk related to the presence of our physical infrastructure in countries around the world;
- difficulties in managing and staffing international offices and increased travel, infrastructure, and legal compliance costs associated with operating multiple international locations; and
- fluctuations in exchange rates between the U.S. dollar and foreign currencies in markets where we do business, particularly the United Kingdom and Singapore where we have large offices and pay employees in local currency.

The expansion of our existing international operations and entry into additional international markets will require significant management attention and financial resources. Our failure to successfully manage our international operations and the associated risks could limit the future growth of our business. In particular, we are exposed to risks in China, which amounts to a significant part of both our short-term and long-term revenue growth plans. Our Chinese operations are substantially dependent on our relationship with JD Cloud & AI and due to economic and political challenges in servicing the Chinese market, the loss of this arrangement could have a significant adverse effect on our business and results of operations.

Geopolitical events, including the ongoing conflict between Russia and Ukraine, may increase the likelihood of certain of these risks materializing or heighten their impact on us in affected regions. In addition, heightened use of trade restrictions and sanctions, including tariffs or prohibitions on technology transfers to achieve diplomatic ends could impact our ability to conduct our business as planned.

As discussed in greater detail above in our risk factors, in July 2020, the CJEU invalidated the U.S.-EU Privacy Shield, and this decision may result in data protection regulators applying differing standards for, and requiring ad hoc verification of, transfers of personal data from the EEA, Switzerland, and the United Kingdom to the United States. In addition, new cross-border data regulations in Japan and China are raising similar concerns among our current and potential customers in those regions as well. As a result of this uncertainty, our current and potential customers in those regions may be concerned about whether they are able to transfer personal data to the United States in connection with the usage of our global network and products. If these concerns result in our current and potential customers in those regions reducing their usage of our products, then our results of operations could be adversely impacted. Further, we anticipate needing to identify different transfer mechanisms and/or change our use of certain standard contractual clauses in order to lawfully transfer certain personal data from those regions to the United States. This could result in substantial costs, require changes to our policies and business practices, require us to engage in additional contractual obligations, limit our ability to provide certain products in certain jurisdictions, or materially adversely affect our business and operating results.

Our business could be adversely impacted by the decision of foreign governments, Internet service providers, or others, to block transmission from Cloudflare IP addresses or domains in order to enforce certain Internet content blocking efforts.

Some of our security products involve making origin IP addresses and other operational assets of our customers more difficult for cyber attackers to target. The evolving design of our network and products may create challenges for various organizations, including governments, that seek to block certain content based on IP address “block lists” or other mechanisms. This problem is exacerbated by the fact that a single Cloudflare IP address may be used for a number of Internet properties, and the Cloudflare IP used for any one Internet property may change over time. This means that efforts by ISPs to block a single domain name may end up blocking a number of other domains or content. If these challenges become too difficult for those organizations to overcome, they could make the decision to block content in an overbroad manner or block completely websites and other Internet properties that are using our network and/or transmitted using known Cloudflare IP addresses. Some of these blocking efforts would be out of our control once they have been put in place and may limit our ability to provide our products on a fully global basis, which could reduce demand for our products among current or potential customers that are focused on the impacted regions or could otherwise adversely impact our business, results of operations, and financial condition.

Our network presence within China is dependent upon our commercial relationship with JD Cloud & AI and any detrimental changes in, or the termination of, that relationship could jeopardize our ability to offer an integrated global network that includes China.

We believe our offering of an integrated global network that includes facilities in China is important to our existing and potential future customers. Our ability to continue to offer an integrated network presence that includes China currently is dependent on our commercial relationship with JD Cloud & AI. Regulation of Internet infrastructure and traffic by the Chinese government creates challenges to the peering of Chinese and non-Chinese networks. We have a strategic agreement with JD Cloud & AI to provide solutions that accommodate the requirements imposed by Chinese regulations through JD Cloud & AI's development and operation of facilities in China that are included as part of our network. Our agreement with JD Cloud & AI was announced in 2020 and the term of the agreement expires on April 1, 2023. There can be no assurance that we will be able to extend our agreement with JD Cloud & AI in the future or if any such extension would be available on comparable terms. This agreement is subject to earlier termination by either party under certain circumstances such as the other party's material breach. In addition, this agreement can be terminated by JD Cloud & AI under certain circumstances if necessary Chinese governmental approvals are revoked or become limited or impaired or if public law or regulatory action by the Chinese or U.S. government expressly prohibits or materially restricts the collaboration contemplated by the agreement. The risk of such an early termination event may have increased during the current environment of economic trade negotiations and tensions between the Chinese and U.S. governments.

Our customers that use our network presence in China through our JD Cloud & AI commercial relationship are subject to Chinese laws and regulations of Internet infrastructure, traffic, and content. Under our agreement with JD Cloud & AI, in some circumstances, these customers' use of our Chinese network presence can be terminated if they violate these laws and regulations. The removal of our customers from our Chinese network presence could result in these customers deciding to terminate their overall relationship with us. In addition, any adverse publicity associated with the removal of some or all of our customers from our Chinese network presence as a result of the application of Chinese laws and regulations could cause us to experience adverse reputational and business consequences.

If our commercial relationship with JD Cloud & AI is terminated, identifying an alternative solution in China could be difficult, time-consuming, and expensive. Even if an alternative solution is identified, we cannot be certain that the economic terms or performance of any such alternative arrangement will be comparable to our existing relationship with JD Cloud & AI, which could materially negatively impact our financial results and customer satisfaction with such alternative arrangement. A lack of network presence in China would represent a significant loss of utility to many of our customers and could materially harm our business.

We are subject to governmental trade sanctions laws, and export and import controls, that could impair our ability to compete in international markets and subject us to liability if we are not in full compliance with applicable laws.

Our business activities are subject to various economic and trade sanctions regulations administered by the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) and U.S. export control and similar foreign laws and regulations, including the U.S. Department of Commerce's Export Administration Regulations (EAR). We incorporate encryption technology into certain of our products, and the encryption products and the underlying technology may be exported outside the United States only with the required export authorizations, including by license, a license exception, or other appropriate government authorizations, including the filing of classification

requests or self-classification reports. Further, the U.S. economic sanctions laws and export control laws include restrictions or prohibitions on the sale or supply of most products and services to U.S. embargoed or sanctioned countries, governments, persons, and entities. Even though we take precautions and have implemented policies and practices to assist in compliance, there is a risk that we may not be in full compliance with these laws.

In 2019, we learned that we may have failed to comply with certain U.S. export-related filing and reporting requirements and may have submitted incorrect information to the U.S. government in connection with certain hardware exports. Upon learning of these potential violations and associated export control requirements, we promptly initiated a voluntary internal review and are taking remedial measures to prevent similar export control anomalies from occurring in the future. In May 2019, we submitted an initial voluntary self-disclosure to the Bureau of Industry and Security regarding potential violations of EAR and a voluntary self-disclosure to the Census Bureau regarding potential violations of the Foreign Trade Regulations. In July 2019, we filed the full and complete voluntary self-disclosures. The voluntary self-disclosure to the Census Bureau was completed with no penalties in November 2019. The voluntary self-disclosure to the Bureau of Industry and Security was completed with no penalties in June 2020.

In May 2019, we submitted an initial voluntary self-disclosure to OFAC related to our non-compliance with certain economic and trade sanctions programs, and we filed the full and complete voluntary self-disclosure to OFAC in July 2019. Specifically, we identified that our products were used by, or for the benefit of, certain individuals and entities included in OFAC's Specially Designated Nationals and Blocked Persons List, including entities identified in OFAC's counter-terrorism and counter-narcotics trafficking sanctions programs and individuals or entities affiliated with governments currently subject to comprehensive U.S. sanctions or located in regions subject to comprehensive sanctions. A small number of these parties made payments to us in connection with their use of our products. In January, July, September, and December 2020, as well as March, June, September, and November 2021, and May 2022, we responded to additional questions from OFAC. The voluntary self-disclosure, which we may supplement as appropriate, remains under review by OFAC.

Although we have implemented, and are working to implement additional controls and screening tools designed to prevent similar activity from occurring in the future, there is no guarantee that we will not inadvertently provide our products to additional individuals, entities, or governments prohibited by U.S. sanctions in the future.

Additionally, we currently provide products to certain OFAC-sanctioned regions based upon general licenses issued by OFAC to engage in such activity. We continue to review the OFAC sanctions and our practices to verify compliance.

These efforts related to export controls and OFAC sanctions could result in negative consequences for us, including costs related to government investigations, financial penalties and harm to our reputation. The impact on us related to these matters could be substantial.

In addition, various countries regulate the import of certain technologies and have enacted or could enact laws that could limit our ability to provide our products and operate our network or could limit our customers' ability to access or use our network and products in those countries.

If we are found to have violated the U.S. or foreign laws and regulations, we and certain of our employees could be subject to civil or criminal penalties, including the possible loss of export privileges and fines. We may be materially and adversely affected through penalties, reputational harm, loss of access to certain markets, loss of customers, or otherwise. Obtaining the necessary authorizations, including any required license, for a particular transaction may be time-consuming, is not guaranteed, and may result in the delay or loss of sales opportunities. In addition, changes in our network, products, or screening process, or changes in export, sanctions, and import laws, could delay the introduction and sale of subscriptions to our products in international markets, prevent customers in certain countries from accessing our network and products or, in some cases, prevent the provision of our network and products to certain countries, governments, persons, or entities altogether. Any decrease in our ability to sell our products could materially and adversely affect our business, results of operations, and financial condition.

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

Substantially all of our sales contracts are denominated in U.S. dollars and, therefore, substantially all of our revenue is not subject to foreign currency risk. However, a strengthening of the U.S. dollar has increased and may

continue to increase the real cost of our products to our customers outside of the United States, which could reduce demand for our products and adversely affect our financial condition and results of operations.

As our international operations expand, an increasing portion of our revenue and operating expenses is incurred outside the United States and is denominated in foreign currencies, such as the British Pound and Singapore Dollar. Accordingly, our revenue and operating expenses are increasingly subject to fluctuations due to changes in foreign currency exchange rates. As we continue to expand our international operations, we may become more exposed to foreign currency risk or remeasurement risk. If we become more exposed to currency fluctuations and are not able to successfully hedge against the risks associated with currency fluctuations, our results of operations could be materially and adversely affected.

Risks Related to Intellectual Property

We are currently, and may be in the future, party to intellectual property rights claims and other litigation matters that, if resolved adversely, could have a material impact on our business, results of operations, or financial condition.

We own a large number of patents, copyrights, trademarks, domain names, and trade secrets and, from time to time, are subject to litigation based on allegations of infringement, misappropriation, or other violations of intellectual property or other rights. As we face increasing competition and gain an increasingly high profile, the possibility of intellectual property rights claims, commercial claims, and other assertions against us grows. In addition, a number of companies in our industry hold a large number of patents and also protect their copyright, trade secret, and other intellectual property rights, and companies in the networking and security industry frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. We have in the past been, are currently, and may from time to time in the future become, a party to litigation and disputes related to intellectual property, our business practices, and our products. For example, we are a defendant in lawsuits, both in the United States and abroad, seeking injunctive relief and/or damages against us based on intellectual property claims like alleged patent infringement or alleged copyright infringement through content on our customers' websites. We may also be subject to governmental and other regulatory investigations from time to time. The costs of supporting litigation and dispute resolution proceedings are considerable, and there can be no assurances that a favorable outcome will be obtained. Disputes, whether or not favorably resolved, may generate negative publicity and damage our reputation. We may need to settle litigation and disputes on terms that are unfavorable to us, or we may be subject to an unfavorable judgment that may not be reversible upon appeal. The terms of any settlement or judgment may require us to cease some or all of our operations or pay substantial amounts to the other party. With respect to any intellectual property rights claim, we may have to seek a license to continue practices found to be in violation of third-party rights, which may not be available on reasonable terms and may significantly increase our operating expenses. A license to continue such practices may not be available to us at all, and we may be required to develop alternative non-infringing technology or practices or discontinue the practices. The development of alternative, non-infringing technology or practices could require significant effort and expense. Our business, results of operations, and financial condition could be materially and adversely affected as a result.

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

Our agreements with certain of our customers or other third parties may include indemnification or other provisions under which we agree to indemnify or otherwise be liable to them for losses suffered or incurred as a result of claims of intellectual property infringement, damages caused by us to property or persons, or other liabilities relating to or arising from the use of our network and products or other acts or omissions. The term of these contractual provisions often survives termination or expiration of the applicable agreement. We have in the past been sued on the basis of alleged violation of intellectual property rights in the form of patents and trade secrets. Although we were successful in defending the claims to date, as we continue to grow, the possibility of these and other intellectual property rights claims against us may increase. For any intellectual property rights indemnification claim against us or our customers, we may incur significant legal expenses and have to pay damages, pay license fees and/or stop using technology found to be in violation of the third party's rights. Large indemnity payments could harm our business, results of operations, and financial condition. We may also have to seek a license for the disputed technology. Such license may not be available on reasonable terms, if at all, and may significantly increase our operating expenses or may require us to restrict our business activities and limit our ability to deliver certain products. As a result, we may also be required to develop alternative non-infringing technology, which could require

significant effort and expense and/or cause us to alter our network or products, which could negatively affect our business.

From time to time, customers require us to indemnify or otherwise be liable to them for breach of confidentiality, violation of applicable law, or failure to implement adequate security measures with respect to their data stored, transmitted, or accessed using our network and products. Our standard Enterprise plan agreements provide limited indemnification to our customers based on third-party claims related to our violation of intellectual property rights, and some of our Enterprise plan agreements offer indemnification for claims beyond that scope. The existence of such a dispute may have adverse effects on our customer relationship and reputation and we may still incur substantial liability related to them.

Any assertions by a third party, whether or not successful, with respect to such indemnification obligations could subject us to costly and time-consuming litigation, expensive remediation and licenses, divert management attention and financial resources, harm our relationship with that customer and other current and prospective customers, reduce demand for our products, and harm our brand, business, results of operations, and financial condition.

Our failure to protect our intellectual property rights and proprietary information could diminish our brand and other intangible assets.

We rely and expect to continue to rely on a combination of patent, patent licenses, trade secret, domain name protection, trademarks, copyrights, and confidentiality and license agreements with our employees, consultants, and third parties in order to protect our intellectual property and proprietary rights. As of June 30, 2022, we had more than 217 issued patents and 78 pending patent applications in the United States and abroad. However, third parties may knowingly or unknowingly infringe our proprietary rights. Third parties may challenge our proprietary rights, pending and future patent, trademark, and copyright applications may not be approved, and we may not be able to prevent infringement without incurring substantial expense. We have also devoted substantial resources to the development of our proprietary technologies and related processes, and we provide access to these technologies and processes to certain of our vendors and partners, including JD Cloud & AI with respect to the facilities included within our network in China. We must protect this proprietary information in order to realize commercial benefit from our investment.

In order to protect our proprietary technologies and processes, we rely in part on trade secret laws and confidentiality agreements with our employees, consultants, and third parties. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover our trade secrets or develop similar technologies and processes, in which case we would not be able to assert trade secret rights against them. Laws in certain jurisdictions may afford little or no trade secret protection, and any changes in, or unexpected interpretations of, the intellectual property laws in any country in which we operate may compromise our ability to enforce our intellectual property rights. We may not be effective in policing unauthorized use of our intellectual property rights, and even if we do detect violations, costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and any such litigation could be unsuccessful, lead to the invalidation of our proprietary rights, or lead to counterclaims by other parties against us. If the protection of our proprietary rights is inadequate to prevent use or appropriation by third parties, the value of our network and products, brand, and other intangible assets may be diminished and competitors may be able to more effectively replicate our network and products and their features. Any of these events could materially and adversely affect our business, results of operations, and financial condition.

We depend and rely upon software and technologies licensed from third parties to operate our business, and interruptions or the unavailability of these technologies may adversely affect our products, network, business, and results of operations.

We rely on software, services, and other technology from third parties that we incorporate into, or integrate with, our network and products. We also rely on software, services, and other technology from third parties in order to operate critical functions of our business, including enterprise resource planning and customer relationship management services. If the software, services, or other technology we rely on become unavailable due to extended outages, the third-party provider disabling our access, expiration or termination of licenses, or because they are otherwise no longer available on commercially reasonable terms, our expenses could increase, and our ability to operate our network, provide our products, and our results of operations could be impaired until equivalent

software, technology, or services are obtained or replacements are developed, all of which could adversely affect our business.

If we are unable to license necessary technology from third parties now or in the future, we may be forced to acquire or develop alternative technology, which we may be unable to do in a commercially feasible manner or at all, and we may be required to use alternative technology of lower quality or performance. This could limit and delay our ability to offer new or competitive products and increase our costs of production. As a result, our business and results of operations could be significantly harmed.

We cannot be certain that those from whom we license software and other technology are not infringing the intellectual property rights of third parties or have sufficient rights to the licensed intellectual property in all jurisdictions in which we may sell our products. Accordingly, our use of this intellectual property may expose us to third-party claims of infringement. In addition, many licenses are non-exclusive and may not prevent our competitors from licensing the same technology on equivalent or more favorable terms.

Some of our technology incorporates “open source” software, we license some of our software through open source projects and we voluntarily make available some of our software on an open source basis, which could negatively affect our ability to sell our products, subject us to possible litigation, and be used by other companies to compete against us.

Our network and products incorporate software licensed under open source licenses, including open source software included in software we receive from third-party commercial software vendors. Use of open source software may entail greater risks than use of third-party commercial software, as open source licensors generally do not provide support, updates, or warranties, or other contractual protections regarding infringement claims or the quality of the software. In addition, the wide availability of source code incorporated in our products could allow hostile parties to more easily identify security vulnerabilities in our network and products. The terms of some open source licenses may provide that under certain conditions we could be required to release the source code of our proprietary software, and to make our proprietary software available under open source licenses, including authorizing further modification and redistribution. In the event that certain portions of our proprietary software are determined to be subject to such requirements by an open source license, we could be required to publicly release the affected portions of our source code, re-engineer all or a portion of our network or applicable products, or otherwise be limited in the licensing of our products, each of which provide an advantage to our competitors or other entrants to the market, create security vulnerabilities in our products, and could reduce or eliminate the value of our products. Because the terms of open source licenses are novel and have not been widely interpreted by courts, we could be subject to lawsuits by parties claiming ownership of what we believe to be open source software or by third parties seeking to enforce the terms of open source licenses against us in a manner we do not anticipate. In addition, we voluntarily make available certain portions of our software on an open source basis to the public and such software could then be used by other companies to compete against us.

Any unanticipated disclosure of, or litigation regarding, our source code and any open source software incorporated into our source code could result in adverse judgments and liabilities, require us to reengineer all or a portion of our network and products, limit the marketing of our products, provide an advantage to our competitors or other entrants to the market, create new security vulnerabilities or highlight existing security vulnerabilities in our network and products, and reduce or eliminate the value of our network and products. We cannot assure you that our processes for controlling our use of open source software in our network and products will be effective.

Risks Related to Ownership of Our Class A Common Stock

The trading price of our Class A common stock may be volatile, and you could lose all or part of your investment.

The trading price of our Class A common stock may be volatile and could be subject to fluctuations in response to various factors, some of which are beyond our control. These fluctuations could cause you to lose all or part of your investment in our Class A common stock. Factors that could cause fluctuations in the trading price of our Class A common stock include:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the trading prices and trading volumes of technology stocks or high growth companies;

- changes in operating performance and stock market valuations of other technology or high growth companies generally, or those in our industry in particular;
- sales of shares of our Class A common stock and Class B common stock by us or our stockholders;
- issuance of shares of our Class A common stock, whether in connection with an acquisition or upon conversion of some or all of our outstanding Notes;
- failure of securities analysts to maintain coverage of us, changes in financial estimates or share price targets by securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- the financial guidance we may provide to the public, any changes in such guidance, or our failure to meet such guidance;
- announcements by us or our competitors of new products, features, or services or any delays in our general release of products we previously announced as being in development or beta testing;
- 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 results of operations or fluctuations in our results of operations;
- actual or anticipated developments in our business, our competitors' businesses or the competitive landscape generally;
- investments we may make in equity that is, or may become, publicly held, and volatility we may experience due to changes in the market prices of such equity investments;
- 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;
- actual or perceived network or data security breaches or other network or data security incidents, including any network or product outages or failures;
- announced or completed acquisitions of businesses, products, services, or technologies by us or our competitors;
- new laws or regulations or new amendments to, or interpretations of, existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations, or principles;
- any departure of one of our co-founders from our company or any other significant change in our management; and
- general economic conditions and slow or negative growth of our markets, including inflation and related changes in monetary policy, rising interest rates, and other impacts of the ongoing COVID-19 pandemic or the Russia-Ukraine conflict.

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.

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 initial public offering, and it may depress the trading price of our Class A common stock.

Our Class B common stock has 10 votes per share and our Class A common stock has one vote per share. As of June 30, 2022, our directors, executive officers, and holders of more than 5% of our common stock, and their respective affiliates, held in the aggregate 74.9% of the voting power of our capital stock, with our co-founders together holding approximately 56.0% of the voting power of our capital stock. Because of the ten-to-one voting ratio between our Class B and Class A common stock, the holders of our Class B common stock collectively continue to control a majority of the combined voting power of our common stock and therefore are able to control

all matters submitted to our stockholders for approval. This concentrated control will limit or preclude the ability of holders of Class A common stock to influence corporate matters for the foreseeable future, including the election of directors, amendments of our organizational documents, and any merger, consolidation, sale of all or substantially all of our assets, or other major corporate transaction requiring stockholder approval. In addition, this may prevent or discourage unsolicited acquisition proposals or offers for our capital stock that you may feel are in your best interest as one of our stockholders.

Future transfers by holders of shares of Class B common stock and the cessation of employment by holders of our Class B common stock generally result in those shares converting to Class A common stock, subject to limited exceptions, such as certain transfers effected for estate planning purposes and transfers between related entities. The conversion of Class B common stock to Class A common stock will have the effect, over time, of increasing the relative voting power of those individual holders of Class B common stock who retain their shares in the long-term.

In July 2017, FTSE Russell and Standard & Poor's announced that they would cease to include most newly public companies utilizing dual or multi-class capital structures in their indices. Affected indices include the Russell 1000, Russell 2000, and Russell 3000 and the S&P 500, S&P MidCap 400, and S&P SmallCap 600, which S&P indices together make up the S&P Composite 1500. Under the announced policies, our multi-class capital structure in some cases may make us ineligible for inclusion in some or all of these indices, and as a result, mutual funds, exchange-traded funds, and other investment vehicles that attempt to passively track these indices may not invest in our stock if we are not included. It is unclear what effect, if any, these policies have on the valuations of publicly traded companies excluded from the indices, but it is possible that they may depress these valuations compared to those of other similar companies that are included.

Substantial future sales could depress the market price of our Class A common stock.

The market price of our Class A common stock could decline as a result of sales of a large number of shares of such stock, and the perception that these sales could occur may also depress the market price of our Class A common stock.

Under our investors' rights agreement, certain stockholders can require us to register shares owned by them for public sale in the United States. In addition, we file registration statements to register shares reserved for future issuance under our equity compensation plans. As a result, subject to the satisfaction of applicable exercise periods, the shares issued upon exercise of outstanding stock options or upon settlement of outstanding RSU awards are available for immediate resale in the United States in the open market.

Sales of our shares may make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. These sales also could cause the trading 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.

We have broad discretion over the use of the net proceeds from our financing activities, and we may not use them effectively.

We cannot specify with any certainty the particular uses of the net proceeds that we received from our prior financing activities, including from our IPO and the issuances of the Notes in 2020 and 2021, and our management has broad discretion in the application of the net proceeds. The failure by our management to apply these proceeds effectively could adversely affect our business, results of operations, and financial condition. Pending their use, we may invest our proceeds in a manner that does not produce income or that loses value. Our investments may not yield a favorable return to our investors and may negatively impact the price of our Class A common stock.

Delaware law and provisions in our amended and restated certificate of incorporation and amended and restated bylaws could make a merger, tender offer, or proxy contest difficult, thereby depressing the market price of our Class A common stock.

Our status as a Delaware corporation and the anti-takeover provisions of the Delaware General Corporation Law may discourage, delay, or prevent a change in control by prohibiting us from engaging in a business combination with an interested stockholder for a period of three years after the person becomes an interested stockholder, even if a change of control would be beneficial to our existing stockholders. In addition, our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that may make the acquisition of our company more difficult, including the following:

- our dual-class common stock structure, which provides Mr. Prince and Ms. Zatl原因 with the ability to significantly influence the outcome of matters requiring stockholder approval, even if they own significantly less than a majority of the shares of our outstanding Class A common stock and Class B common stock;
- our Board of Directors is classified into three classes of directors with staggered three-year terms and directors are only able to be removed from office for cause;
- vacancies on our Board of Directors will be able to be filled only by our Board of Directors and not by stockholders;
- only the Chair of our Board of Directors, our Chief Executive Officer, or a majority of our entire Board of Directors are authorized to call a special meeting of stockholders;
- certain litigation against us can only be brought in Delaware;
- our amended and restated certificate of incorporation authorizes undesignated preferred stock, the terms of which may be established and shares of which may be issued, without the approval of the holders of Class A common stock;
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders;
- our stockholders will only be able to take action at a meeting of stockholders and not by written consent; and
- any amendment of the above anti-takeover provisions in our amended and restated certificate of incorporation or amended and restated bylaws will require the approval of two-thirds of the combined vote of our then-outstanding shares of Class A common stock and Class B common stock.

These anti-takeover defenses could discourage, delay, or prevent a transaction involving a change in control of our company. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors of their choosing and to cause us to take other corporate actions they desire, any of which, under certain circumstances, 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.

Our amended and restated bylaws provide that the Court of Chancery of the State of Delaware and the federal district courts of the United States will be the exclusive forums for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to choose the judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated bylaws provide that the Court of Chancery of the State of Delaware is the exclusive forum for the following types of actions or proceedings under Delaware statutory or common law: (i) any derivative action or proceeding brought on our behalf; (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, or other employees to us or our stockholders; (iii) any action arising pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws; or (iv) any other action asserting a claim that is governed by the internal affairs doctrine shall be the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, the federal district court for the District of Delaware), in all cases subject to the court having jurisdiction over indispensable parties named as defendants. Our amended and restated bylaws further provide that the U.S. federal district courts will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act.

Any person or entity purchasing or otherwise acquiring any interest in any of our securities shall be deemed to have notice of and consented to this provision. These exclusive-forum provisions may limit a stockholder's ability to bring a claim in a judicial forum of its choosing for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers, and other employees. If a court were to find the exclusive-forum provision in our amended and restated bylaws to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could harm our results of operations.

Our Class A common stock market price and trading volume could decline if equity or industry analysts do not publish research or publish inaccurate or unfavorable research about our business.

The trading market for our Class A common stock depends in part on the research and reports that equity or industry analysts publish about us or our business. The analysts' estimates are based upon their own opinions and are often different from our estimates or expectations. If one or more of the analysts who cover us downgrade our Class A common stock or publish inaccurate or unfavorable research about our business, the price of our securities would likely decline. If few securities analysts commence coverage of us, or if one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our securities could decrease, which might cause the price and trading volume of our Class A common stock to decline.

An active trading market for our Class A common stock may not be sustained.

Our Class A common stock is listed on the NYSE under the symbol "NET." However, we cannot assure you of the likelihood that an active trading market for our Class A common stock will be maintained, the liquidity of any trading market, your ability to sell your shares of our Class A common stock when desired, or the prices that you may obtain for your shares.

We do not intend to pay dividends for the foreseeable future.

We have never declared nor paid cash dividends on our capital stock. We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future. As a result, stockholders must rely on sales of their Class A common stock after price appreciation as the only way to realize any future gains on their investment.

Risks Related to our Outstanding Convertible Senior Notes

Servicing our future debt, including the Notes, may require a significant amount of cash, and we may not have sufficient cash flow from our business to pay our indebtedness.

In May 2020, we issued \$575.0 million in aggregate principal amount of the 2025 Notes and in August 2021, we issued \$1,293.8 million in aggregate principal amount of the 2026 Notes. Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the Notes, depends on our future performance, which is subject to economic, financial, competitive, and other factors beyond our control. Our business may not generate cash flow from operations in the future sufficient to service our debt and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring debt, or obtaining additional debt financing or equity capital on terms that may be onerous or highly dilutive. Our ability to refinance any future indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations. In addition, any of our future debt agreements may contain restrictive covenants that may prohibit us from adopting any of these alternatives. Our failure to comply with these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of our debt.

In addition, our indebtedness, combined with our other financial obligations and contractual commitments, could have other important consequences. For example, it could:

- make us more vulnerable to adverse changes in general U.S. and worldwide economic, industry, and competitive conditions and adverse changes in government regulation;
- limit our flexibility in planning for, or reacting to, changes in our business and our industry;
- place us at a disadvantage compared to our competitors who have less debt;
- limit our ability to borrow additional amounts to fund acquisitions, for working capital, and for other general corporate purposes; and
- make an acquisition of our company less attractive or more difficult.

Any of these factors could harm our business, results of operations, and financial condition. In addition, if we incur additional indebtedness, the risks related to our business and our ability to service or repay our indebtedness would increase.

We may not have the ability to raise the funds necessary for cash settlement upon conversion of the Notes or to repurchase the Notes for cash upon a fundamental change, and our future debt may contain limitations on our ability to pay cash upon conversion of the Notes or to repurchase the Notes.

Holders of the Notes have the right to require us to repurchase their Notes of the applicable series upon the occurrence of a fundamental change (which is defined in the applicable Indenture) at a repurchase price equal to 100% of the principal amount of such Notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the fundamental change repurchase date for such series of Notes. In addition, upon conversion of the Notes, unless we elect to deliver solely shares of our Class A common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of Notes surrendered therefore or Notes being converted. In addition, our ability to repurchase the Notes or to pay cash upon conversions of the Notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase the Notes of a series at a time when the repurchase is required by the applicable Indenture or to pay any cash payable on future conversions of the Notes of such series as required by such Indenture would constitute a default under such Indenture. A default under either Indenture or the occurrence of a fundamental change under either series of Notes could also lead to a default under agreements governing our future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or make cash payments upon conversions thereof in accordance with the terms of the applicable Indenture. Any failure by us to repay the indebtedness and repurchase the Notes or make cash payments upon conversions thereof, in each case, when required to do so pursuant to the terms of the applicable Indenture could harm our business, results of operations, and financial condition.

The conditional conversion feature of the Notes, when triggered, may adversely affect our financial condition and operating results.

If the conditional conversion feature of either series of Notes is triggered, holders of the applicable series are entitled to convert their Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our Class A common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. During the fourth quarter of 2021, the 2025 Notes were convertible at the option of the holder, and we received conversion requests from the holders of approximately \$16.6 million in aggregate principal amount of the 2025 Notes, which we satisfied during the first quarter of 2022 through a combination of cash and shares of our Class A common stock. In addition, even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

Transactions relating to the Notes may affect the value of our Class A common stock.

The conversion of some or all of the Notes would dilute the ownership interests of our existing stockholders to the extent we satisfy our conversion obligation by delivering shares of our Class A common stock upon any conversion of such Notes. For example, in August 2021, we entered into privately-negotiated exchange agreements with certain holders of the 2025 Notes for the exchange of approximately \$400.7 million in cash and approximately 7.6 million shares of our Class A Common Stock for \$400.0 million in aggregate principal amount of the 2025 Notes. The Notes may become convertible at the option of their holders under certain circumstances set forth in the applicable Indenture. If holders of the Notes elect to convert their Notes, we may settle our conversion obligation by delivering to them a significant number of shares of our Class A common stock, which would cause dilution to our existing stockholders.

In connection with the pricing of each series of Notes, we entered into privately negotiated capped call transactions with the applicable option counterparties. The capped call transactions are expected generally to reduce the potential dilution upon conversion of the applicable series of Notes and/or offset any cash payments we are required to make in excess of the principal amount of such converted Notes, as the case may be, with such reduction and/or offset subject to a cap.

In connection with establishing their initial hedges of the capped call transactions, the applicable option counterparties or their respective affiliates entered into various derivative transactions with respect to our Class A common stock and/or purchased shares of our Class A common stock concurrently with or shortly after the pricing of the applicable series of Notes. From time to time, the option counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our Class A common

stock and/or purchasing or selling our Class A common stock or other securities of ours in secondary market transactions prior to the maturity of the applicable series of Notes (and are likely to do so following any conversion, repurchase, or redemption of such Notes, to the extent we exercise the relevant election under the applicable capped call transactions). This activity could also cause a decrease and/or increased volatility in the market price of our Class A common stock.

We are subject to counterparty risk with respect to the capped call transactions.

The option counterparties are financial institutions, and we will be subject to the risk that any or all of them might default under the capped call transactions. Our exposure to the credit risk of the option counterparties will not be secured by any collateral. Past global economic conditions have resulted in the actual or perceived failure or financial difficulties of many financial institutions. If an option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under the capped call transactions with such option counterparty. Our exposure will depend on many factors but, generally, an increase in our exposure will be correlated to an increase in the market price and in the volatility of our Class A common stock. In addition, upon a default by an option counterparty, we may suffer adverse tax consequences and more dilution than we currently anticipate with respect to our Class A common stock. We can provide no assurance as to the financial stability or viability of the option counterparties.

General Risk Factors

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

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act), and the rules and regulations of the applicable listing standards of the New York Stock Exchange (the NYSE). We expect that the requirements of these rules and regulations will continue to increase our legal, accounting, and financial compliance costs, make some activities more difficult, time-consuming, and costly, and place significant strain on our personnel, systems, and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file with the SEC is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms and that information required to be disclosed in reports under the Exchange Act is accumulated and communicated to our principal executive and financial officers. We are also continuing to improve our internal control over financial reporting. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting, we have expended, and anticipate that we will continue to expend, significant resources, including accounting-related costs, and significant management oversight. In addition, our independent registered public accounting firm is required to audit the effectiveness of our internal control over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act annually. Testing, or the subsequent testing by our independent registered public accounting firm, may reveal material weaknesses or significant deficiencies. If material weaknesses are identified or we are not able to comply with the requirements of Section 404 in a timely manner, our reported financial results could be materially misstated, we could receive an adverse opinion regarding our internal control over financial reporting from our independent registered public accounting firm, we could be subject to investigations or sanctions by regulatory authorities, and we could incur substantial expenses.

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

Our business is subject to the risks of catastrophic events.

The occurrence of any catastrophic event, including an earthquake, fire, flood, tsunami, the effects of climate change, or other weather event, power loss, telecommunications failure, software or hardware malfunctions, epidemic or pandemic diseases (such as the ongoing COVID-19 pandemic), cyber-attack, military conflict or war, or terrorist attack, could result in lengthy interruptions in our service. Our corporate headquarters is located in the San Francisco Bay Area and one of our core co-location facilities is located in the U.S. Pacific Northwest, both regions known for seismic activity, and we also have a second core co-location facility in Luxembourg. Our insurance coverage may not compensate us for losses that may occur in the event of an earthquake or other significant natural disaster. In addition, acts of terrorism could cause disruptions to the Internet or the economy as a whole. Even with our disaster recovery arrangements, our service could be interrupted. If our systems were to fail or be negatively impacted as a result of a natural disaster or other event, our ability to deliver products to our customers would be impaired or we could lose critical data.

Our partners, suppliers, and customers are also subject to the risk of catastrophic events. In those events, our ability to deliver our products in a timely manner, as well as the demand for our products, may be divided on account of factors outside our control.

Further, the effects of climate change on the global economy and the technology industry are rapidly evolving. While we seek to mitigate our business risks associated with climate change by establishing robust environmental programs and partnering with organizations who are focused on mitigating their own climate-related risks, there are inherent climate-related risks wherever business is conducted. Any of our locations may be vulnerable to the adverse effects of climate change. For example, our corporate headquarters in the San Francisco Bay Area and one of our core co-location facilities located in the U.S. Pacific Northwest have experienced and may continue to experience, climate-related events and at an increasing frequency, including drought, water scarcity, heat waves, wildfires and resultant air quality impacts and power shutoffs associated with the wildfires. Additionally, while some employees have returned to our offices, it will remain difficult to mitigate the impact of these events on our employees continuing to work remotely. Changing market dynamics, global policy developments and increasing frequency and impact of extreme weather events on critical infrastructure in the United States and elsewhere have the potential to disrupt our business, the business of our partners, suppliers and customers, and may cause us to experience higher attrition, losses and additional costs to maintain or resume operations.

The requirements of being a public company may strain our resources, divert management's attention, and affect our ability to attract and retain executive management and qualified board members.

We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the listing requirements of the NYSE, and other applicable securities rules and regulations. Compliance with these rules and regulations increases our legal and financial compliance costs, makes some activities more difficult, time-consuming, or costly, and increases demand on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly, and current reports with respect to our business and results of operations. The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to maintain and, if required, improve our disclosure controls and procedures and internal control over financial reporting to meet this standard, significant resources and management oversight is required. We are required to disclose changes made in our internal control and procedures on a quarterly basis and we will be required to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. As a result of the complexity involved in complying with the rules and regulations applicable to public companies, our management's attention may be diverted from other business concerns, which could adversely affect our business and results of operations. Although we have already hired additional employees and have engaged outside consultants to assist us in complying with these requirements, we may need to hire more employees in the future or engage additional outside consultants, which will increase our operating expenses.

In addition, changing laws, regulations, and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs, and making some activities more time consuming. These laws, regulations, and standards are subject to varying interpretations, in

many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest substantial resources to comply with evolving laws, regulations, and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations, and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be adversely affected.

Failure to comply with the aforementioned rules and regulations may make it more expensive for us to maintain director and officer liability insurance, and in the future we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our Board of Directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

As a result of disclosure of information in our filings with the SEC, our business and financial condition are visible, which we believe may result in threatened or actual litigation, including by competitors and other third parties. If such claims are successful, our business and results of operations could be adversely affected, and even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and adversely affect our business and results of operations.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Unregistered Sales of Equity Securities

On April 1, 2022, we acquired Area 1 Security, Inc., a Delaware corporation (Area 1), pursuant to the terms and conditions of an agreement and plan of merger. Under the terms of the merger agreement, we issued approximately 502,000 shares of Class A common stock to previous holders of Area 1 equity interests. A portion of these shares are also subject to (i) a purchase price adjustment holdback, which lasts for up to 5 months from the acquisition date, subject to the purchase price adjustment, or (ii) an indemnity holdback, which lasts for approximately 12 months from the acquisition date, subject to offset resulting from any indemnification obligations that may arise.

The foregoing transactions did not involve any underwriters, any underwriting discounts or commissions, or any public offering. The issuance was made in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act, as the transactions did not involve a public offering and the recipients of the securities in this transaction represented their intention to acquire the securities for investment only and not for sale in connection with any distribution thereof, and had adequate access to information about us, through their relationships with us or otherwise. The issuance of these securities was made without any general solicitation or advertising.

Items 3, 4, and 5 are not applicable and have been omitted.

Item 6. EXHIBITS

The documents listed in the Exhibit Index of this Quarterly Report on Form 10-Q are incorporated by reference or are filed with this Quarterly Report on Form 10-Q, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

EXHIBIT INDEX

Exhibit Number	Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	10-Q	001-39039	3.1	November 12, 2019
3.2	Amended and Restated Bylaws of the Registrant.	8-K	001-39039	3.1	May 7, 2020
10.1+	Area 1 Security Inc., 2013 Stock Incentive Plan	S-8	333-264158	4.2	April 6, 2022
10.2+	Form of Amended and Restated Performance Stock Option Agreement	8-K	001-39039	10.1	April 21, 2022
10.3*	Lease Agreement between the Registrant and Civitas Equity Fund I, LLC, dated as of May 31, 2022.				
10.4*	First Amendment to the Office Lease Agreement between the Registrant and Ichi Juu Ichi, dated as of June 17, 2022.				
31.1*	Certification of the Chief Executive Officer pursuant to Exchange Act Rule 13a-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2*	Certification of the Chief Financial Officer pursuant to Exchange Act Rule 13a-14 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1†	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
	The following financial statements from the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2022, formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Loss, (iv) Condensed Consolidated Statements of Stockholders' Equity (Deficit), (v) Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements.				
101*	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)				

* Filed herewith.

+ Indicates management contract or compensatory plan or arrangement.

† The certifications attached as Exhibit 32.1 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 the Registrant 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.

CLOUDFLARE, INC.

Date: August 4, 2022

By: /s/ Matthew Prince
Matthew Prince
Chief Executive Officer
(Principal Executive Officer)

Date: August 4, 2022

By: /s/ Thomas Seifert
Thomas Seifert
Chief Financial Officer
(Principal Financial Officer)

Date: August 4, 2022

By: /s/ Paul Underwood
Paul Underwood
Chief Accounting Officer
(Principal Accounting Officer)

LEASE AGREEMENT

BY AND BETWEEN

CIVITAS EQUITY FUND I, LLC,
a California limited liability company

AS LANDLORD

and

CLOUDFLARE, INC.,
a Delaware corporation

AS TENANT

DATED March 21, 2022

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Exhibit

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**LEASE AGREEMENT
BASIC LEASE INFORMATION**

Lease Date: 5/31/2022

Landlord: CIVITAS EQUITY FUND I, LLC,
a California limited liability company

Landlord's Address: Civitas Equity Fund I, LLC
c/o Dahlin Group
5865 Owens Drive
Pleasanton, California 94588
Attention: Tim Williams

*All notices sent to Landlord under this Lease shall be sent to the
above address, with copies to:*

Shartsis Frieze LLP
One Maritime Plaza, 18th Floor
San Francisco, California 94111
Attention: Kathleen Keeler Bryski, Esq.

Tenant: Cloudflare, INC.,
a Delaware corporation

Tenant's Contact Person: Michelle Zatlyn and Caroline Quick

Tenant's Address: Cloudflare, Inc.
101 Townsend Street
San Francisco, California 94107
Attention: Caroline Quick
Phone: (650) 319-8930

Building Square Footage: Approximately forty-three thousand five hundred nineteen
(43,519) Interior Gross Area (the "IGA"), as measured
consistent with the Building Owners and Managers Association
(BOMA) Standard for the measurement of commercial office
space (ANSI/BOMA Z65.1 2010)

Premises Address: 101 Townsend Street
San Francisco, California 94107

Premises or Project: That certain property known as 101 Townsend Street, San Francisco, California, which includes approximately 12,662 square feet of land, which is improved with a four (4) story office building (with three (3) above ground levels and one lower level) located thereon (the "Building"), containing approximately 43,519 IGA. The Project includes the approximately 16-foot wide paved area adjacent to the Building.

Tenant's Proportionate Share of Project: 96.23%

Tenant's Proportionate Share of Building: 96.23%

Length of Term: Sixty (60) months

Estimated Commencement Date: 11/1/2022

Estimated Expiration Date: 10/31/2027

<i>Monthly Base Rent:</i>	Months	Sq. Ft.	Annual Base Rate	Monthly Base Rent
	1 -12	41,879	X \$60.41	=\$210,825.87
	13-24	41,879	X \$60.41	=\$210,825.87
	25-36	41,879	X \$60.41	=\$210,825.87
	37-48	41,879	X \$62.22	=\$217,150.64
	49-60	41,879	X \$64.09	=\$223,665.16

Base Year Calendar year 2022

Security Deposit NONE

Permitted Use: General office and any legally permitted uses ancillary thereto, including a networks operation center

Tenant Improvement
Allowance: None

LEASE AGREEMENT

THIS LEASE AGREEMENT is made and entered into by and between Landlord and Tenant as of the Lease Date. The defined terms used in this Lease which are defined in the Basic Lease Information attached to this Lease Agreement ("Basic Lease Information") shall have the meaning and definition given them in the Basic Lease Information. The Basic Lease Information, the exhibits, the addendum or addenda described in the Basic Lease Information, and this Lease Agreement are and shall be construed as a single instrument and are referred to herein as the "Lease."

1. DEMISE

In consideration for the rents and all other charges and payments payable by Tenant, and for the agreements, terms and conditions to be performed by Tenant in this Lease, LANDLORD DOES HEREBY LEASE TO TENANT, AND TENANT DOES HEREBY HIRE AND TAKE FROM LANDLORD, a portion of the Premises described in the Basic Lease Information (the "Premises"), which include a portion of the building described in the Basic Lease Information (the "Building") and a portion of the entire project described in the Basic Lease Information (the "Project"), upon the agreements, terms and conditions of this Lease for the Term hereinafter stated.

2. PREMISES

The Premises has the address and contains the square footage specified in the Basic Lease Information; provided, however, that any statement of square footage set forth in this Lease, or that may have been used in calculating any of the economic terms hereof, is an approximation which Landlord and Tenant agree is reasonable and no economic terms based thereon shall be subject to revision whether or not the actual square footage is more or less. The location and dimensions of the Premises are depicted on *Exhibit A*, which is attached hereto and incorporated herein by this reference.

The Premises shall be leased by Tenant in "as-is" condition without any improvements or alterations provided by Landlord.

Landlord reserves the right from time to time to install, use, maintain, repair, relocate and replace pipes, ducts, conduits, wires, and appurtenant meters and equipment for service to the Building which are above the ceiling surfaces, below the floor surfaces, within the walls and in the central core areas of the Building upon at least 24 hours' prior notice to Tenant (except in case of emergency). In connection with any of the foregoing activities of Landlord, Landlord shall use reasonable efforts while conducting such activities to minimize any interference with Tenant's use of the Premises.

No rights to any view or to light or air over any property, whether belonging to Landlord or any other person, are granted to Tenant by this Lease.

3. TERM; TERMINATION RIGHT

(a) *Term*. The term of this Lease (the "Term") shall be for the period of months specified in the Basic Lease Information, commencing on November 1, 2022.

(b) *REMOVED*.

(c) *Commencement Date Memorandum* Landlord and Tenant shall execute a Lease Term Commencement Date Memorandum on November 1, 2022.

4. RENT

(a) *Base Rent.* Tenant shall pay to Landlord, in advance on the first day of each month, without further notice or demand and without abatement, offset, rebate, credit or deduction for any reason whatsoever, the monthly installments of rent specified in the Basic Lease Information (the "Base Rent").

(b) *Additional Rent.* As used in this Lease, the term "Additional Rent" shall mean all sums of money, other than Base Rent, that shall become due from and payable by Tenant pursuant to this Lease.

(i) During the Term, in addition to the Base Rent, Tenant shall pay to Landlord as Additional Rent, in accordance with this Paragraph 4, (A) Tenant's Proportionate Share of the total dollar increase, if any, in Insurance Expenses attributable to each Computation Year over Base Insurance Expenses (as defined below), and (B) Tenant's Proportionate Share of the total dollar increase, if any, in Taxes attributable to each Computation Year over Base Taxes (as defined below).

(ii) As used in this Lease, the following terms shall have the meanings specified:

(A) "Insurance Expenses" means the total costs and expenses paid or incurred by Landlord in connection with the obtaining of insurance on the Premises, the Building and/or the Project or any part thereof or interest therein, including, premiums for "all risk" fire and extended coverage insurance, commercial general liability insurance, rent loss or abatement insurance, earthquake insurance, flood or surface water coverage, and other insurance as Landlord deems necessary in its sole discretion. In the event any such insurance policies are maintained on a portfolio wide basis, then Landlord shall have the right to equitably allocate a portion of the costs of such policies to the Premises, the Building and/or the Project, as reasonably determined by Landlord. The foregoing shall not be deemed an agreement by

Landlord to carry any particular insurance relating to the Premises, the Building, or the Project, except as provided in Section 14 below.

(B) "Utility Expenses" means the cost of all electricity, water, gas, sewers, oil, trash, telephone, telecommunications, and other utilities (collectively, "Utilities"), including any surcharges imposed, serving the Premises, the Building and the Project or any part thereof, and any amounts, taxes, charges, surcharges, assessments or impositions levied, assessed or imposed upon the Premises, the Building or the Project or any part thereof, or upon Tenant's use and occupancy thereof, as a result of any rationing of Utility services or restriction on Utility use affecting the Premises, the Building and/or the Project.

(C) "Taxes" means any and all real estate taxes and assessments, which may include any form of tax, assessment (including any special or general assessments and any assessments or charges for Utilities or similar purposes included within any tax bill for the Building or the Project or any part thereof, including, without limitation, entitlement fees, allocation unit fees and/or any similar fees or charges), fee, license fee, business license fee, levy, penalty (if a result of Tenant's delinquency), sales tax, rent tax, occupancy tax or other tax (other than net income, estate, succession, inheritance, transfer or franchise taxes), imposed by any authority having the direct or indirect power to tax, or by any city, county, state or federal government or any improvement or other district or division thereof, whether such tax is determined by the area of the Premises, the Building and/or the Project or any part thereof, or the Rent and other sums payable hereunder by Tenant, including, but not limited to: (1) any gross income or excise tax levied by any of the foregoing authorities, with respect to receipt of Rent and/or other sums due under this Lease; (2) upon any legal or equitable interest of Landlord in the Premises, the Building and/or the Project or any part thereof; (3) upon this transaction or any document to which Tenant is a party creating or transferring any interest in the Premises, the Building and/or the Project; and (4) levied or assessed in lieu of, in substitution for, or in addition to, existing or additional taxes against the Premises, the Building and/or the Project, whether or not now customary or within the contemplation of the parties. "Taxes" shall also include any legal and consultants' fees, costs and disbursements incurred in connection with proceedings to contest, determine or reduce taxes but not to exceed the savings resulting therefrom, Landlord specifically reserving the right, but not the obligation, to contest by appropriate legal proceedings the amount or validity of any taxes.

(D) "Base Year" shall mean the calendar year specified in the Basic Lease Information, based on a 100% occupied and fully assessed Building.

(E) "Base Insurance Expenses" shall mean the amount of Insurance Expenses for the Base Year.

(F) "Base Taxes" shall mean the amount of Taxes for the Base Year.

(G) "Computation Year" shall mean each twelve (12) consecutive month period commencing January 1 of each year during the Term following the Base Year, provided that Landlord, upon notice to Tenant, may change the Computation Year from time to time to any other twelve (12) consecutive month period, and, in the event of any such change, Tenant's

Proportionate Share of Insurance Expenses over Base Insurance Expenses, and of Taxes over Base Taxes shall be equitably adjusted for the Computation Years involved in any such change.

(H) "Systems" shall mean the heating, ventilating, air conditioning, plumbing, sewer, drainage, electrical, fire protection, escalator, elevator, life safety and security systems and other mechanical, electrical and communications systems and equipment serving the Premises, the Building and/or the Project or any part thereof.

(c) *Payment of Additional Rent.*

(i) Approximately thirty (30) days prior to the end of the Base Year and each Computation Year or as soon thereafter as practicable, Landlord shall give to Tenant notice of Landlord's estimate of the total amounts that will be payable by Tenant under Paragraph 4(b) for the following Computation Year, and Tenant shall pay such estimated Additional Rent on a monthly basis, in advance, on the first day of each month. Tenant shall continue to make said monthly payments until notified by Landlord of a change therein. If at any time or times Landlord determines that the amounts payable under Paragraph 4(b) for the current Computation Year will vary from Landlord's estimate given to Tenant, Landlord, by notice to Tenant, may revise the estimate for such Computation Year, and subsequent payments by Tenant for such Computation Year shall be based upon such revised estimate. By April 1 of each calendar year following the initial Computation Year, Landlord shall, in good faith, endeavor to provide to Tenant a statement showing the actual Additional Rent due to Landlord for the prior Computation Year. If the total of the monthly payments of Additional Rent that Tenant has made for the prior Computation Year is less than the actual Additional Rent chargeable to Tenant for such prior Computation Year, then Tenant shall pay the difference in a lump sum within ten (10) days after receipt of such statement from Landlord. Any overpayment by Tenant of Additional Rent for the prior Computation Year shall, at Landlord's option, be either credited towards the Additional Rent next due or returned to Tenant in a lump sum payment within ten (10) days after delivery of such statement. Tenant shall have the right, during Landlord's regular business hours and on reasonable prior notice, to inspect, at the location of Landlord's accounting records, Landlord's books and records regarding Additional Rent for the year to which the statement relates. The inspection of Landlord's books and records may be conducted by Tenant's employee or a reputable certified public accountant (i.e., a member of a reputable, independent, nationally or regionally recognized certified public accounting firm, who has experience reviewing financial operating records of office building landlords; provided that such accountant is not retained by Tenant on a contingency fee basis) and such audit or review is completed within five (5) business days. If such inspection reveals that the amount of Additional Rent billed to Tenant was incorrect, the appropriate party shall pay to the other party the deficiency or overpayment, as applicable, within thirty (30) days following delivery of the inspection, without interest at the interest rate set forth in Paragraph 45. All costs and expenses of the inspection shall be paid by Tenant unless the final undisputed determination is that Landlord overstated Additional Rent by more than five percent (5%) for the applicable year, in which case Landlord shall pay the actual and reasonable costs of the arbitration, not to exceed the amount of \$5,000. Landlord shall maintain its accounting records of Additional Rent for at least three (3) years following the expiration or earlier termination of this Lease.

(ii) Landlord's then-current annual operating budgets for Insurance and Taxes for the Building and the Project shall be used for purposes of calculating Tenant's monthly payment of estimated Additional Rent for the current year, subject to adjustment as provided above. Landlord shall make the final determination of Additional Rent for the year in which this Lease terminates as soon as possible after termination of this Lease. Even though the Term has expired and Tenant has vacated the Premises, with respect to the year in which this Lease expires or terminates, Tenant shall remain liable for payment of any amount due to Landlord in excess of the estimated Additional Rent previously paid by Tenant, and, conversely, Landlord shall promptly return to Tenant any overpayment. Failure of Landlord to submit statements as called for herein shall not be deemed a waiver of Tenant's obligation to pay Additional Rent as herein provided or Landlord's obligation to reimburse for overpayment.

(iii) With respect to Insurance Expenses and Taxes for the Building and the Project, Tenant's "**Proportionate Share**" shall be Ninety six point two three percent (96.23%).

(d) **General Payment Terms.** The Base Rent, Additional Rent and all other sums payable by Tenant to Landlord hereunder, any late charges assessed pursuant to Paragraph 6 below and any interest assessed pursuant to Paragraph 45 below, are referred to as the "**Rent.**" The Rent for any fractional part of a calendar month at the commencement or termination of the Term shall be a prorated amount of the Rent for a full calendar month based upon a thirty (30) day month. Except as otherwise expressly set forth herein, any nonrecurring payments of Additional Rent are due within thirty (30) days following the issuance of an invoice by Landlord. Tenant shall make all payments of Base Rent and recurring payments of Additional Rent due pursuant to the terms of this Lease by means of a federal funds wire transfer or such other method of electronic funds transfer as may be required by Landlord in its sole and absolute discretion (the "**Electronic Payment**"). Prior to the Commencement Date, Tenant shall obtain from Landlord the proper bank ABA number, account number and designation of the account to which such Electronic Payment shall be made. Tenant shall promptly notify Landlord in writing of any additional information that will be required to establish and maintain Electronic Payment from Tenant's bank or financial institution. Landlord shall have the right, after at least fifteen (15) days' prior written notice to Tenant, to change the name of the depository for receipt of any Electronic Payment and to discontinue payment of any sum by Electronic Payment and require such payments to be made by check through a domestic branch of a United States financial institution payable to such person or place as Landlord may, from time to time, designate to Tenant in writing.

(e) **Statements Binding.** Every statement given by Landlord pursuant to subparagraph (c) of this Paragraph 4 shall be conclusive and binding upon Tenant unless (i) within one hundred twenty (120) days after the receipt of such statement Tenant shall notify Landlord that it disputes the correctness thereof, specifying the particular respects in which the statement is claimed to be incorrect, and (ii) if such dispute shall not have been settled by agreement, Tenant shall submit the dispute to binding arbitration within one hundred twenty (120) days after receipt of the statement. Pending the determination of such dispute by agreement or arbitration as aforesaid, Tenant shall, within thirty (30) days after receipt of such statement, pay Additional Rent in accordance with Landlord's statement and such payment shall be without prejudice to Tenant's position. If the dispute shall be determined in Tenant's favor, Landlord shall forthwith pay

Tenant the amount of Tenant's overpayment of Additional Rent resulting from compliance with Landlord's statement.

(f) *Tax Protest.* Notwithstanding the provision of Paragraph 4(e) above, Tenant, at Tenant's sole cost and expense, shall have the right to seek a reduction in or otherwise contest any Taxes by action or proceeding against the entity with authority to assess or impose the same. Landlord shall not be required to join in any proceeding or action brought by Tenant; provided however, that Tenant shall be required to provide written notice to Landlord of any such proceeding that Tenant pursues and copies of all correspondence relating thereto. Tenant shall continue, during the pendency of such proceeding or action, to pay all Additional Rent owing hereunder. Tax refunds shall be credited against Taxes for the associated period and refunded to Tenant regardless of when received, based on the period to which the refund is applicable, provided that in no event shall the amount to be refunded to Tenant for any such period exceed the total amount paid by Tenant for Taxes as Additional Rent under this Article 4 for such period. If Taxes for any period during the Term or any extension thereof are increased after payment thereof for any reason, including, without limitation, error or reassessment by applicable governmental or municipal authorities, Tenant shall pay its Proportionate Share of such increased Taxes.

5. UTILITIES AND SERVICES

(a) *In General.* Tenant will be responsible, at its sole cost and expense, for the furnishing of all services and Utilities to the Premises, including, but not limited to heating, ventilation and air conditioning, electricity, water, telephone, telecommunications, janitorial and security services.

(i) All Utilities to the Premises shall be separately metered at the Premises and shall be paid directly by Tenant to the applicable utility provider.

(ii) Landlord shall not provide janitorial services for the Premises. Tenant shall be solely responsible for performing all janitorial services and other cleaning of the Premises, all in compliance with applicable Laws. The janitorial and cleaning of the Premises shall be adequate to maintain the Premises in a manner consistent with Comparable Buildings.

(b) *Energy Disclosure.* When fully implemented, California Code of Regulations, Title 20, Section 1680 *et seq.* requires owners of non-residential buildings to provide EPA Energy Benchmark Reports when a building is sold, refinanced or leased in full. Tenant hereby gives its consent for the utility or utilities providing service to the Premises to disclose such information to Landlord and shall, within thirty (30) days after written request from Landlord, provide Tenant's electric usage information and data to Landlord or such further written consent for the utility or utilities providing service to Tenant to disclose such information to Landlord as may be required by the utilities, and shall reasonably assist with Landlord's compliance with those code sections or any similar, related or successor provision of Law.

(c) *No Landlord Liability.* Notwithstanding anything in this Lease to the contrary, Tenant acknowledges and agrees that Landlord shall not be liable, in any respect, for any injury or death of any person or any loss, injury or damage to property caused by or resulting from any

variation, interruption, or failure of Utilities or any other services due to any cause whatsoever. No temporary interruption or failure of such services incident to the making of repairs, alterations, improvements, or due to accident, strike, or conditions or other events shall be deemed an eviction of Tenant or relieve Tenant from any of its obligations hereunder. In no event shall Landlord be liable in any respect for any injury or death of any person or any loss, damage or injury to the Premises or any property therein or thereon occasioned by bursting, rupture, leakage or overflow of any plumbing or other pipes (including, without limitation, water, steam, and/or refrigerant lines), sprinklers, tanks, drains, drinking fountains or washstands, or other similar cause in, above, upon or about the Premises, the Building, or the Project.

(d) **Disclosure.** Landlord makes no representation with respect to the adequacy or fitness of the air-conditioning or ventilation equipment in the Building to maintain temperatures which may be required for, or because of, any equipment of Tenant, other than normal fractional horsepower office equipment, or occupancy of the Premises by more than one person per 125 square feet; and (ii) Landlord shall have no liability for loss or damage in connection therewith. Tenant shall not, without Landlord's prior written consent, use heat-generating machines, machines other than normal fractional horsepower office machines, equipment or lighting other than building standard lights in the Premises, which may affect the temperature otherwise maintained by the air conditioning system or increase the water normally furnished for the Premises by Landlord pursuant to the terms of this Paragraph 5. If such consent is given, Landlord shall have the right to install supplementary air conditioning units or other facilities in the Premises, including supplementary or additional metering devices, and the cost thereof, including the cost of installation, operation and maintenance, increased wear and tear on existing equipment and other similar charges, shall be paid by Tenant to Landlord upon billing by Landlord. Tenant shall not use water or heat or air conditioning in excess of that normally supplied by Landlord. Tenant's consumption of electricity shall not exceed the Building's capacity.

6. LATECHARGE

Notwithstanding any other provision of this Lease to the contrary, Tenant hereby acknowledges that late payment to Landlord of Rent, or other amounts due hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. If any Rent or other sums due from Tenant are not received by Landlord or by Landlord's designated agent within five (5) days after their due date, then Tenant shall pay to Landlord a late charge equal to five percent (5%) of such overdue amount. Landlord and Tenant hereby agree that such late charges represent a fair and reasonable estimate of the cost that Landlord will incur by reason of Tenant's late payment and shall not be construed as a penalty. Landlord's acceptance of such late charges shall not constitute a waiver of Tenant's default with respect to such overdue amount or stop Landlord from exercising any of the other rights and remedies granted under this Lease. Notwithstanding the foregoing, Landlord will not assess a late charge until Landlord has given written notice of such late payment for the first late payment in any twelve (12) month period and after Tenant has not cured such late payment within five (5) days from receipt of such notice. No other notices will be required during the following twelve (12) months for a late charge to be incurred.

7. SECURITY DEPOSIT
REMOVED.

8. POSSESSION

(a) *Tenant's Right of Possession.* Subject to Paragraph 8(b), Tenant shall be entitled to possession of the Premises upon commencement of the Term.

9. USE OF PREMISES

(a) *Permitted Use.* During the Term, subject to the terms of this Lease and subject to any emergencies, Tenant shall have the right to access the Premises 24 hours per day, 365 days per year. The use of the Premises by Tenant and Tenant's agents, advisors, employees, partners, shareholders, directors, customers, invitees and independent contractors, including, but not limited to Tenant's Contractors (as defined in the Work Letter) (collectively, the "Tenant Parties") shall be solely for the Permitted Use specified in the Basic Lease Information and for no other use. Tenant shall not permit any objectionable or unpleasant odor, smoke, dust, gas, noise or vibration to emanate from or near the Premises. The Premises shall not be used to create any nuisance or trespass, for any illegal purpose under local, state or federal law, for any purpose not permitted by Laws (as hereinafter defined), for any purpose that would invalidate the insurance or increase the premiums for insurance on the Premises, the Building or the Project or for any purpose or in any manner that would interfere with other residents' use or occupancy of the property in the vicinity of the Project. Tenant agrees to pay to Landlord, as Additional Rent, any increases in premiums on policies resulting from Tenant's Permitted Use or any other use or action by Tenant or Tenant Parties which increases Landlord's premiums or requires additional coverage by Landlord to insure the Premises. Tenant acknowledges receipt of the load specifications for the raised floor system for the Premises and agrees not to overload the floor(s) of the Building.

(b) *Compliance with Governmental Regulations and Private Restrictions.* Tenant and Tenant Parties shall, at Tenant's expense, faithfully observe and comply with (i) all municipal, state and federal laws, statutes, codes, rules, regulations, ordinances, requirements, and orders including, without limitation, the International Building Code, as each of the same may be amended from time to time (collectively, "Laws"), now in force or which may hereafter be in force pertaining to the Premises or Tenant's use of the Premises, the Building or the Project; (ii) all recorded covenants, conditions and restrictions affecting the Project ("Private Restrictions") now in force, provided that Landlord provides, upon Landlord's execution of this Lease, copies of the documents evidencing such Private Restrictions to Tenant; or which may hereafter be in force; and (iii) the Rules and Regulations (as defined in Paragraph 42 below). The judgment of any court of competent jurisdiction, or the admission of Tenant in any action or proceeding against Tenant, whether Landlord be a party thereto or not, that Tenant has violated any Laws or Private Restrictions, shall be conclusive of that fact as between Landlord and Tenant.

(c) **Civil Code Section 1938 Disclosure.** To Landlord's actual knowledge, the property being leased or rented pursuant to this Lease has not undergone inspection by a Certified Access Specialist (CASp). The foregoing verification is included in this Lease solely for the purpose of complying with California Civil Code Section 1938 and shall not in any manner affect Landlord's and Tenant's respective responsibilities for compliance with construction-related accessibility standards as provided herein.

(d) **Waste, Nuisance.** Without limiting the generality of the other provisions of this Article, Tenant shall not cause, maintain, or allow any waste or nuisance in, on or about the Premises; permit on the Premises a substance or material which presents a fire, explosion or other hazard; permit noise or odors in the Premises which are objected to by Landlord, or allow noise, vibrations or odors to carry outside the Premises; receive, deliver or remove merchandise, supplies or equipment, or remove or store refuse, other than in areas approved in advance in writing by Landlord; use the Premises or permit anything to be done in, on, or about the Premises which will in any way conflict with any Laws, whether local, state or federal, now in force or which may hereafter be enacted or promulgated.

(e) **Mold Prevention Practices.** Because mold spores are present essentially everywhere and mold can grow in almost any moist location, Tenant acknowledges the necessity of adopting and enforcing good housekeeping practices, ventilation and vigilant moisture control within the Premises (particularly in and around kitchen areas, janitorial closets, bathrooms, water fountains and other plumbing facilities and fixtures, break rooms, outside walls, doors, and windows, and in and around HVAC systems and associated drains) for the prevention of mold (such measures, "**Mold Prevention Practices**"). Tenant will, at its sole cost and expense, keep and maintain the Premises in good order and condition in accordance with the Mold Prevention Practices and acknowledges that the control of moisture, and prevention of mold within the Premises, are integral to its obligations under this Lease. Tenant, at its sole cost and expense, shall:

(i) Regularly monitor the Premises for the presence of mold and any conditions that reasonably can be expected to give rise to or be attributed to mold or fungus including, but not limited to, observed or suspected instances of water damage, condensation, seepage, leaks or any other water collection or penetration (from any source, internal or external), mold growth, mildew, repeated complaints of respiratory ailments or eye irritation by Tenant's employees or any other occupants of the Premises, or any notice from a governmental agency of complaints regarding the indoor air quality at the Premises (the "**Mold Conditions**"); and

(ii) Promptly notify Landlord in writing if it observes, suspects, has reason to believe mold or Mold Conditions in, at, or about the Premises or a surrounding area. In the event of suspected mold or Mold Conditions in, at, or about the Premises and surrounding areas, Landlord may cause an inspection of the Premises to be conducted, during such time as Landlord may designate, to determine if mold or Mold Conditions are present in, at, or about the Premises. Such inspection will be at Landlord's sole expense, unless a Mold Condition is discovered.

(iii) Tenant hereby releases and relieves Landlord from any and all liability for bodily injury and damage to property, waives any and all claims against Landlord and assumes all risk of personal injury and property damage related to or allegedly caused by or associated with any

mold or Mold Conditions in or on the Premises existing on the Commencement Date or arising thereafter.

(f) *Roof Access.* Tenant shall have access to the roof of the Building at all times.

(g) *Roof Top Equipment.* Tenant, at its sole cost and expense, shall have the right to install, maintain, and from time to time replace one or more satellites dishes or other equipment (the "Roof Top Equipment") on the roof of the Building, provided that prior to commencing any installation or maintenance, Tenant shall (i) obtain Landlord's prior approval of the proposed size, weight and location of the Roof Top Equipment and method for fastening all such equipment to the roof, which approval shall not be unreasonably withheld (ii) such installation and/or replacement shall comply strictly with all Laws and the conditions of any bond or warranty maintained by Landlord on the roof, and (iii) obtain, at Tenant's sole cost and expense, any necessary federal, state, and municipal permits, licenses and approvals, and deliver copies thereof to Landlord. Landlord may supervise or perform any roof penetration related to the installation of all Roof Top Equipment, and Landlord may charge the cost thereof to Tenant. Tenant agrees that all installation, construction and maintenance shall be performed in a neat, responsible, and workmanlike manner, using generally acceptable construction standards, consistent with such reasonable requirements as shall be imposed by Landlord. Tenant further agrees to label each cable or wire placed by Tenant in the telecommunications pathways of the Building, with identification information as reasonably required by Landlord. Tenant shall repair any damage to the Building caused by Tenant's installation, maintenance, replacement, use or removal of the Roof Top Equipment. The Roof Top Equipment shall remain the property of Tenant, and Tenant may remove the Roof Top Equipment at its cost at any time during the Term. Tenant shall remove the Roof Top Equipment at Tenant's cost and expense upon the expiration or termination of this Lease. Landlord makes no warranty or representation that the Building or any portions thereof are suitable for the use any Roof Top Equipment, it being assumed that Tenant has satisfied itself thereof. Tenant shall protect, defend, indemnify and hold harmless Landlord and Landlord's Agents from and against claims, damages, liabilities, costs and expenses of every kind and nature, including reasonable attorneys' fees, incurred by or asserted against Landlord arising out of Tenant's installation, maintenance, replacement, use or removal of the Roof Top Equipment.

10. ACCEPTANCE OF PREMISES

By its execution hereof, Tenant acknowledges that it had the opportunity to fully inspect the Premises. By accepting Landlord's delivery of the Premises, Tenant accepts the Premises as suitable for Tenant's intended use and as being in good and sanitary operating order, condition and repair, AS IS, and without representation or warranty by Landlord as to the condition, use or occupancy which may be made thereof. Any exceptions to the foregoing must be by written agreement executed by Landlord and Tenant.

11. SURRENDER

Tenant agrees that on the last day of the Term, or on the sooner termination of this Lease, Tenant shall surrender the premises to Landlord (a) in good condition and repair (damage by acts of God, fire, and normal wear and tear excepted), and (b) otherwise in accordance with Paragraph 33(b)(iii). Normal wear and tear shall not include any damage or deterioration that would have been prevented by proper maintenance by Tenant or Tenant otherwise performing all of its obligations under this Lease. On or before the expiration or sooner termination of this Lease, (i) Tenant shall remove all of Tenant's Property (as hereinafter defined) and Tenant's signage from the Premises, the Building and the Project and repair, patch, repair and repaint to match any damage caused by such removal, and (ii) Landlord may, by notice to Tenant given not later than ninety (90) days prior to the Expiration Date (except in the event of a termination of this Lease prior to the scheduled Expiration Date, in which event no advance notice shall be required), require Tenant at Tenant's expense to remove any or all Alterations **(but not any of the Tenant Improvements or Alterations that have, been approved, or may subsequently be approved by the Landlord)** and to repair any damage caused by such removal. Notwithstanding the foregoing, Landlord shall notify Tenant, at the time of Landlord's consent, which Alterations shall be removed. Any of Tenant's Property not so removed by Tenant as required herein shall be deemed abandoned and may be stored, removed, and disposed of by Landlord at Tenant's expense, and Tenant waives all claims against Landlord for any damages resulting from Landlord's retention and disposition of such property; provided, however, that Tenant shall remain liable to Landlord for all costs incurred in storing and disposing of such abandoned property of Tenant. All Tenant Improvements and Alterations except those which Landlord requires Tenant to remove shall remain in the Premises as the property of Landlord.

12. ALTERATIONS AND ADDITIONS

(a) *In General.* Tenant shall not make, or permit to be made, any alteration, addition or improvement (hereinafter referred to individually as an "Alteration" and collectively as the "Alterations") to the Premises or any part thereof without the prior written consent of Landlord, which consent shall not be unreasonably withheld; provided, however, that Landlord shall have the right in its sole and absolute discretion to consent or to withhold its consent to any Alteration which affects the structural portions of the Premises, the Building or the Project or the Systems serving the Premises. Notwithstanding the foregoing, Tenant may make any Alterations, without Landlord's consent (but with written notice prior to commencement and with evidence of payment in a lien-free manner to be provided upon completion), that do not affect any structural portions of the Premises, the Building or the Project or the Systems serving the Premises, that are decorative or cosmetic in nature, and which have an aggregate cost that does not exceed \$75,000.00 in any six (6) month period. Except to the extent approved in advance by Landlord in writing and subject to conformance with all San Francisco Planning and Building Department requirements, in no event shall any work or Alteration by Tenant alter the exterior appearance of the Building or disrupt any ground or soil within the Project, without Landlord's consent.

(b) *Requirements.* Any Alteration to the Premises shall be at Tenant's sole cost and expense, in compliance with all applicable Laws and codes (including the International Building Code and code work applicable to the Base Building Work), and all requirements requested by Landlord, including, without limitation, the requirements of any insurer providing coverage for

the Premises or the Project or any part thereof, and in accordance with plans and specifications approved in writing by Landlord, and shall be constructed and installed by a contractor approved in writing by Landlord, which approval shall not be unreasonably withheld. In connection with any Alteration, Tenant shall deliver plans and specifications therefor to Landlord. As a further condition to giving consent, with respect to any project with an anticipated cost in excess of Two Hundred Fifty Thousand Dollars (\$250,000.00), Landlord may require Tenant to provide Landlord, at Tenant's sole cost and expense, a payment and performance bond in form acceptable to Landlord, in a principal amount not less than the estimated costs of such Alterations, to ensure Landlord against any liability for mechanics' and materialmen's liens and to ensure completion of work. Before Alterations may begin, valid building permits or other required approvals, permits or licenses must be furnished to Landlord, and, once the Alterations begin, Tenant will diligently and continuously pursue their completion. Landlord may monitor construction of the Alterations and Tenant shall reimburse Landlord for its reasonable costs (including, without limitation, the costs of any construction manager retained by Landlord) in reviewing plans and documents and in monitoring construction, and shall pay a logistical coordination fee to Landlord in an amount equal to five percent (5%) of the total costs of any Alterations upon completion of the same. Tenant shall maintain during the course of construction, at its sole cost and expense, builders' risk insurance for the amount of the completed value of the Alterations on an all-risk non-reporting form covering all improvements under construction, including building materials, and other insurance in amounts and against such risks as Landlord shall reasonably require in connection with the Alterations. In addition to and without limitation on the generality of the foregoing, Tenant shall ensure that its contractors procure and maintain in full force and effect during the course of construction a "broad form" commercial general liability policy of insurance, including bodily injury and property damage liability, naming Landlord, Tenant, any property manager designated by Landlord and Landlord's lenders as additional insureds. The minimum limit of coverage of the aforesaid policy shall be in the amount of not less than Three Million Dollars (\$3,000,000.00) each occurrence not less than Three Million Dollars (\$3,000,000.00) in the aggregate. Such policy shall contain a severability of interest clause or a cross liability endorsement. Such policies of insurance shall be issued as primary policies and not contributing with or in excess of coverage that Landlord may carry, by an insurance company authorized to do business in the state in which the Premises are located for the issuance of such type of insurance coverage and rated A-:VIII or better in Best's Key Rating Guide. Such requirements are in addition to Tenant's insurance obligations set forth in Article 14 below.

(c) **Landlord's Property.** All Alterations, including, but not limited to, heating, lighting, electrical, air conditioning, fixed partitioning, drapery, wall covering and paneling, built-in cabinet work and carpeting installations made by Tenant, together with all property that has become an integral part of the Premises or the Building, shall at once be and become the property of Landlord, and shall not be deemed Tenant's Property.

(d) **Cable Installation.** Except to the extent included in the initial Tenant Improvements, no private telephone systems and/or other related computer or telecommunications equipment or lines may be installed without Landlord's prior written consent, which consent shall not be unreasonably withheld. If Landlord gives such consent, all equipment must be installed within the Premises and, at the request of Landlord made at any time at least thirty (30) days prior to the

expiration of the Term, removed upon the expiration or sooner termination of this Lease and the Premises restored to the same condition as before such installation.

(e) *Heat Producing Equipment.* Notwithstanding anything herein to the contrary, before installing any equipment or lights which generate an undue amount of heat in the Premises, or if Tenant plans to use any high-power usage equipment in the Premises, Tenant shall obtain the written permission of Landlord, which permission shall not be unreasonably withheld. Landlord may refuse to grant such permission unless Tenant agrees to pay the costs to Landlord for installation of supplementary air conditioning capacity or electrical systems necessitated by such equipment.

(f) *Notice.* Tenant agrees not to proceed to make any Alterations, notwithstanding consent from Landlord to do so, until Tenant notifies Landlord in writing of the date Tenant desires to commence construction or installation of such Alterations and Landlord has approved such date in writing, in order that Landlord may post appropriate notices to avoid any liability to contractors or material suppliers for payment for Tenant's improvements. Tenant will at all times permit such notices to be posted and to remain posted until the completion of work.

(g) *No Liens.* Tenant shall not, at any time prior to or during the Term, directly or indirectly employ, or permit the employment of, any contractor, mechanic or laborer in the Premises, whether in connection with any Alteration or otherwise, if it is reasonably foreseeable that such employment will materially interfere or cause any material conflict with other contractors, mechanics, or laborers engaged in the construction, maintenance or operation of the Project by Landlord, Tenant or others. In the event of any such interference or conflict, Tenant, upon demand of Landlord, shall cause all contractors, mechanics or laborers causing such interference or conflict to leave the Project promptly.

13. MAINTENANCE AND REPAIRS OF PREMISES

(a) *Maintenance by Tenant.* Throughout the Term, Tenant shall, at its sole expense, subject to Landlord's obligations as set forth in Paragraphs 13(b) hereof, (i) keep and maintain in good order and condition the interior and exterior of the Building, including, but not limited to, the roof covering, lighting and Systems, and Tenant's Property, (ii) keep and maintain in good order and condition, repair and replace all of Tenant's security systems in or about or serving the Premises, (iii) maintain and replace all specialty lamps, bulbs, starters and ballasts, and (iv) keep and maintenance in good order and condition the exterior of the Premises, including the roof covering, pavement, sidewalks, landscaping, sprinkler system, sidewalks, driveways, curbs, lighting, and exterior of the Building, including, but not limited to, by repairing and painting over any vandalism and any defacement of Building; and (v) to the extent of any damage caused by Tenant, the roof membrane, structural portions of interior and exterior walls, and window repairs. Tenant shall not do nor shall Tenant allow Tenant Parties to do anything to cause any damage, deterioration or unsightliness to the Premises, the Building or the Project. In connection with the foregoing Tenant shall (i) cause the fire alarm systems serving the Premises to be monitored by a monitoring or protective services firm reasonably approved by Landlord in writing; (ii) procure annual maintenance contracts for the HVAC system and elevators and implement any maintenance recommendations of the service providers under such annual maintenance contracts, (iv) engage licensed pest control service providers to service the Building

on a reasonable basis; and (iv) cause annual roof inspections to be performed by a licensed roofing contractor selected by Tenant, and shall implement any maintenance recommendations of such roofing contractor. All such contractors and providers shall be reasonably acceptable to Landlord and Tenant shall provide Landlord with copies of all such contracts and related reports and correspondence.

(b) Maintenance by Landlord.

(i) Subject to the provisions of Paragraphs 13(a), 21 and 22, Landlord, at its own cost and expense, agrees to: (1) repair and maintain the structural portions of the roof (specifically excluding the roof coverings), the foundation, the footings, the floor slab, and the load bearing walls and exterior walls of the Building (excluding any glass and any routine maintenance, including, without limitation, any painting, sealing, patching and waterproofing of such walls); (2) repair or replace the Base Building due to latent defects in the initial construction of the Building for which Tenant is not liable under this Lease; (3) perform warranty repairs of any defects in Base Building Work; (4) perform normal capital level repairs and replacement of major Systems such as roof membrane, Base Building HVAC, plumbing and electrical (and major components of same) unless such capital level replacement costs are due to damages caused by Tenant or accelerated Systems deterioration due to Tenant's management and operations of such Systems.

(c) Capital Replacement of Base Building and Building Systems. Notwithstanding the provisions of Section 13(a) above, to the extent that the Base Building or Building Systems that Tenant would otherwise be required to maintain require replacement that would be considered a capital expense item under "Generally Accepted Accounting Principles" ("GAAP"), Tenant shall notify Landlord in writing. Upon confirmation of the need for such replacement, Landlord shall perform the necessary replacement (collectively, the "Amortized Landlord Replacements"). The cost of the Amortized Landlord Replacement shall include the cost of compliance with any Applicable Laws in connection with the completion of such replacement. The cost of each Amortized Landlord Replacement shall be amortized from the date of substantial completion of the Amortized Landlord Replacement over the useful life of each such Amortized Landlord Replacement, as determined in accordance with GAAP (the "Useful Life"), together with interest at eight percent (8%) per annum, in equal monthly installments. Upon written notice from Landlord of the date of substantial completion of each Amortized Landlord Replacement and the amount of the monthly installments, Tenant shall pay on the first (1st) day of the calendar month that is thirty (30) days after such written notice is given and on the first (1st) day of each subsequent month during the Useful Life of such Amortized Landlord Replacement during the then Term and for any Extension Term, the amount of such equal monthly installment, which shall be in addition to the Base Rent. The first (1st) payment by Tenant shall include the monthly payment(s), if any, in the amortization period to, but not including, the due date for the first (1st) payment by Tenant.

(d) Additional Rent Payable by Tenant. Expenses incurred by Landlord for the following items shall be paid by Tenant as Additional Rent within thirty (30) days after demand:

- (i) Capital improvements to the Building required by government agencies not "triggered" by Tenant's particular use or any Tenant Improvements or Alterations performed by

or for Tenant, but only to the extent of the capital improvements annual cost as amortized over the useful life of the capital improvement in accordance with generally accepted accounting principles.

(ii) Capital improvements to the Building required by government agencies and "triggered" by Tenant's particular use or any Tenant Improvements or Alterations performed by or for Tenant other than the initial Tenant Improvements.

(iii) Increases in Landlord's insurance over the Base Year.

(iv) Increases in Property Tax over Base Year and any future public bond assessments. Tenant shall not be exempt from any Property Tax reassessment during the Lease Term or extensions thereof.

(v) Amortized Landlord Replacements, as provided in Section 13(c) above. Notwithstanding anything in this Paragraph 13 to the contrary, Landlord shall have the right to either repair or to require Tenant to repair any damage to any portion of the Premises, the Building and/or the Project caused by or created due to any act, omission, negligence or willful misconduct of Tenant or Tenant Parties and to restore the Premises, the Building and/or the Project, as applicable, to the condition existing prior to the occurrence of such damage; provided, however, that in the event Landlord elects to perform such repair and restoration work, Tenant shall reimburse Landlord upon demand for all costs and expenses incurred by Landlord in connection therewith. Landlord's obligation hereunder to repair and maintain is subject to the condition precedent that Landlord shall have received written notice of the need for such repairs and maintenance and a reasonable time to perform such repair and maintenance. Tenant shall promptly report in writing to Landlord any defective condition known to it which Landlord is required to repair, and failure to so report such defects shall make Tenant responsible to Landlord for any liability incurred by Landlord by reason of such condition.

(e) *Tenant's Waiver of Rights.* Tenant hereby expressly waives all rights to make repairs at the expense of Landlord or to terminate this Lease, as provided for in California Civil Code Sections 1941 and 1942, and 1932(1), respectively, and any similar or successor statute or law in effect or any amendment thereof during the Term.

14. LANDLORD'S INSURANCE

Landlord shall purchase and keep in force (a) commercial general liability insurance policies in an amount not less than One Million Dollars (\$1,000,000.00) per occurrence and Three Million Dollars (\$3,000,000.00) aggregate, including bodily injury, products and completed operations coverage, and not less than Two Million Dollars (\$2,000,000.00) in excess liability coverage, (b) fire, extended coverage and "all risk" insurance covering the Building and the Project in amounts not less than the full insurance replacement value, and (c) at Landlord's option, earthquake and flood insurance with customary limits and deductibles. Tenant shall, at its sole cost and expense, comply with any and all reasonable requirements pertaining to the Premises, the Building and the Project of any insurer necessary for the maintenance of reasonable fire and commercial general liability insurance, covering the Building and the Project. Landlord may maintain "Loss of Rents" insurance, insuring that the Rent will be paid in a timely

manner to Landlord for a period of at least twelve (12) months if the Premises, the Building or the Project or any portion thereof are destroyed or rendered unusable or inaccessible by any cause insured against under this Lease.

15. TENANT'S INSURANCE

(a) *Commercial General Liability Insurance.* Tenant shall, at Tenant's expense, maintain in full force and effect during the Term of this Lease, commercial general liability insurance, including bodily injury, property damage, products, completed operations and contractual liability covering Tenant's operations and activities at the Premises, insuring Tenant, and naming Landlord, and Landlord's lenders as additional insureds (collectively, "Landlord's Insureds"). The minimum limit of coverage of such policy shall be in the amount of not less than Three Million Dollars (\$3,000,000.00) each occurrence and in the amount of not less than Five Million Dollars (\$5,000,000.00) in the aggregate, for bodily injury, personal injury, death, contractual liability (which shall include coverage for Tenant's indemnification obligations in this Lease), products/completed operations liability, business interruption insurance, and property damage. Coverage shall contain a severability of interest clause or a cross liability endorsement.

(b) *Property Insurance.* Tenant shall, at Tenant's expense, maintain in full force and effect during the Term of this Lease, All-Risk insurance with valuation basis for the full replacement cost, providing coverage for all of Tenant's personal property, furniture, furnishings, trade fixtures and equipment (including cabling) at the Premises (collectively, "Tenant's Property") as well as any Alterations, Tenant Improvements constructed pursuant to *Exhibit B*, if any, and any other improvements constructed by Tenant. During the term of this Lease the proceeds from any such policy or policies of insurance shall be used for the repair or replacement of the property so insured. Landlord will not carry insurance on any of Tenant's possessions.

(c) *Worker's Compensation Insurance; Employer's Liability Insurance.* Tenant shall, at Tenant's expense, maintain in full force and effect during the Term of this Lease, worker's compensation insurance with not less than the minimum limits required by law, and employer's liability insurance with a minimum limit of coverage of One Million Dollars (\$1,000,000.00).

(d) *Automobile Liability.* Tenant shall, at Tenant's expense, maintain in full force and effect during the Term of this Lease, Commercial Automobile Liability insurance providing coverage for any Tenant-Owned Autos, Non-Owned and Hired Autos and used in the conduct of its business. Such policy shall be in the amount of no less than One Million Dollars (\$1,000,000.00) Combined Single Limit.

(e) *Policy Requirements and Evidence of Coverage.* Landlord may from time to time require reasonable increases in the limits of any policy required hereunder if Landlord believes that such additional coverage is necessary or desirable. The limit of any insurance shall not limit the liability of Tenant hereunder. No policy maintained by Tenant under this Paragraph 15 shall contain a deductible greater than Twenty-Five Thousand Dollars (\$25,000.00). No policy shall be cancelable or subject to reduction of coverage without thirty (30) days' prior written notice to Landlord or 10 days for non-payment. Such policies of insurance shall be issued as primary policies and not contributing with or in excess of coverage that Landlord may carry, by an

insurance company authorized to do business in the state in which the Premises are located for the issuance of such type of insurance coverage and rated A-:VIII or better in Best's Key Rating Guide. Tenant shall deliver to Landlord certificates of insurance and all endorsements required herein to be maintained by Tenant at the time of execution of this Lease by Tenant. Tenant shall, at least fifteen (15) days prior to expiration of each policy, furnish Landlord with certificates of renewal thereof.

16. INDEMNIFICATION

Except to the extent caused by the gross negligence or willful misconduct of Landlord and the Landlord Parties, Tenant shall defend, protect, indemnify and hold harmless Landlord and the Landlord Parties, against and from any and all claims, suits, liabilities, judgments, costs, demands, causes of action and expenses (including, without limitation, reasonable attorneys' fees, costs and disbursements) arising from (1) the use of, or any activity done, permitted or suffered in or about, the Premises (2) any activity done, permitted or suffered by Tenant or Tenant Parties in or about the Building or the Project, and (3) any act, neglect, fault, willful misconduct or omission of Tenant or Tenant Parties, or from any breach or default in the terms of this Lease by Tenant or Tenant Parties, and (4) any action or proceeding brought on account of any matter in items (1), (2) or (3). If any action or proceeding is brought against Landlord by reason of any such claim, upon notice from Landlord, Tenant shall defend the same at Tenant's expense by counsel reasonably satisfactory to Landlord. As a material part of the consideration to Landlord, Tenant hereby releases Landlord and the Landlord Parties from responsibility for, waives its entire claim of recovery for and assumes all risk of (i) damage to property or injury to persons in or about the Premises, the Building or the Project from any cause whatsoever (except to the extent is caused by the gross negligence or willful misconduct of Landlord or the Landlord Parties), or (ii) loss resulting from business interruption or loss of income at the Premises. The obligations of Tenant under this Paragraph 16 shall survive any termination of this Lease. The foregoing indemnity shall not relieve any insurance carrier of its obligations under any policies required to be carried by either party pursuant to this Lease, to the extent that such policies cover the peril or occurrence that results in the claim that is subject to the foregoing indemnity.

17. SUBROGATION

Landlord and Tenant hereby mutually waive any claim against the other and the Landlord Parties or Tenant Parties, as applicable, for any loss or damage to any of their property located on or about the Premises, the Building or the Project that is caused by or results from perils covered by property insurance carried by the respective parties (or that would have been so covered if the waiving party had carried the insurance required hereunder), to the extent of the proceeds of such insurance actually received with respect to such loss or damage, whether or not due to the negligence of the other party or its Agents. Because the foregoing waivers will preclude the assignment of any claim by way of subrogation to an insurance company or any other person, each party shall immediately notify its insurer, if required by such insurer, in writing, of the terms of these mutual waivers and have their insurance policies endorsed, if necessary, to prevent the invalidation of the insurance coverage because of these waivers. Nothing in this Paragraph 17 shall relieve a party of liability to the other for failure to carry insurance required by this Lease.

18. SIGNS

Subject to Landlord's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed, Tenant, at Tenant's sole cost and expense, subject to all applicable Laws and Tenant's receipt of all permits and approvals, shall have the exclusive right to install building signs on the Building in locations and size(s) that shall be in accordance all Applicable Laws. Landlord, at no cost or expense to Landlord, shall cooperate with Tenant in securing permits, variances and all other necessary approvals to install exterior signage on the Building, including signage that may not be permitted as of the Commencement Date but which is requested by Tenant and reasonably acceptable to Landlord.

During the Term, Tenant, at Tenant's sole cost and expense, shall install and maintain all such signage in good repair. Tenant shall remove any sign, advertisement or notice placed on the Premises, the Building or the Project by Tenant upon the expiration of the Term or sooner termination of this Lease, and Tenant shall repair, patch and repaint to match any damage or injury to the Premises, the Building or the Project caused thereby, all at Tenant's expense. If any signs are not removed, or necessary repairs not made, Landlord shall have the right to remove the signs and repair any damage or injury to the Premises, the Building or the Project at Tenant's sole cost and expense.

19. FREE FROM LIENS

Tenant shall keep the Premises, free from any liens arising out of any work performed, material furnished or obligations incurred by or for Tenant. In the event that Tenant shall not, within ten (10) days following the imposition of any such lien, cause the lien to be released of record by payment or posting of a proper bond, Landlord shall have in addition to all other remedies provided herein and by law the right but not the obligation to cause same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Landlord and all expenses incurred by it in connection therewith (including, without limitation, reasonable attorneys' fees) shall be payable to Landlord by Tenant upon demand. Landlord shall have the right at all times to post and keep posted on the Premises any notices permitted or required by law or that Landlord shall deem proper for the protection of Landlord, the Premises, from mechanics' and materialmen's liens. Tenant shall give to Landlord at least five (5) business days' prior written notice of commencement of any repair or construction on the Premises with a cost in excess of Fifty Thousand Dollars (\$50,000.00).

20. ENTRY BY LANDLORD

(a) *In General.* Tenant shall permit the Landlord and the Landlord Parties to enter into and upon the Premises at all reasonable times, upon reasonable notice of not less than 24 hours (except in the case of an emergency, for which no notice shall be required), and subject to Tenant's reasonable security arrangements, for the purpose of inspecting the same or showing the Premises to prospective purchasers or lenders or to provide services, alter, improve, maintain and repair the Premises or the Building as required or permitted of Landlord under the terms hereof, or for any other business purpose, without any rebate of Rent and without any liability to Tenant for any loss of occupation or quiet enjoyment of the Premises thereby occasioned (except for actual damages resulting from the sole active gross negligence or willful misconduct of

Landlord); Tenant shall permit Landlord to post notices of non-responsibility and ordinary "for sale" or "for lease" signs. No such entry shall be construed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an eviction or constructive eviction of Tenant from the Premises. Landlord may temporarily close entrances, doors, elevators or other facilities without liability to Tenant by reason of such closure in the case of an emergency and when Landlord otherwise reasonably deems such closure necessary.

21. DESTRUCTION AND DAMAGE

(a) If the Project or the Premises are damaged by fire or other perils covered by extended coverage insurance, Tenant shall give Landlord prompt notice thereof. Landlord shall provide notice of its estimated time to restore the Premises within ninety (90) days after such notice.

(i) In the event of Major Damage or Destruction that Landlord estimates will take in excess of two hundred seventy days to repair, either Landlord or Tenant may elect to terminate this Lease by written notice to the other party given within thirty (30) days after the date of Landlord's notice of the estimated time to restore, in which case this Lease shall be deemed to have terminated as of the Casualty Discovery Date. As used herein "Major Damage or Destruction" shall mean damage or destruction of all or of any portion of the improvements constructed by Landlord on the Project, if the hard costs of restoring such portion of the improvements will exceed twenty-five percent (25%) of the hard cost of replacing all such improvements in their entirety. To the extent neither party terminates this Lease, Landlord shall commence promptly to repair and restore the Premises and prosecute the same diligently to completion, and the Lease shall remain in full force and effect.

(ii) In the event of damage other than Major Damage or Destruction for which Landlord will receive insurance proceeds sufficient to cover the costs to repair and restore such damage plus deductibles, and, if the damage may be substantially repaired or restored to its condition existing immediately prior to such damage or destruction within two hundred seventy (270) days from the Casualty Discovery Date, then subject to applicable Laws, Landlord shall commence and proceed diligently with the work of repair and restoration, in which event this Lease shall continue in full force and effect. If such repair and restoration requires longer than two hundred seventy (270) days or if the insurance proceeds therefor (plus any amounts Tenant may elect or is obligated to contribute) are not sufficient to cover the cost of such repair and restoration plus deductibles, Landlord may elect either to so repair and restore, in which event this Lease shall continue in full force and effect, or not to repair or restore, in which event this Lease shall terminate. In either case, Landlord shall give written notice to Tenant of its intention within ninety (90) days after the Casualty Discovery Date. If Landlord elects not to restore the Premises, this Lease shall be deemed to have terminated as of the Casualty Discovery Date.

(iii) Notwithstanding anything to the contrary contained in this Paragraph, in the event of damage to the Premises occurring during the last twelve (12) months of the Term, and the Building cannot be substantially used by Tenant and the damage cannot be repaired or restored within sixty (60) days, either Landlord or Tenant may elect to terminate this Lease by written notice of such election given to the other, within thirty (30) days after the Casualty Discovery Date.

(b) If the Premises are damaged by any peril not fully covered by insurance proceeds to be received by Landlord (except for any amounts applicable to a deductible), and the cost to repair such damage exceeds \$125,000 and any amount Tenant may agree to contribute, Landlord may elect either to commence promptly to repair and restore the Premises and prosecute the same diligently to completion, in which event this Lease shall remain in full force and effect; or not to repair or restore the Premises, in which event this Lease shall terminate. Landlord shall give Tenant written notice of its intention within one hundred eighty (180) days after the Casualty Discovery Date. If Landlord elects not to restore the Premises, this Lease shall be deemed to have terminated as of the date on which Tenant surrenders possession of the Premises to Landlord, except that if the damage to the Premises materially impairs Tenant's ability to continue its business operations in the Premises, then this Lease shall be deemed to have terminated as of the date such damage occurred.

(c) Notwithstanding anything to the contrary in this Paragraph 21, Landlord shall have the option to terminate this Lease, exercisable by notice to Tenant within sixty (60) days after the Casualty Discovery Date, in each of the following instances:

(i) If the Building or any portion thereof is damaged or destroyed and the repair and restoration of such damage requires longer than two hundred seventy (270) days from the Casualty Discovery Date.

(ii) If the Building or the Project or any portion thereof is damaged or destroyed and the insurance proceeds therefor (when added to any deductible plus \$125,000) are not sufficient to cover the costs of repair and restoration, regardless of whether or not the Premises is destroyed, unless the difference is covered by Tenant.

(d) In the event of repair and restoration as herein provided, the monthly installments of Base Rent shall be abated proportionately in the ratio which Tenant's use of the Premises is impaired during the period of such repair or restoration; provided, however, that Tenant shall not be entitled to such abatement to the extent that any action or inaction of Tenant or Tenant Parties resulted in the denial of rental interruption insurance, if any. Except as expressly provided in the immediately preceding sentence with respect to abatement of Base Rent, Tenant shall have no claim against Landlord for, and hereby releases Landlord and the Landlord Parties from responsibility for and waives its entire claim of recovery for any cost, loss or expense suffered or incurred by Tenant as a result of any damage to or destruction of the Premises, the Building or the Project or the repair or restoration thereof, including, without limitation, any cost, loss or expense resulting from any loss of use of the whole or any part of the Premises, the Building or the Project and/or any inconvenience or annoyance occasioned by such damage, repair or restoration.

(e) If Landlord is obligated to or elects to repair or restore as herein provided, Landlord shall repair or restore the Premises substantially to their condition existing as of the Commencement Date; and Tenant shall promptly repair and restore, at Tenant's expense, the Tenant Improvements and any Alterations.

(f) Tenant hereby waives the provisions of California Civil Code Section 1932(2) and Section 1933(4) which permit termination of a lease upon destruction of the leased premises, and

the provisions of any similar law now or hereinafter in effect, and the provisions of this Paragraph 21 shall govern exclusively in case of such destruction.

22. CONDEMNATION

(a) If the whole or any material part of the Premises, the Building, the Project is permanently taken for any public or quasi-public purpose by any lawful governmental power or authority, by exercise of the right of appropriation, inverse condemnation, condemnation or eminent domain, or sold to prevent such taking (each such event being referred to as a "**Condemnation**"), and (i) such Condemnation renders the Premises, the Building, the Project unsuitable, in Landlord's reasonable opinion, for the purposes for which they were constructed; or (ii) the Premises, the Building, the Project cannot be repaired, restored or replaced at a reasonable expense to an economically profitable unit, then Landlord may, at its option, terminate this Lease as of the date title vests in the condemning party. If twenty-five percent (25%) or more of the Premises is taken and if the Premises remaining after such Condemnation and any repairs by Landlord would be untenable (in Landlord's reasonable opinion) for the conduct of Tenant's business operations, Tenant shall have the right to terminate this Lease as of the date title vests in the condemning party. If either party elects to terminate this Lease as provided herein, such election shall be made by written notice to the other party given within ninety (90) days after the nature and extent of such Condemnation have been finally determined. If neither Landlord nor Tenant elects to terminate this Lease to the extent permitted above, Landlord shall promptly proceed to restore the Premises, to the extent of any Condemnation award received by Landlord, to substantially the same condition as existed prior to such Condemnation, allowing for the reasonable effects of such Condemnation, and a proportionate abatement shall be made to the Base Rent corresponding to the time during which, and to the portion of the floor area of the Premises (adjusted for any increase thereto resulting from any reconstruction) of which, Tenant is deprived on account of such Condemnation and restoration, as reasonably determined by Landlord. Except as expressly provided in the immediately preceding sentence with respect to abatement of Base Rent, Tenant shall have no claim against Landlord for, and hereby releases Landlord and the Landlord Parties from responsibility for and waives its entire claim of recovery for any cost, loss or expense suffered or incurred by Tenant as a result of any Condemnation, whether permanent or temporary, or the repair or restoration of the Premises, the Building or the Project following such Condemnation, including, without limitation, any cost, loss or expense resulting from any loss of use of the whole or any part of the Premises, the Building, the Project and/or any inconvenience or annoyance occasioned by such Condemnation, repair or restoration. The provisions of California Code of Civil Procedure Section 1265.130, which allows either party to petition the Superior Court to terminate this Lease in the event of a partial taking of the Premises, the Building or the Project, and any other applicable law now or hereafter enacted, are hereby waived by Tenant.

(b) Landlord shall be entitled to any and all compensation, damages, income, rent, awards, or any interest therein whatsoever which may be paid or made in connection with any Condemnation, and Tenant shall have no claim against Landlord for the value of any unexpired term of this Lease or otherwise; provided, however, that Tenant shall be entitled to receive any award separately allocated by the condemning authority to Tenant for Tenant's relocation expenses or the value of Tenant's Property (specifically excluding components of the Premises which under this Lease or by law are or at the expiration of the Term will become the property of

Landlord, including without limitation fixtures and Alterations), provided that such award does not reduce any award otherwise allocable or payable to Landlord.

23. ASSIGNMENT AND SUBLETTING

(a) Tenant shall not voluntarily or by operation of law, (1) mortgage, pledge, hypothecate or encumber this Lease or any interest herein, (2) assign or transfer this Lease or any interest herein, sublease the Premises or any part thereof, or any right or privilege appurtenant thereto, or allow any other person (the employees and invitees of Tenant excepted) to occupy or use the Premises, or any portion thereof, without first obtaining the written consent of Landlord, which consent shall not be withheld unreasonably as set forth below in this Paragraph 23, provided that Tenant is not then in Default under this Lease nor is any event then occurring which with the giving of notice or the passage of time, or both, would constitute a Default hereunder. Except in connection with an offering of shares to the public on a nationally recognized exchange, a transfer of greater than a fifty percent (50%) interest (whether stock, partnership interest, membership interest or otherwise) of Tenant, either in one (1) transaction or a series of transactions shall be deemed to be an assignment under this Lease. Notwithstanding anything to the contrary contained in Paragraph 23(a), Tenant may, subject to Landlord's prior written consent, but without Landlord's having any rights pursuant to clause (1) or (2) of Paragraph 23(b) below, and without the payment of any amounts pursuant to this Paragraph 23, sublet the Premises or assign this Lease to a Tenant Affiliate, provided that (i) Tenant shall give not less than five (5) business days' prior written notice thereof to Landlord (to the extent such notice is permitted by applicable Law), (ii) Tenant shall continue to be fully obligated under this Lease, (iii) any such assignee or sublessee shall expressly assume and agree to perform all the terms and conditions of this Lease to be performed by Tenant (but with respect to a sublease, only with respect to that portion of the Premises that is the subject of the sublease and excluding all rental obligations of Tenant hereunder), and (iv) such Tenant Affiliate has a tangible net worth (determined in accordance with GAAP) equal to or greater than the tangible net worth of Tenant as of the date of the proposed assignment. As used herein, "**Tenant Affiliate**" means (A) an entity controlling, controlled by or under common control with Tenant, (B) a successor entity related to Tenant by merger, consolidation, nonbankruptcy reorganization, or government action, or (C) a purchaser of all or substantially all of Tenant's assets located in the Premises; and a party shall be deemed to "control" another party for purposes of the definition contained in the aforesaid clause (A) only if the first party owns more than fifty percent (50%) of the stock or other beneficial interests of the second party. In addition to the foregoing, any assignee of Tenant must have a tangible net worth (determined in accordance with GAAP) sufficient, in Landlord's reasonable opinion, to enable it to perform its obligations under the Lease.

(b) When Tenant requests Landlord's consent to such assignment or subletting, it shall notify Landlord in writing of the name and address of the proposed assignee or subtenant and the nature and character of the business of the proposed assignee or subtenant and shall provide current and three (3) years' prior financial statements for the proposed assignee or subtenant, which financial statements shall be audited (to the extent available) and shall in any event be prepared in accordance with generally accepted accounting principles. Tenant shall also provide Landlord with a copy of the proposed sublease or assignment agreement, including all material terms and conditions thereof. Landlord shall have the option, to be exercised within fifteen (15) days of receipt of the foregoing, to (1) terminate this Lease as of the commencement date stated

in the proposed assignment or sublease if the sublease is for more than fifty percent (50%) of the Premises, (2) sublease or take an assignment, as the case may be, from Tenant of the interest, or any portion thereof, in this Lease and/or the Premises that Tenant proposes to assign or sublease, on the same terms and conditions as stated in the proposed sublet or assignment agreement, (3) consent to the proposed assignment or sublease, or (4) refuse its consent to the proposed assignment or sublease, provided that (A) such consent shall not be unreasonably withheld so long as Tenant is not then in Default under this Lease nor is any event then occurring which, with the giving of notice or the passage of time, or both, would constitute a Default hereunder, and (B) as a condition to providing such consent, Landlord may require attornment from the proposed subtenant on terms and conditions acceptable to Landlord. In the event Landlord elects to terminate this Lease or sublease or take an assignment from Tenant of the interest, or portion thereof, in this Lease and/or the Premises that Tenant proposes to assign or sublease as provided in the foregoing clauses (1) and (2), respectively, then Landlord shall have the additional right to negotiate directly with Tenant's proposed assignee or subtenant and to enter into a direct lease or occupancy agreement with such party on such terms as shall be acceptable to Landlord in its sole and absolute discretion, and Tenant hereby waives any claims against Landlord related thereto, including, without limitation, any claims for any compensation or profit related to such lease or occupancy agreement.

(c) Without otherwise limiting the criteria upon which Landlord may withhold its consent, Landlord shall be entitled to consider all reasonable criteria including, but not limited to, the following: (1) whether the use to be made of the Premises by the proposed subtenant or assignee will comply with the Permitted Use, and whether such use would be prohibited by any other portion of this Lease, including, but not limited to, any rules and regulations then in effect, or under applicable Laws, and whether such use imposes a greater load upon the Premises and the Building and Project services than imposed by Tenant, (2) the business reputation of the proposed individuals who will be managing and operating the business operations of the proposed assignee or subtenant, and the long-term financial and competitive business prospects of the proposed assignee or subtenant, and (3) the creditworthiness and financial stability of the proposed assignee or subtenant in light of the responsibilities involved. In any event, Landlord may withhold its consent to any assignment or sublease, if (i) the actual use proposed to be conducted in the Premises or portion thereof conflicts with the provisions of Paragraph 9(a) or (b) above or with any other lease which restricts the use to which any space in the Building or the Project may be put, (ii) the proposed assignment or sublease requires alterations, improvements or additions to the Premises or portions thereof, (iii) the portion of the Premises proposed to be sublet is irregular in shape and/or does not permit safe or otherwise appropriate means of ingress and egress, or does not comply with governmental safety and other codes, and (iv) the proposed sublessee or assignee is either a governmental or quasi-governmental agency or instrumentality thereof.

(d) If Landlord approves an assignment or subletting as herein provided, Tenant shall pay to Landlord, as Additional Rent, fifty percent (50%) of the excess, if any, of (1) the rent and any additional rent payable by the assignee or sublessee to Tenant, minus (2) Base Rent plus Additional Rent allocable to that part of the Premises affected by such assignment or sublease pursuant to the provisions of this Lease after deducting Tenant's reasonable marketing costs, real estate commissions, attorneys' fees, improvement costs and any other costs directly associated with the sublet or assignment of the Premises, amortized over the life of the sublease in the case

of a sublease. The assignment or sublease agreement, as the case may be, after approval by Landlord, shall not be amended without Landlord's prior written consent, and shall contain a provision directing the assignee or subtenant to pay the rent and other sums due thereunder directly to Landlord upon receiving written notice from Landlord that Tenant is in default under this Lease with respect to the payment of Rent. In the event that, notwithstanding the giving of such notice, Tenant collects any rent or other sums from the assignee or subtenant, then Tenant shall hold such sums in trust for the benefit of Landlord and shall immediately forward the same to Landlord. Landlord's collection of such rent and other sums shall not constitute an acceptance by Landlord of attornment by such assignee or subtenant.

(e) Notwithstanding any assignment or subletting, Tenant and any guarantor or surety of Tenant's obligations under this Lease shall at all times remain fully and primarily responsible and liable for the payment of the Rent and for compliance with all of Tenant's other obligations under this Lease (regardless of whether Landlord's approval has been obtained for any such assignment or subletting).

(f) Tenant shall pay Landlord's reasonable fees not to exceed \$1,000.00 plus the reasonable fees of Landlord's counsel), incurred in connection with Landlord's review and processing of documents regarding any proposed assignment or sublease.

(g) A consent to one assignment, subletting, occupation or use shall not be deemed to be a consent to any other or subsequent assignment, subletting, occupation or use, and consent to any assignment or subletting shall in no way relieve Tenant of any liability under this Lease. Any assignment or subletting without Landlord's consent shall be void, and shall, at the option of Landlord, constitute a Default under this Lease.

(h) Notwithstanding anything in this Lease to the contrary, in the event Landlord consents to an assignment or subletting by Tenant in accordance with the terms of this Paragraph 23, Tenant's assignee or subtenant shall have no right to further assign this Lease or any interest therein or thereunder or to further sublease all or any portion of the Premises without the prior written consent of Landlord, in its sole and absolute discretion. In furtherance of the foregoing, Tenant acknowledges and agrees on behalf of itself and any assignee or subtenant claiming under it (and any such assignee or subtenant by accepting such assignment or sublease shall be deemed to acknowledge and agree) that no sub-subleases or further assignments of this Lease shall be permitted at any time without the prior written consent of Landlord.

(i) If this Lease is assigned, whether or not in violation of the provisions of this Lease, Landlord may collect Rent from the assignee. If the Premises or any part thereof is sublet or used or occupied by anyone other than Tenant, whether or not in violation of this Lease, Landlord may, after a Default by Tenant, collect Rent from the subtenant or occupant. In either event, Landlord may apply the net amount collected to Rent, but no such assignment, subletting, occupancy or collection shall be deemed a waiver of any of the provisions of this Paragraph 23, or the acceptance of the assignee, subtenant or occupant as tenant, or a release of Tenant from the further performance by Tenant of Tenant's obligations under this Lease. The consent by Landlord to an assignment, mortgaging, pledging, encumbering, transfer, use, occupancy or subletting pursuant to any provision of this Lease shall not, except as otherwise provided herein, in any way be considered to relieve Tenant from obtaining the express consent of Landlord to

any other or further assignment, mortgaging, pledging, encumbering, transfer, use, occupancy or subletting. References in this Lease to use or occupancy by anyone other than Tenant shall not be construed as limited to subtenants and those claiming under or through subtenants but as including also licensees or others claiming under or through Tenant, immediately or remotely. The listing of any name other than that of Tenant on any door of the Premises or on any directory or in any elevator in the Building, or otherwise, shall not, except as otherwise provided herein, operate to vest in the person so named any right or interest in this Lease or in the Premises, or be deemed to constitute, or serve as a substitute for, or any waiver of, any prior consent of Landlord required under this Paragraph 23.

G) Each subletting and/or assignment pursuant to this Paragraph shall be subject to all of the covenants, agreements, terms, provisions and conditions contained in this Lease and each of the covenants, agreements, terms, provisions and conditions of this Lease shall be automatically incorporated therein. If Landlord shall consent to, or reasonably withhold its consent to, any proposed assignment or sublease, Tenant shall indemnify, defend and hold harmless Landlord against and from any and all loss, liability, damages, costs and expenses (including reasonable counsel fees) resulting from any claims that may be made against Landlord by the proposed assignee or sublessee or by any brokers or other persons claiming a commission or similar fee in connection with the proposed assignment or sublease.

(k) Tenant acknowledges and agrees that the restrictions, conditions and limitations imposed by this Paragraph 23 on Tenant's ability to assign or transfer this Lease or any interest herein, to sublet the Premises or any part thereof, to transfer or assign any right or privilege appurtenant to the Premises, or to allow any other person to occupy or use the Premises or any portion thereof, are, for the purposes of California Civil Code Section 1951.4, as amended from time to time, and for all other purposes, reasonable at the time that this Lease was entered into, and shall be deemed to be reasonable at the time that Tenant seeks to assign or transfer this Lease or any interest herein, to sublet the Premises or any part thereof, to transfer or assign any right or privilege appurtenant to the Premises, or to allow any other person to occupy or use the Premises or any portion thereof.

24. DEFAULT

The occurrence of any one of the following events shall constitute a default on the part of Tenant ("**Default**");

(a) The vacation or abandonment of the Premises by Tenant for a period of thirty (30) consecutive days or any vacation or abandonment of the Premises by Tenant which would cause any insurance policy to be invalidated or otherwise lapse in each of the foregoing cases irrespective of whether or not Tenant is then in monetary default under this Lease. Tenant agrees to notice and service of notice as provided for in this Lease and waives any right to any other or further notice or service of notice which Tenant may have under any statute or law now or hereafter in effect;

(b) Failure to pay any installment of Rent or any other monies due and payable hereunder, said failure continuing for a period of three (3) days after the same is due;

(c) The filing of a voluntary petition in bankruptcy by Tenant, the filing by Tenant of a voluntary petition for an arrangement, the filing by or against Tenant of a petition, voluntary or involuntary, for reorganization, or the filing of an involuntary petition by the creditors of Tenant, said involuntary petition remaining undischarged for a period of sixty (60) days;

(d) Receivership, attachment, or other judicial seizure of substantially all of Tenant's assets on the Premises, such attachment or other seizure remaining undismissed or undischarged for a period of sixty (60) days after the levy thereof;

(e) Death or disability of Tenant, if Tenant is a natural person, or the failure by Tenant to maintain its legal existence, if Tenant is a corporation, partnership, limited liability company, trust or other legal entity;

(f) Failure of Tenant to execute and deliver to Landlord any estoppel certificate, subordination agreement, or lease amendment within the time periods and in the manner required by Paragraphs 31 or 32 or 43, and/or failure by Tenant to deliver to Landlord any financial statement within the time period and in the manner required by Paragraph 41;

(g) An assignment or sublease, or attempted assignment or sublease, of this Lease or the Premises by Tenant contrary to the provision of Paragraph 23, unless such assignment or sublease is expressly conditioned upon Tenant having received Landlord's consent thereto;

(h) Failure of Tenant to restore the Security Deposit to the amount and within the time period provided in Paragraph 7 above;

(i) Failure in the performance of any of Tenant's covenants, agreements or obligations hereunder (except those failures specified as events of Default in subparagraphs (b), (h), (k) or (l) herein or any other subparagraphs of this Paragraph 24, which shall be governed by the notice and cure periods set forth in such other subparagraphs), which failure continues for thirty (30) days after written notice thereof from Landlord to Tenant, provided that, if Tenant has exercised reasonable diligence to cure such failure and such failure cannot be cured within such thirty (30) day period despite reasonable diligence, Tenant shall not be in default under this subparagraph so long as Tenant thereafter diligently and continuously prosecutes the cure to completion and actually completes such cure within sixty (60) days after the giving of the aforesaid written notice;

(j) Chronic delinquency by Tenant in the payment of Rent, or any other periodic payments required to be paid by Tenant under this Lease. "Chronic delinquency" means failure by Tenant to pay Rent, or any other payments required to be paid by Tenant under this Lease within three (3) days after written notice thereof for any three (3) months (consecutive or nonconsecutive) during any period of twelve (12) months;

(k) Any insurance required to be maintained by Tenant pursuant to this Lease shall be canceled or terminated or shall expire or be reduced or materially changed, except as permitted in this Lease;

(l) Any failure by Tenant to discharge any lien or encumbrance placed on the Project or any part thereof in violation of this Lease within ten (10) days after the date such lien or encumbrance is filed or recorded against the Project or any part thereof;

(m) Any failure by Tenant to promptly remove, abate or remedy any Hazardous Materials located in, on or about the Premises or the Building in connection with any failure by Tenant to comply with Tenant's obligations under Paragraph 33;

(n) Tenant's failure to commence business operations in the Premises within one hundred eighty (180) days following the Commencement Date, subject to delays beyond Tenant's reasonable control (other than financial difficulty); and

(o) Any representation of Tenant herein or in any financial statement or other materials provided by Tenant or any guarantor of Tenant's obligations under this Lease shall prove to be untrue or inaccurate in any material respect, or any such financial statements or other materials shall have omitted any material fact.

25. LANDLORD'S REMEDIES

(a) *Termination.* In the event of any Default by Tenant, then in addition to any other remedies available to Landlord at law or in equity and under this Lease, Landlord may terminate this Lease immediately and all rights of Tenant hereunder by giving written notice to Tenant of such intention to terminate. Tenant waives redemption or relief from forfeiture under California Code of Civil Procedure Sections 1174 and 1179, or under any other pertinent present or future Law, in the event Tenant is evicted or Landlord takes possession of the Premises by reason of any Default of Tenant hereunder. If Landlord shall elect to so terminate this Lease then Landlord may recover from Tenant:

(i) the worth at the time of award of any unpaid Rent and any other sums due and payable which have been earned at the time of such termination; plus

(ii) the worth at the time of award of the amount by which the unpaid Rent and any other sums due and payable which would have been earned after termination until the time of award exceeds the amount of such rental loss Tenant proves could have been reasonably avoided; plus

(iii) the worth at the time of award of the amount by which the unpaid Rent and any other sums due and payable for the balance of the term of this Lease after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

(iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course would be likely to result therefrom, including, without limitation, (A) any costs or expenses incurred by Landlord (1) in retaking possession of the Premises; (2) in maintaining, repairing, preserving, restoring, replacing, cleaning, altering, remodeling or rehabilitating the Premises or any affected portions of the Building or the Project, including such actions undertaken in connection with the reletting or attempted reletting of the Premises to a new tenant or tenants; (3) for leasing commissions, advertising costs and other expenses of

reletting the Premises; or (4) in carrying the Premises, including taxes, insurance premiums, utilities and security precautions; (B) any unearned brokerage commissions paid in connection with this Lease; (C) reimbursement of any previously waived or abated Base Rent or Additional Rent or any free rent or reduced rental rate applied hereunder; and (D) any concession made or paid by Landlord for the benefit of Tenant including, but not limited to, any moving allowances, contributions, payments or loans by Landlord for tenant improvements or build-out allowances, if any, and any outstanding balance (principal and accrued interest) of any tenant improvement loan), or assumptions by Landlord of any of Tenant's previous lease obligations; plus

(v) such reasonable attorneys' fees incurred by Landlord as a result of a Default, and costs in the event suit is filed by Landlord to enforce such remedy; and plus

(vi) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

(vii) As used in subparagraphs (i) and (ii) above, the "worth at the time of award" is computed by allowing interest at an annual rate equal to twelve percent (12%) per annum or the maximum rate permitted by law, whichever is less. As used in subparagraph (iii) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of Federal Reserve Bank of San Francisco at the time of award, plus one percent (1%). Tenant hereby waives for Tenant and for all those claiming under Tenant all right now or hereafter existing to redeem by order or judgment of any court or by any legal process or writ, Tenant's right of occupancy of the Premises after any termination of this Lease.

(b) *Continuation of Lease.* In the event of any Default by Tenant, then in addition to any other remedies available to Landlord at law or in equity and under this Lease, Landlord shall have the remedy described in California Civil Code Section 1951.4 (Landlord may continue this Lease in effect after Tenant's Default and abandonment and recover Rent as it becomes due, provided that Tenant has the right to sublet or assign, subject only to reasonable limitations). In addition, Landlord shall not be liable in any way whatsoever for its failure or refusal to relet the Premises. For purposes of this Paragraph 25(b), the following acts by Landlord will not constitute the termination of Tenant's right to possession of the Premises:

(i) Acts of maintenance or preservation or efforts to relet the Premises, including, but not limited to, alterations, remodeling, redecorating, repairs, replacements and/or painting as Landlord shall consider advisable for the purpose of reletting the Premises or any part thereof, or

(ii) The appointment of a receiver upon the initiative of Landlord to protect Landlord's interest under this Lease or in the Premises.

(c) *Termination.* No action by Landlord shall be construed as an election to terminate this Lease unless a written notice of such intention is given to Tenant or unless the termination thereof is decreed by a court of competent jurisdiction.

(d) *Cumulative Remedies.* The remedies herein provided are not exclusive and Landlord shall have any and all other remedies provided herein or by law or in equity.

(e) *No Surrender*: No act or conduct of Landlord, whether consisting of the acceptance of the keys to the Premises, or otherwise, shall be deemed to be or constitute an acceptance of the surrender of the Premises by Tenant prior to the expiration of the Term, and such acceptance by Landlord of surrender by Tenant shall only flow from and must be evidenced by a written acknowledgment of acceptance of surrender signed by Landlord. The surrender of this Lease by Tenant, voluntarily or otherwise, shall not work a merger unless Landlord elects in writing that such merger take place, but shall operate as an assignment to Landlord of any and all existing subleases, or Landlord may, at its option, elect in writing to treat such surrender as a merger terminating Tenant's estate under this Lease, and thereupon Landlord may terminate any or all such subleases by notifying the sublessee of its election so to do within five (5) days after such surrender.

26. LANDLORD'S RIGHT TO PERFORM TENANT'S OBLIGATIONS

(a) Without limiting the rights and remedies of Landlord contained in Paragraph 25 above, if Tenant shall be in Default in the performance of any of the terms, provisions, covenants or conditions to be performed or complied with by Tenant pursuant to this Lease, then Landlord may at Landlord's option, without any obligation to do so, and without notice to Tenant perform any such term, provision, covenant, or condition, or make any such payment and Landlord by reason of so doing shall not be liable or responsible for any loss or damage thereby sustained by Tenant or anyone holding under or through Tenant or any of Tenant Parties.

(b) Without limiting the rights of Landlord under Paragraph 26(a) above, Landlord shall have the right at Landlord's option, without any obligation to do so, to perform any of Tenant's covenants or obligations under this Lease without notice to Tenant in the case of an emergency, as determined by Landlord in its sole and absolute judgment, or if Landlord otherwise determines in its sole discretion that such performance is necessary or desirable for the proper management and operation of the Building or the Project.

(c) If Landlord performs any of Tenant's obligations hereunder in accordance with this Paragraph 26, the full amount of the cost and expense incurred or the payment so made or the amount of the loss so sustained shall immediately be owing by Tenant to Landlord, and Tenant shall promptly pay to Landlord upon demand, as Additional Rent, the full amount thereof with interest thereon from the date of payment by Landlord at the lower of (i) twelve percent (12%) per annum, or (ii) the highest rate permitted by applicable law.

27. ATTORNEYS' FEES

(a) *Prevailing Party*: If either party hereto fails to perform any of its obligations under this Lease or if any dispute arises between the parties hereto concerning the meaning or interpretation of any provision of this Lease, then the defaulting party or the party not prevailing in such dispute, as the case may be, shall pay any and all costs and expenses incurred by the other party on account of such default and/or in enforcing or establishing its rights hereunder, including, without limitation, court costs and reasonable attorneys' fees and disbursements. Any such attorneys' fees and other expenses incurred by either party in enforcing a judgment in its favor under this Lease shall be recoverable separately from and in addition to any other amount

included in such judgment, and such attorneys' fees obligation is intended to be severable from the other provisions of this Lease and to survive and not be merged into any such judgment.

(b) *Collection Costs.* Without limiting the generality of Paragraph 27(a) above, if Landlord utilizes the services of an attorney for the purpose of collecting any Rent due and unpaid and not cured within any applicable cure period by Tenant or in connection with any other breach of this Lease by Tenant, Tenant agrees to pay Landlord reasonable and actual attorneys' fees, regardless of the fact that no legal action may be commenced or filed by Landlord.

28. TAXES

Tenant shall be liable for and shall pay directly to the taxing authority, prior to delinquency, all taxes levied against Tenant's Property. If any Alteration installed by Tenant pursuant to Paragraph 12 or any of Tenant's Property is assessed and taxed with the Project or the Building, Tenant shall pay such taxes to Landlord within thirty (30) days after delivery to Tenant of a statement therefor.

29. CONFIDENTIALITY

Tenant acknowledges that the terms and conditions of this Lease are and shall remain confidential. Tenant shall not reveal such terms and conditions to any third party (excepting only statements issued to either party's attorneys, accountants and financial advisors, and statements otherwise required by law or in connection with an assignment, sublease or other transferee, so long as the receiving party is advised of the confidential nature of the information and agrees to keep the same confidential.

30. EFFECT OF CONVEYANCE

In the event of any Transfer by Landlord of its entire interest in the Project, Landlord shall be and hereby is entirely freed and relieved of all covenants and obligations of Landlord hereunder, and it shall be deemed and construed, without further agreement between the parties and the transferee of such interest, that the transferee of Landlord's interest in the Project has assumed and agreed to carry out any and all covenants and obligations of Landlord hereunder.

31. TENANT'S ESTOPPEL CERTIFICATE

From time to time, upon written request of Landlord, Tenant shall execute, acknowledge and deliver to Landlord or its designee, an Estoppel Certificate in substantially the form attached hereto as *Exhibit E* and with any other statements reasonably requested by Landlord or its designee. Any such Estoppel Certificate may be relied upon by a prospective transferee of Landlord's interest or a mortgagee of (or holder of a deed of trust encumbering) Landlord's interest or assignment of any mortgage or deed of trust upon Landlord's interest in the Premises. If Tenant fails to provide such certificate within ten (10) business days of receipt by Tenant of a written request by Landlord as herein provided, such failure shall, at Landlord's election, constitute a Default under this Lease, and Tenant shall be deemed to have given such certificate as above provided without modification and shall be deemed to have admitted the accuracy of

any information supplied by Landlord to a prospective purchaser or mortgagee or deed of trust holder.

32. SUBORDINATION

(a) Landlord shall use commercially reasonable efforts to obtain a subordination, non disturbance, and attornment agreement ("SNDA ") from its lender, in the form of *Exhibit F* attached hereto. Notwithstanding the foregoing, this Lease is subject and subordinate to all present and future ground or underlying leases of the Project and to the lien of any mortgages or trust deeds, now or hereafter in force against the Project and the Building, if any, and to all renewals, extensions, modifications, consolidations and replacements thereof, and to all advances made or hereafter to be made upon the security of such mortgages or trust deeds, unless the holders of such mortgages or trust deeds, or the lessors under such ground lease or underlying leases, require in writing that this Lease be superior thereto. Tenant covenants and agrees in the event any proceedings are brought for the foreclosure of any such mortgage, to attorn so long as Tenant has been offered a commercially reasonable SNDA on such entity's standard form, without any deductions or set-offs whatsoever, to the purchaser upon any such foreclosure sale if so requested to do so by such party, and to recognize such party as the lessor under this Lease. Tenant covenants and agrees that in the event of cancellation or termination of any ground lease or underlying lease in accordance with its terms or by surrender thereof, whether voluntary, involuntary or by operation of law, and provided that the lessor under any such ground lease or underlying lease has either approved this Lease in writing or notified Tenant in writing of its election to cause Tenant to attorn to it upon cancellation or termination of such ground lease or underlying lease, then this Lease shall not be cancelled or terminated as a result of the cancellation or termination of such ground lease or underlying lease, but Tenant shall make full and complete attornment to the lessor under any such ground lease or underlying lease for the balance of the term hereof with the same force and effect as though this Lease were originally made directly from the lessor under any such ground lease or underlying lease to Tenant. Following Tenant's attornment to purchaser upon any foreclosure sale or any lessor under any ground lease or underlying lease as set forth above (a "Successor **Landlord**"), this Lease shall continue in full force and effect as a direct lease between Successor Landlord and Tenant upon all of the terms, conditions and covenants as are set forth in this Lease, except that the Successor Landlord shall not (a) be liable for any previous act or omission of Landlord under this Lease, except to the extent such act or omission shall constitute a continuing Landlord default hereunder; (b) be subject to any offset, not expressly provided for in this Lease; or (c) be bound by any previous modification of this Lease or by any previous prepayment of more than one (1) month's Rent, unless such modification or prepayment shall have been expressly approved in writing by the Successor Landlord (or predecessor in interest). Tenant shall, within ten (10) business days of request by Landlord, execute such further instruments or assurances as Landlord may reasonably deem necessary to evidence or confirm the subordination or superiority of this Lease to any mortgages, trust deeds, ground leases or underlying leases and Tenant's obligation to attorn to any holder of any mortgage or deed of trust or any lessor under any ground lease or underlying lease, subject to the provisions of this Paragraph 32. Tenant waives the provisions of any current or future statute, rule or law which may give or purport to give Tenant any right or election to terminate or otherwise adversely affect this Lease and the obligations of Tenant hereunder in the event of any foreclosure proceeding or sale.

33. ENVIRONMENTAL COVENANTS

(a) *Definitions.*

(i) As used in this Lease, the term "Hazardous Materials" means (i) any substance or material that is included within the definitions of "hazardous substances," "hazardous materials," "toxic substances," "pollutant," "contaminant," "hazardous waste," or "solid waste" in any Environmental Law; (ii) petroleum or petroleum derivatives, including crude oil or any fraction thereof, all forms of natural gas, and petroleum products or by-products or waste; (iii) polychlorinated biphenyls (PCBs); (iv) asbestos and asbestos containing materials (whether friable or non-friable); (v) lead and lead based paint or other lead containing materials (whether friable or non-friable); (vi) urea formaldehyde; (vii) microbiological pollutants; (viii) batteries or liquid solvents or similar chemicals; (ix) radon gas; and (x) mildew, fungus, mold, bacteria and/or other organic spore material, whether or not airborne, colonizing, amplifying or otherwise.

(ii) As used in this Lease, the term "Environmental Laws" means all statutes, terms, conditions, limitations, restrictions, standards, prohibitions, obligations, schedules, plans and timetables that are contained in or promulgated pursuant to any federal, state or local laws (including rules, regulations, ordinances, codes, judgments, orders, decrees, contracts, permits, stipulations, injunctions, the common law, court opinions, and demand or notice letters issued, entered, promulgated or approved thereunder), relating to pollution or the protection of the environment, including laws relating to emissions, discharges, releases or threatened releases of Hazardous Materials into ambient air, surface water, ground water or lands or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials including, but not limited to, the: Comprehensive Environmental Response Compensation and Liability Act of 1980 (CERCLA), as amended by the Superfund Amendments and Reauthorization Act of 1986 (SARA), 42 U.S.C. 9601 *et seq.*; Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 (RCRA), 42 U.S.C. 6901 *et seq.*; Federal Water Pollution Control Act, 33 U.S.C. 1251 *et seq.*; Toxic Substances Control Act, 15 U.S.C. 2601 *et seq.*; Clean Air Act, 42 U.S.C. 7401 *et seq.*; and the Safe Drinking Water Act, 42 U.S.C. § 300f *et seq.* "Environmental Laws" shall include any statutory or common law that has developed or develops in the future regarding mold, fungus, microbiological pollutants, mildew, bacteria and/or other organic spore material. "Environmental Law" shall not include laws relating to industrial hygiene or worker safety, except to the extent that such laws address asbestos and asbestos containing materials (whether friable or non-friable) or lead and lead based paint or other lead containing materials.

(b) *Tenant Obligations.*

(i) During its use and occupancy of the Premises Tenant will not permit Hazardous Materials to be present on or about the Premises except for normal quantities of cleaning and other business supplies customarily used and stored in an office and that it will comply with all Environmental Laws relating to the use, storage or disposal of any such Hazardous Materials. Notwithstanding anything herein to the contrary in no event shall Tenant permit any pesticides, insecticides or herbicides to be stored, used, or disposed in on or about the Premises without the prior written consent of Landlord.

(ii) If Tenant's use of Hazardous Materials on or about the Premises results in a release, discharge or disposal of Hazardous Materials on, in, at, under, or emanating from, the Premises or the Project, Tenant agrees to investigate, clean up, remove or remediate such Hazardous Materials in full compliance with (i) the requirements of (A) all Environmental Laws and (B) any governmental agency or authority responsible for the enforcement of any Environmental Laws; and (ii) any additional requirements of Landlord that are necessary, in Landlord's sole discretion, to protect the value of the Premises or the Project. Landlord shall also have the right, but not the obligation, to take whatever action with respect to any such Hazardous Materials that it deems necessary, in Landlord's sole discretion, to protect the value of the Premises or the Project. All costs and expenses paid or incurred by Landlord in the exercise of such right shall be payable by Tenant promptly upon demand. If Tenant knows, or has reasonable cause to believe, that a Hazardous Material has been released, discharged or disposed of in, on, under or about the Premises, then Tenant shall promptly give written notice of such fact to Landlord and shall promptly give Landlord a copy of any statement, report or notice concerning such event that Tenant has in its possession or control.

(iii) Upon reasonable notice to Tenant not less than 24 hours' notice (except in the case of emergency), Landlord may inspect the Premises for the purpose of determining whether there exists on the Premises any Hazardous Materials or other condition or activity that is in violation of the requirements of this Lease or of any Environmental Laws. The right granted to Landlord herein to perform inspections shall not create a duty on Landlord's part to inspect the Premises, or liability on the part of Landlord for Tenant's use, storage or disposal of Hazardous Materials, it being understood that Tenant shall be solely responsible for all liability in connection therewith.

(iv) Tenant shall surrender the Premises to Landlord upon the expiration or earlier termination of this Lease free of Hazardous Materials caused or permitted by any of the Tenant Parties and in a condition which complies with all Environmental Laws and any additional requirements of Landlord that are reasonably necessary to protect the value of the Premises, the Building or the Project. Tenant's obligations and liabilities pursuant to this Paragraph 33 shall be in addition to any other surrender requirements in this Lease and shall survive the expiration or earlier termination of this Lease. If it is reasonably determined by Landlord that the condition of all or any portion of the Premises, the Building, and/or the Project is not in compliance with the provisions of this Lease with respect to Hazardous Materials, including, without limitation, all Environmental Laws due to the violation of Tenant of the provisions of this Lease, at the expiration or earlier termination of this Lease, then at Landlord's sole option, Landlord may require Tenant to hold over possession of the Premises until Tenant can surrender the Premises to Landlord in the condition in which the Premises existed as of the Commencement Date. The burden of proof hereunder shall be upon Tenant. For purposes hereof, the term "normal wear and tear" shall not include any deterioration in the condition or diminution of the value of any portion of the Premises, the Building, and/or the Project in any manner whatsoever related to directly, or indirectly, Hazardous Materials. Any such holdover by Tenant will be with Landlord's consent, will not be terminable by Tenant in any event or circumstance and will otherwise be subject to the provisions of Paragraph 36 below.

(v) Tenant shall indemnify and hold harmless Landlord from and against any and all claims, damages, fines, judgments, penalties, costs, losses (including, without limitation, loss in

value of the Premises or the Project, damages due to loss or restriction of rentable or usable space, and damages due to any adverse impact on marketing of the space and any and all sums paid for settlement of claims), liabilities and expenses (including, without limitation, reasonable attorneys', consultants', and experts' fees) incurred by Landlord during or after the term of this Lease and attributable to (i) any Hazardous Materials placed on or about the Premises, the Building or the Project by Tenant or Tenant Parties, or resulting from the action or inaction of Tenant or Tenant Parties, or (ii) Tenant's breach of any provision of this Paragraph 33. This indemnification includes, without limitation, any and all costs incurred by Landlord due to any investigation of the site or any cleanup, removal or restoration mandated by a federal, state or local agency or political subdivision.

(c) Landlord Obligations and Disclosures.

(i) Landlord, at Landlord's sole cost and expense, shall remove any Hazardous Materials required to be removed in connection with the Base Building Work and shall indemnify and hold Tenant harmless (including reasonable attorneys' fees) from any future action which shall occur as a result of the presence of Hazardous Materials existent prior to the Commencement Date, except to the extent introduced to the Premises or exacerbated by Tenant or any Tenant Party.

(ii) To the extent any Hazardous Materials remain in place in accordance with applicable Law (e.g., any legally entombed older roof membranes), Landlord shall remain responsible for removing the same if and when required to be removed by Law, or Landlord otherwise elects to remove the same.

(iii) Landlord hereby discloses that underground tanks holding unknown substances were discovered in 1997 and were removed under consultant and government supervision and the work "signed off" as complete removal and restoration.

(d) Survival. The provisions of this Paragraph 33 shall survive the expiration or earlier termination of this Lease.

34. NOTICES

All notices and demands which are required or may be permitted to be given to either party by the other hereunder shall be in writing and shall be sent by United States mail, postage prepaid, certified, or by personal delivery or nationally recognized overnight courier, addressed to the addressee at Tenant's Address or Landlord's Address as specified in the Basic Lease Information, or to such other place as either party may from time to time designate in a notice to the other party given as provided herein. Copies of all notices and demands given to Landlord shall additionally be sent to Landlord's property manager at the address specified in the Basic Lease Information or at such other address as Landlord may specify in writing from time to time. Notice shall be deemed given upon actual receipt (or attempted delivery if delivery is refused), if personally delivered, or one (1) business day following deposit with a reputable overnight courier that provides a receipt, or on the third (3rd) day following deposit in the United States mail in the manner described above. Nothing contained in this Paragraph 34 shall be deemed to limit any alternative method of notification to Tenant as may be permitted under applicable law.

including without limitation the provisions of Section 1161, *et seq.* of the California Code of Civil Procedure or any successor statute hereinafter enacted.

35. WAIVER

The waiver of any breach of any term, covenant or condition of this Lease shall not be deemed to be a waiver of such term, covenant or condition or of any subsequent breach of the same or any other term, covenant or condition herein contained. The subsequent acceptance of Rent by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant, other than the failure of Tenant to pay the particular rental so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such Rent. No delay or omission in the exercise of any right or remedy of Landlord in regard to any Default by Tenant shall impair such a right or remedy or be construed as a waiver. Any waiver by Landlord of any Default must be in writing and shall not be a waiver of any other Default concerning the same or any other provisions of this Lease.

36. HOLDING OVER

Any holding over after the expiration of the Term, without the express written consent of Landlord, shall constitute a Default and, without limiting Landlord's remedies provided in this Lease, such holding over shall be construed to be a tenancy at sufferance, at a rental rate equal to one hundred fifty percent (150%) of the Base Rent last due in this Lease, plus Additional Rent, and shall otherwise be on the terms and conditions herein specified, so far as applicable; provided, however, that in no event shall any renewal or expansion option, option to purchase, or other similar right or option contained in this Lease be deemed applicable to any such tenancy at sufferance. If the Premises are not surrendered at the end of the Term or sooner termination of this Lease, and in accordance with the provisions of Paragraphs 11 and 33(b)(ii), Tenant shall indemnify, defend and hold Landlord harmless from and against any and all loss or liability resulting from delay by Tenant in so surrendering the Premises including, without limitation, any loss or liability resulting from any claim against Landlord made by any succeeding tenant or prospective tenant founded on or resulting from such delay and losses to Landlord due to lost opportunities to lease any portion of the Premises to any such succeeding tenant or prospective tenant, together with, in each case, actual attorneys' fees and costs.

37. SUCCESSORS AND ASSIGNS

The terms, covenants and conditions of this Lease shall, subject to the provisions as to assignment, apply to and bind the heirs, successors, executors, administrators and assigns of all of the parties hereto. If Tenant shall consist of more than one entity or person, the obligations of Tenant under this Lease shall be joint and several.

38. TIME

Time is of the essence of this Lease and each and every term, condition and provision herein.

39. BROKERS

Landlord and Tenant each represents and warrants to the other that neither it nor its officers or agents nor anyone acting on its behalf has dealt with any real estate broker except the Brokers specified in the Basic Lease Information in the negotiating or making of this Lease. Landlord shall be responsible for payment of Landlord's Broker, if any, pursuant to separate written agreements, and each party agrees to indemnify and hold harmless the other from any claim or claims, and costs and expenses, including attorneys' fees, incurred by the indemnified party in conjunction with any other claim or claims of any other broker or brokers to a commission in connection with this Lease as a result of the actions of the indemnifying party.

40. LIMITATION OF LIABILITY

In the event of any default or breach by Landlord under this Lease or arising in connection herewith or with Landlord's operation, management, leasing, repair, renovation, alteration or any other matter relating to the Project or the Premises Tenant's remedies shall be limited solely and exclusively to an amount which is equal to the lesser of (a) the interest in the Building of the then-current Landlord or (b) the equity interest Landlord would have in the Building if the Building were encumbered by third party debt in an amount equal to eighty percent (80%) of the value of the Building (as such value is determined by Landlord), provided that in no event shall such liability extend to any sales or insurance proceeds received by Landlord or the "Landlord Affiliates" in connection with the Project, the Building or the Premises. For purposes of this Lease, "**Landlord** Affiliates" shall mean, collectively, Landlord, its partners, shareholders, members, officers, directors, employees, investment advisors, or any successor in interest of any of them. Neither Landlord, nor any of the Landlord Affiliates shall have any personal liability therefor, and Tenant hereby expressly waives and releases such personal liability on behalf of itself and all persons claiming by, through or under Tenant. The limitations of liability contained in this Paragraph 40 shall inure to the benefit of Landlord's and the Landlord Affiliates' present and future partners, beneficiaries, officers, directors, trustees, shareholders, members, agents and employees, and their respective partners, heirs, successors and assigns. Under no circumstances shall any present or future partner of Landlord (if Landlord is a partnership), future member in Landlord (if Landlord is a limited liability company) or trustee or beneficiary (if Landlord or any partner or member of Landlord is a trust), have any liability for the performance of Landlord's obligations under this Lease. Notwithstanding any contrary provision herein, neither Landlord nor the Landlord Affiliates shall be liable under any circumstances for injury or damage to, or interference with Tenant's business, including, but not limited to, loss of profits, loss of rents or other revenues, loss of business opportunity, loss of goodwill or loss of use, in each case, however occurring. The provisions of this paragraph shall apply only to the Landlord and the parties herein described, and shall not be for the benefit of any insurer nor any other third party.

41. REMOVED.

42. RULES AND REGULATIONS

Tenant shall comply with the rules and regulations attached hereto as *Exhibit D*, along with any modifications, amendments and supplements thereto, and such reasonable rules and regulations as Landlord may adopt, from time to time, for the orderly and proper operation of the Project (collectively, the "Rules and Regulations"). The Rules and Regulations may include, but shall not be limited to, the following: (a) restrictions on parking; and (b) regulation of the

removal, storage and disposal of Tenant's refuse and other rubbish. The then-current Rules and Regulations shall be binding upon Tenant upon delivery of a copy of them to Tenant. Landlord shall not be responsible to Tenant for the failure of any other person to observe and abide by any of said Rules and Regulations.

43. MORTGAGEE PROTECTION

(a) *Modifications for Lender.* If, in connection with obtaining financing for the Project or any portion thereof, Landlord's lender shall request reasonable modifications to this Lease as a condition to such financing, Tenant shall not unreasonably withhold, delay or defer its consent to such modifications, provided that such modifications do not materially adversely affect Tenant's rights or increase Tenant's obligations under this Lease.

(b) *Rights to Cure.* Tenant shall give to any trust deed or mortgage holder ("Holder"), by a method provided for in Paragraph 34 above, at the same time as it is given to Landlord, a copy of any notice of default given to Landlord, provided that, prior to such notice, Tenant has been notified in writing (by way of notice of assignment of rents and leases, or otherwise) of the address of such Holder. Tenant further agrees that, if Landlord shall have failed to cure such default within the time provided for in this Lease, then the Holder shall have an additional reasonable period within which to cure such default, or if such default cannot be cured without Holder pursuing its remedies against Landlord, then such additional time as may be necessary to commence and complete a foreclosure proceeding, provided that Holder commences and thereafter diligently pursues the remedies necessary to cure such default (including, but not limited to, commencement of foreclosure proceedings, if necessary to effect such cure), in which event this Lease shall not be terminated.

44. ENTIRE AGREEMENT

This Lease, including the Exhibits and any Addenda attached hereto, which are hereby incorporated herein by this reference, contains the entire agreement of the parties hereto, and no representations, inducements, promises or agreements, oral or otherwise, between the parties, not embodied herein or therein, shall be of any force and effect. If there is more than one Tenant, the obligations hereunder imposed shall be joint and several.

45. INTEREST

Any installment of Rent and any other sum due from Tenant under this Lease which is not received by Landlord within three (3) days from when the same is due shall bear interest from

the date such payment was originally due under this Lease until paid at the lesser of (a) an annual rate equal to the maximum rate of interest permitted by law, or (b) twelve percent (12%) per annum. Payment of such interest shall not excuse or cure any Default by Tenant. In addition, Tenant shall pay all costs and reasonable attorneys' fees incurred by Landlord in collection of such amounts.

46. GOVERNING LAW; CONSTRUCTION

This Lease shall be construed and interpreted in accordance with the laws of state in which the Premises is located. The parties acknowledge and agree that no rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall be employed in the interpretation of this Lease, including the Exhibits and any Addenda attached hereto. All captions in this Lease are for reference only and shall not be used in the interpretation of this Lease. Whenever required by the context of this Lease, the singular shall include the plural, the masculine shall include the feminine, and vice versa. If any provision of this Lease shall be determined to be illegal or unenforceable, such determination shall not affect any other provision of this Lease and all such other provisions shall remain in full force and effect.

47. NAME OF BUILDING

In the event Landlord chooses to change the name or address of the Building and/or the Project, Tenant agrees that such change shall not affect in any way its obligations under this Lease, and that, except for the name or address change, all terms and conditions of this Lease shall remain in full force and effect. Tenant agrees further that such name or address change shall not require a formal amendment to this Lease, but shall be effective upon Tenant's receipt of written notification from Landlord of said change.

48. JURY TRIAL WAIVER

To the extent now or hereafter permitted by law, Tenant hereby waives any right to trial by jury with respect to any action or proceeding (i) brought by Landlord, Tenant or any other party, relating to (A) this Lease and/or any understandings or prior dealings between the parties hereto, or (B) the Premises, the Building or the Project or any part thereof, or (ii) to which Landlord is a party. Tenant hereby agrees that this Lease constitutes a written consent to waiver of trial by jury pursuant to the provisions of California Code of Civil Procedure Section 631, and Tenant does hereby constitute and appoint Landlord its true and lawful attorney-in-fact, which appointment is coupled with an interest, and Tenant does hereby authorize and empower Landlord, in the name, place and stead of Tenant, to file this Lease with the clerk or judge of any court of competent jurisdiction as a statutory written consent to waiver of trial by jury.

49. RECORDATION

Neither this Lease, nor any memorandum, affidavit or other writing with respect thereto, shall be recorded by Tenant or by any one acting through, under or on behalf of Tenant, and the recording thereof in violation of this provision shall make this Lease null and void at Landlord's election.

50. FORCE MAJEURE

Any prevention, delay or stoppage due to fire or other casualty, strikes, lockouts, or other labor disturbances, shortage of equipment or materials, governmental requirements, power shortages or outages, acts or omissions of the other party to this Lease, or other causes beyond the reasonable control of Landlord or Tenant as the case may be, except with respect to the obligations imposed with regard to Rent and other charges to be paid by Tenant pursuant to this Lease (collectively, a "Force Majeure"), shall excuse the performance of such party for a period equal to any such prevention, delay or stoppage and, therefore, if this Lease specifies a time period for performance of an obligation of either party, that time period shall be extended by the period of any delay in such party's performance as caused by a Force Majeure.

51. ACCEPTANCE

This Lease shall only become effective and binding upon full execution hereof by Landlord and delivery of a signed copy to Tenant and Landlord's receipt of any Security Deposit and the Prepaid Base Rent.

52. COUNTERPART/SIGNATURES

This Lease Agreement may be executed in one (1) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Any signature on this Lease Agreement or an amendment to this Lease Agreement sent by electronic means shall be valid and binding. A party sending a signature by electronic means shall promptly send an executed original counterpart of the document to the other party by mail or courier service.

53. BIKE STORAGE

Tenant may install and maintain a bike storage facility on the Premises (collectively, the "Bike Storage Facility"), at a location reasonably approved by Landlord on the Premises subject to the following conditions: (i) Tenant shall provide, install and maintain the Bike Storage Facility at its sole cost and expense; (ii) Tenant shall submit to Landlord for its review and approval (which approval shall not be unreasonably withheld, conditioned or delayed) detailed plans and specifications for the Bike Storage Facility and shall install the Bike Storage Facility pursuant to the plans and specifications approved by Landlord, in a good and workmanlike manner and in accordance with the reasonable direction of Landlord relative thereto; (iii) Tenant shall obtain all the necessary permits and approvals which may be required from all lawful authorities to erect and install the Bike Storage Facility. Tenant may continue to keep and maintain the Bike Storage Facility throughout the Term of this Lease and any renewals or extension thereof. Landlord shall cooperate with Tenant, at Tenant's sole cost and expense, to secure any permits which may be required for the Bike Storage Facility.

54. PETS

Subject to the provisions of this Paragraph 54, Tenant shall be permitted to bring non aggressive, fully vaccinated domesticated dogs that are kept by Tenant's employees as pets, into the Premises. This right is subject to the following:

(a) All dogs are to be kept under control at all times. While outside the Building, all dogs are to be kept on leads. No dogs are to be left unaccompanied while outside of the Building. No dogs may be kept at the Premises overnight.

(b) Upon request by Landlord, copies of current vaccination records for all dogs shall be provided to Landlord.

(c) Tenant shall be responsible for any cleaning costs or other costs, repairs and regular maintenance and restoration which may arise from the dogs' presence in the Premises, including performing regular pest control services.

(d) Tenant shall be liable for any and all acts which any dog may undertake (e.g., biting). (e) Tenant shall be responsible for immediately removing any dog waste and excrement from the Premises.

(f) In no case shall the total number of dogs in the Premises exceed 1 (one) dog per 10,000 square feet.

(g) Any damage, wear and tear or corrective action arising from dogs in the Building shall be deemed to be in excess of normal wear and tear and shall be corrected by Tenant at its expense at the expiration or termination of this Lease, including if reasonably required, the fumigation or other treatment to eliminate fleas and other pests from the Building.

55. RENEWAL OPTION (WITH FMV RENT)

(a) *Exercise of Options.* Provided Tenant is in occupancy of at least two full floors of the Building and is not in default (beyond applicable notice and grace periods) pursuant to any of the terms and conditions of this Lease, at the date of both the Expiration Date and the effective date of the Option (as defined below), Tenant shall have the option (the "Option") to renew this Lease for an additional sixty (60) month period (the "Extension Term") commencing on the date following the Expiration Date upon the terms and conditions contained in this Paragraph 55. To exercise the Option, Tenant shall give Landlord notice (the "Extension Notice") of intent to exercise said Option not less than nine (9) months and not more than fifteen (15) months prior to the date on which the Extension Term which is the subject of the notice will commence. The notice shall be given as provided in Paragraph 34 hereof. In the event Tenant exercises the Option, this Lease will terminate in its entirety at the end of the Extension Term and Tenant will have no further option to renew or extend the Term of this Lease.

(b) *Procedures for Determining Prevailing Market Rate.*

(i) If Tenant timely exercises the Option, Landlord shall deliver to Tenant a good faith written proposal of the "Prevailing Market Rate" (as hereinafter defined) for the Premises for the Extension Term. Within thirty (30) days after receipt of Landlord's proposal, Tenant shall notify Landlord in writing that (A) Tenant accepts Landlord's proposal or (B) Tenant rejects Landlord's proposal. If Tenant does not give Landlord a timely notice in response to Landlord's proposal, Landlord's proposal of the Prevailing Market Rate for the Extension Term shall be deemed accepted by Tenant.

(ii) If Tenant timely rejects Landlord's proposal, Landlord and Tenant shall first negotiate in good faith in an attempt to agree upon the Prevailing Market Rate for the Extension Term. If Landlord and Tenant are able to agree within thirty (30) days following Landlord's receipt of Tenant's notice rejecting Landlord's proposal (the "**Negotiation Period**"), such agreement shall constitute a determination of Prevailing Market Rate for purposes of this Paragraph. If Landlord and Tenant are unable to agree upon the Prevailing Market Rate during the Negotiation Period, then within thirty (30) days after expiration of the Negotiation Period, the parties shall meet and concurrently deliver to each other their respective written estimates of the Prevailing Market Rate for the Extension Term, supported by the reasons therefor (respectively, "**Landlord's Determination**" and "**Tenant's Determination**"). Landlord's Determination may be more or less than its initial proposal of Prevailing Market Rate. If either party fails to deliver its Determination in a timely manner, then the Prevailing Market Rate shall be the amount specified by the other party. If the higher of such Determinations is not more than one hundred five percent (105%) of the lower of such Determinations, then the Prevailing Market Rate shall be the average of the two Determinations. If the Prevailing Market Rate is not resolved by exchange of the Determinations, the Prevailing Market Rate shall be determined as follows, each party being bound to its Determination and such Determinations constituting the only two choices available to the Appraisal Panel (as hereinafter defined).

(iii) Within thirty (30) days after the parties exchange Landlord's and Tenant's Determinations, the parties shall each appoint a neutral and impartial appraiser who shall be certified as an MAI or ASA appraiser and shall have at least ten (10) years' experience, immediately prior to his or her appointment, as a real estate appraiser of office properties in the City of San Francisco, including significant experience appraising Comparable Buildings. For purposes hereof, an "**MAI**" appraiser means an individual who holds an MAI designation conferred by, and is an independent member of, the American Institute of Real Estate Appraisers (or its successor organization, or, if there is no successor organization, the organization and designation most similar), and an "**ASA**" appraiser means an individual who holds the Senior Member designation conferred by, and is an independent member of, the American Society of Appraisers (or its successor organization, or, if there is no successor organization, the organization and designation most similar). If either Landlord or Tenant fails to appoint an appraiser within said thirty (30) day period, the Prevailing Market Rate for the Extension Term shall be the Determination of the other party who timely appointed an appraiser.

Landlord's and Tenant's appraisers shall work together in good faith to appoint a neutral or impartial third party appraiser within ten (10) business days, and notify both Landlord and Tenant of such selection. The three appraisers shall then work together in good faith to decide which of the two Determinations more closely reflects the Prevailing Market Rate of the Premises for the Extension Term. The Determination selected by such appraisers shall be binding upon Landlord and Tenant. If all three appraisers cannot agree upon which of the two Determinations more closely reflects the Prevailing Market Rate within thirty (30) days, the decision of a majority of the appraisers shall prevail.

(iv) Within five (5) days following notification of the identity of the third appraiser, Landlord and Tenant shall submit copies of Landlord's Determination and Tenant's Determination to the third appraiser. The three appraisers are referred to herein as the "**Appraisal Panel.**" The Appraisal Panel, if it so elects, may conduct a hearing, at which Landlord and

Tenant may each make supplemental oral and/or written presentations, with an opportunity for rebuttal by the other party and for questioning by the members of the Appraisal Panel. Within thirty (30) days following the appointment of the third appraiser, the Appraisal Panel, by majority vote, shall select either Landlord's Determination or Tenant's Determination as the Prevailing Market Rate of the Premises for the Extension Term, and shall have no right to propose a middle ground or to modify either of the two proposals or the provisions of this Lease. The decision of the Appraisal Panel shall be final and binding upon the parties, and may be enforced in accordance with the provisions of California law. In the event of the failure, refusal or inability of any member of the Appraisal Panel to act, a successor shall be appointed in the manner that applied to the selection of the member being replaced.

(v) Each party shall pay the fees and expenses of the appraiser appointed by such party, and one-half of the fees and expenses of the third appraiser and the expenses incident to the proceedings of the Appraisal Panel (excluding attorneys' fees and similar expenses of the parties which shall be borne separately by each of the parties).

(c) **Prevailing Market Rate.** As used in this Lease, the phrase "**Prevailing Market Rate**" means the amount that a landlord under no compulsion to lease the Premises, and a tenant under no compulsion to lease the Premises, would agree upon at arm's length as Base Rent for the Premises for the Extension Term, as of the commencement of the Extension Term. The Prevailing Market Rate shall be based upon non-sublease, non-encumbered, non-equity lease transactions recently entered into for space in the Building and in Comparable Buildings ("**Comparison Leases**") and may include periodic increases. Rental rates payable under Comparison Leases shall be adjusted to account for variations between this Lease and the Comparison Leases with respect to: (i) the length of the Extension Term compared to the lease term of the Comparison Leases; (ii) rental structure, including additional rent, and taking into consideration any "base year"; (iii) the size of the Premises compared to the size of the premises under the Comparison Leases; (iv) utility, location, floor levels, views and efficiencies of the floor(s) of the Premises compared to the premises under the Comparison Leases; (v) the age and quality of construction of the Building; (vi) the value of existing leasehold improvements to Tenant; and (vii) the financial condition and credit history of Tenant compared to the tenants under the Comparison Leases. In determining the Prevailing Market Rate, no consideration shall be given to (i) any rental abatement period granted to tenants in Comparison Leases in connection with the design and construction of tenant improvements, (ii) whether Landlord or the landlords under Comparison Leases are paying real estate brokerage commissions in connection with Tenant's exercise of the Extension Option or in connection with the Comparison Leases, and (iii) moving allowances paid. For purposes of this Paragraph, "**Comparable Buildings**" mean those buildings located in the vicinity of the Building.

In no event shall the Prevailing Market Rent be less than ninety percent (90%) the Base Rent paid by Tenant during the twelve months of the Lease Term immediately preceding the Extension Term.

(d) **Option is Personal.** The rights contained in this Paragraph 55 shall be personal to the Tenant and shall not be transferable to any assignee, sub-lessee or other transferee (other than a Tenant Affiliate) of Tenant's interest in this Lease and may only be exercised by the Tenant or a

Tenant Affiliate if the Tenant or a Tenant Affiliate occupies at least two (2) full floors of the Building at the Expiration Date and at the commencement of the Extension Term.

[Remainder of Page Intentionally Blank]

IN WITNESS WHEREOF, Landlord and Tenant have executed and delivered this Lease as of the Lease Date specified in the Basic Lease Information.

LANDLORD: CIVITAS EQUITY FUND I, LLC,
a California limited liability company

By: /s/ Douglas Dahlin

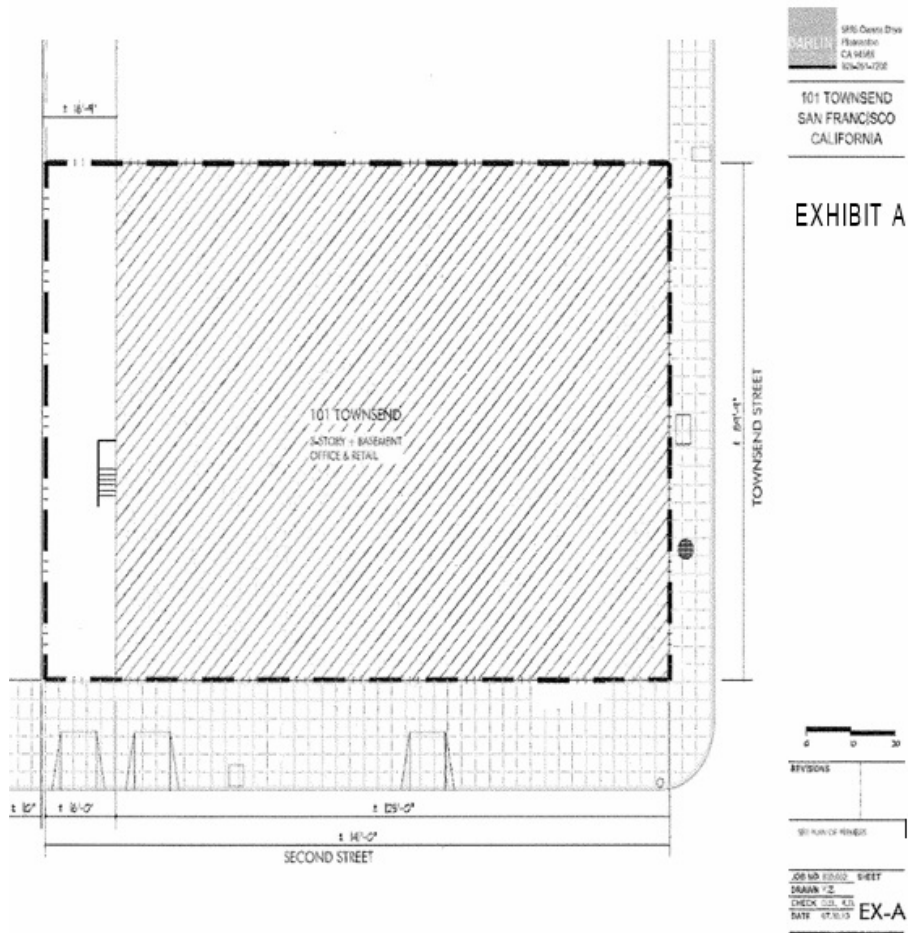
Name: Douglas Dahlin
Title: Manager

TENANT: Cloudflare, Inc.
a Delaware corporation

By: /s/ Matthew Prince

Name: Matthew Prince
Title: CEO, Cloudflare, Inc.

EXHIBIT A
DIAGRAM OF THE PREMISES



**EXHIBIT B
TENANT WORK LETTER**

REMOVED.

**INTRODUCTION
SECTIONS 1 & 2
PAGES B-1 TO B-3**

REMOVED.

3. CONSTRUCTION DRAWINGS

3.1 Selection of Architect/Construction Drawings. Tenant shall retain an architect/space planner approved by Landlord, which approval shall not be unreasonably withheld or delayed (the "Architect") to prepare the "Construction Drawings," as that term is defined in this Section 3.1. Tenant shall retain the engineering consultants approved by Landlord (the "Engineers"), which approval shall not be unreasonably withheld or delayed, to prepare all plans and engineering working drawings relating to the structural, mechanical, electrical, plumbing, HVAC, lifesafety, and sprinkler work in the Premises, which work is not part of the Base Building. The plans and drawings to be prepared by Architect and the Engineers hereunder shall be known collectively as the "Construction Drawings." All Construction Drawings shall comply at a minimum with Landlord's Specifications and shall be in a drawing format reasonably acceptable to Landlord, however, as provided in Section 3.3 below, in order to expedite plans and construction, Tenant may submit for Landlord's review the Engineered Drawings separately from the Architectural Drawings. Landlord's review of the Construction Drawings as set forth

in this Section 3, shall be for its sole purpose and shall not imply Landlord's review of the same, or obligate Landlord to review the same, for quality, design, Code compliance or other like matters. Accordingly, notwithstanding that any Construction Drawings are reviewed by Landlord or its space planner, architect, engineers and consultants, and notwithstanding any advice or assistance which may be rendered to Tenant by Landlord or Landlord's space planner, architect, engineers, and consultants, Landlord shall have no liability whatsoever in connection therewith, except to the extent that Landlord has specifically requested a modification to the Construction Drawings as a condition to Landlord's approval of the Construction Drawings, and shall not be responsible for any omissions or errors contained in the Construction Drawings, and Tenant's waiver and indemnity set forth in this Lease shall specifically apply to the Construction Drawings. Furthermore, Tenant and Architect shall verify, in the field, the dimensions and conditions as shown on the relevant portions of the base building drawings, and Tenant and Architect shall be solely responsible for the same, and Landlord shall have no responsibility in connection therewith. Each time Landlord is granted the right to review, consent or approve the Construction Drawings or any component thereof (collectively, "Consent"), such Consent shall not be unreasonably withheld, conditioned or delayed.

3.2 Final Space Plan. Tenant and the Architect shall prepare the final space plan for the Tenant Improvements (the "Final Space Plan"), and shall deliver the Final Space Plan to Landlord for Landlord's approval. The Final Space Plan shall show all corridors, internal and external offices and partitions, and exiting. Landlord shall, within five (5) business days after Landlord's receipt of the Final Space Plan (i) approve the Final Space Plan, (ii) approve the Final Space Plan subject to specified conditions to be complied with when the Final Working Drawings are submitted by Tenant to Landlord, or (iii) disapprove the Final Space Plan and return the same to Tenant with requested revisions. Any failure by Landlord to respond to Tenant's request for approval shall be deemed a disapproval. If Landlord disapproves the Final Space Plan, Tenant may resubmit the Final Space Plan to Landlord at any time, and Landlord shall approve or disapprove of the resubmitted Final Space Plan, based upon the criteria set forth in this Section 3.2, within five (5) business days after Landlord receives such resubmitted Final Space Plan. Such procedures shall be repeated until the Final Space Plan is approved. The Final Space Plan may be provided by Tenant to Landlord in one or more stages and at one or more times and the time periods set forth herein shall apply to each portion submitted

3.3 Completion of Construction Drawings. Once Landlord has approved the Final Space Plan, Tenant, the Architect and the Engineers shall complete the Construction Drawings for the Premises in a form which is sufficient to allow contractors to bid on the work and to obtain applicable permits and shall submit such Construction Drawings to Landlord for Landlord's approval. Such Construction Drawings may be submitted in one or more stages at one or more times, provided that Tenant shall ultimately supply Landlord with four (4) completed copies signed by Tenant of such Construction Drawings. Landlord shall, within ten (10) business days after Landlord's receipt of each stage of the Construction Drawings, either (i) approve the Construction Drawings, (ii) approve the Construction Drawings subject to specified conditions which must be stated in a reasonably clear and complete manner to be satisfied by Tenant prior to submitting the Approved Construction Drawings for permits as set forth in Section 3.4 below of this Tenant Work Letter, or (iii) disapprove and return the Construction Drawings to Tenant with requested revisions. Any failure by Landlord to respond to Tenant's request for approval shall be deemed a disapproval. If Landlord disapproves the Construction Drawings, Tenant may

resubmit the Construction Drawings to Landlord at any time, and Landlord shall approve or disapprove the resubmitted Construction Drawings, based upon the criteria set forth in this Section 3.3, within five (5) business days after Landlord receives such resubmitted Construction Drawings. Such procedure shall be repeated until the Construction Drawings are approved.

3.4 Approved Construction Drawings. The Construction Drawings for the Tenant Improvements shall be approved by Landlord (the "Approved Construction Drawings") prior to the commencement of construction of the Tenant Improvements. In the event that Tenant shall submit the Construction Drawings to Landlord in more than one stage, Landlord shall be entitled to approve a stage and to subsequently disapprove of such stage, provided that a problem is found to exist which is evident only following Landlord's review of subsequent drawings. Upon receipt of Landlord's approval, Tenant shall submit the Approved Construction Drawings to the appropriate municipal authorities for all applicable building permits required in connection with the construction of the Tenant Improvements ("Permits"). Tenant shall be responsible for obtaining all such Permits; provided, however, Tenant shall coordinate with Landlord in order to allow Landlord, at its option, to take part in all phases of the permitting process. Tenant shall supply Landlord, as soon as possible, with all plan check numbers and dates of submittal. Tenant hereby agrees that neither Landlord nor Landlord's consultants shall be responsible for obtaining any Permits or certificate of occupancy for the Premises and that obtaining the same shall be Tenant's responsibility; provided, however, that Landlord shall cooperate with Tenant in performing ministerial acts reasonably necessary to enable Tenant to obtain any such Permits or certificate of occupancy. No material changes, modifications or alterations in the Approved Construction Drawings may be made without the prior written consent of Landlord pursuant to the terms of Section 3.5 below. Tenant shall pursue its Permits with all due diligence.

3.5 Change Orders. In the event Tenant desires to change the Approved Construction Drawings, Tenant shall deliver notice (the "Drawing Change Notice") of the same to Landlord, setting forth in detail the changes (the "Tenant Change") Tenant desires to make to the Approved Construction Drawings. Landlord shall, within four (4) business days of receipt of a Drawing Change Notice either (i) approve the Tenant Change, or (ii) disapprove the Tenant Change and deliver a notice to Tenant specifying in reasonably sufficient detail the reasons for Landlord's disapproval. Any failure by Landlord to respond to Tenant's request for approval shall be deemed a disapproval. Any additional costs which arise in connection with such Tenant Change shall be paid by Tenant; provided, however, that to the extent the Tenant Improvement Allowance has not been depleted, such payment shall be made out of the Tenant Improvement Allowance.

4. CONSTRUCTION OF THE TENANT IMPROVEMENTS

4.1 Tenant's Selection of Contractors.

(a) The Contractor. Tenant shall retain a licensed general contractor (the "Contractor") pre-approved by Landlord, which approval shall not be unreasonably withheld or delayed, prior to Tenant causing the Contractor to construct the Tenant Improvements.

(b) Tenant's Contractors. The Contractor, Contractor's subcontractors, and all major trade subcontractors and suppliers used by Tenant (such major trade subcontractors and material

suppliers along with all other laborers, materialmen, and suppliers, and the Contractor to be known collectively as "Tenant's Agents") must be approved in writing by Landlord, which approval shall not be unreasonably withheld, conditioned or delayed, provided that, subject to the terms hereof, Tenant shall cause Landlord's designated structural, mechanical and life safety subcontractors to be retained in connection with the Tenant Improvements. If Landlord does not approve any of Tenant's proposed subcontractors, laborers, materialmen or suppliers, Tenant shall submit other proposed subcontractors, laborers, materialmen or suppliers for Landlord's written approval. The Contractor and the Contractor's subcontractors (collectively, "Tenant's Contractors") and their respective workers shall conduct their activities in and around the Premises, the Building and the Project in a harmonious relationship with all other subcontractors, laborers, materialmen and supplies at the Premises, the Building and the Project.

4.2 Construction of Tenant Improvements by Tenant's Contractors.

(a) Construction Contract; Cost Budget. Prior to Tenant's execution of the construction contract and general conditions with Contractor (the "Contract"), Tenant shall submit the Contract to Landlord for its approval, which approval shall not be unreasonably withheld or delayed. Prior to the commencement of the construction of the Tenant Improvements, and after Tenant has accepted all bids for the Tenant Improvements, Tenant shall provide Landlord with a detailed breakdown, by trade, of the final costs to be incurred or which have been incurred, as set forth more particularly in Sections 2.2(a)(i) through 2.2(a)(vii) above, in connection with the design and construction of the Tenant Improvements to be performed by or at the direction of Tenant or the Contractor, which costs form a basis for the amount of the Contract (the "Final Costs"). Prior to the commencement of construction of the Tenant Improvements, Tenant shall supply Landlord with cash in an amount (the "Over-Allowance Amount") equal to the difference between the amount of the Final Costs and the amount of the Tenant Improvement Allowance (less any portion thereof already disbursed by Landlord, or in the process of being disbursed by Landlord, on or before the commencement of construction of the Tenant Improvements). The Over-Allowance Amount shall be disbursed by Landlord prior to the disbursement of any of the then remaining portion of the Tenant Improvement Allowance, and such disbursement shall be pursuant to the same procedure as the Tenant Improvement Allowance. In the event that, after the Final Costs have been delivered by Tenant to Landlord, the costs relating to the design and construction of the Tenant Improvements shall change, any additional costs necessary to such design and construction in excess of the Final Costs, shall be paid by Tenant to Landlord immediately as an addition to the Over-Allowance Amount or at Landlord's option, Tenant shall make payments for such additional costs out of its own funds, but Tenant shall continue to provide Landlord with the documents described in clauses (A), (B), (C) and (D) of Section 2.2(b)(i) above of this Tenant Work Letter, for Landlord's approval, prior to Tenant paying such costs.

(b) Tenant's Agents.

(i) Landlord's General Conditions for Tenant's Agents and Tenant Improvement Work. Tenant's and Tenant's Agents' construction of the Tenant Improvements shall comply with the following: (A) the Tenant Improvements shall be constructed in material conformance with the Approved Construction Drawings; (B) Tenant and Tenant's Agents shall use commercially reasonable efforts not to interfere with, obstruct, or delay, the work of

Landlord's Base Building contractor and subcontractors with respect to the Base Building or any other work at the Project; (C) Tenant's Contractors shall submit schedules of all work relating to the Tenant Improvements to Landlord and Landlord shall, within five (5) business days of receipt thereof, inform Tenant and Tenant's Contractors of any changes which are reasonably necessary thereto in order to avoid interference with Landlord's work and Tenant's Contractors shall adhere to such corrected schedule; and (D) Tenant shall abide by all construction guidelines and reasonable rules made by Landlord's Building manager with respect to any matter, within reason, in connection with this Tenant Work Letter, including, without limitation, the construction of the Tenant Improvements.

(ii) Indemnity. Tenant's indemnity of Landlord as set forth, qualified and conditioned in this Lease shall also apply with respect to any and all costs, losses, damages, injuries and liabilities related in any way to any act or omission of Tenant or Tenant's Agents, or anyone directly or indirectly employed by any of them, or in connection with Tenant's non payment of any amount arising out of the Tenant Improvements and/or Tenant's disapproval of all or any portion of any request for payment. The waivers of subrogation set forth in this Lease pertaining to property damage shall be fully applicable to damage to property arising as a result of any work performed pursuant to the terms of this Tenant Work Letter and Tenant shall be excused from its indemnification obligation to the extent Landlord's damage is covered by insurance required to be carried by Landlord under the Lease and as to which the waiver of subrogation is applicable.

(iii) Requirements of Tenant's Agents. Tenant's Contractor shall guarantee to Tenant and for the benefit of Landlord that the portion of the Tenant Improvements for which it is responsible shall be free from any defects in workmanship and materials for a period of not less than one (1) year from the date of completion thereof. Tenant's Contractor shall be responsible for the replacement or repair, without additional charge, of all work done or furnished in accordance with its contract that shall become defective within one (1) year after the Commencement Date. All such warranties or guarantees as to materials or workmanship of or with respect to the Tenant Improvements shall be contained in the Contract or subcontract and shall be written such that such guarantees or warranties shall inure to the benefit of both Landlord and Tenant, as their respective interests may appear, and can be directly enforced by either. Tenant covenants to give to Landlord any assignment or other assurances which may be necessary to effect such right of direct enforcement.

(iv) Insurance Requirements.

(A) General Coverages. All of Tenant's Agents shall carry worker's compensation insurance covering all of their respective employees, and shall also carry public liability insurance, including property damage, all with limits, in form and with companies as are required to be carried by Tenant as set forth in this Lease (provided that the limits of liability to be carried by Tenant's Agents and Contractor, shall be in an amount which is customary for such respective Tenant's Agents employed by tenants constructing improvements in the Comparable Buildings), and the policies therefor shall insure Landlord and Tenant, as their interests may appear, as well as the Contractor and subcontractors.

(B) Special Coverages. Contractor shall carry "Builder's All Risk" insurance, in an amount approved by Landlord but not more than the amount of the Contract, covering the construction of the Tenant Improvements, and such other insurance as Landlord may reasonably require, it being understood and agreed that the Tenant Improvements shall be insured by Tenant pursuant to this Lease immediately upon completion thereof. Such insurance shall be in amounts and shall include such extended coverage endorsements as may be reasonably required by Landlord (to the extent they are generally required by landlords of Comparable Buildings) and shall be in a form and with companies as are required to be carried by Tenant pursuant to the terms of this Lease.

(C) General Terms. Certificates for all insurance carried pursuant to this Section 4.2(b)(iv) shall be delivered to Landlord before the commencement of construction of the Tenant Improvements and before the Contractor's equipment is moved onto the Project. All such policies of insurance must contain a provision that the company writing said policy will give Landlord thirty (30) days' prior notice of any cancellation or lapse of the effective date or any reduction in the amounts of such insurance. In the event that the Tenant Improvements are damaged by any cause during the course of the construction thereof and this Lease is not terminated, Tenant shall immediately repair the same at Tenant's sole cost and expense. Tenant's Agents shall maintain all of the foregoing insurance coverage in force until the completion of the Tenant Improvements. All such insurance relating to property, except Workers' Compensation, maintained by Tenant's Agents shall preclude subrogation claims by the insurer against anyone insured thereunder. Such insurance shall provide that it is primary insurance as respects the owner and that any other insurance maintained by Landlord is excess and noncontributing with the insurance required hereunder. The requirements for the foregoing insurance shall not derogate from the provisions for indemnification of Landlord by Tenant under Section 4.2(b)(ii) of this Tenant Work Letter and Tenant's right with respect to the waiver of subrogation.

(c) Governmental Compliance. The Tenant Improvements shall comply in all respects with the following: (i) all Laws; (ii) applicable standards of the American Insurance Association (formerly, the National Board of Fire Underwriters) and the National Electrical Code; (iii) the applicable standards of the then current International Building Code; (iv) building material manufacturer's specifications; and (v) Landlord's "green building" requirements and/or its "savings by design" criteria as the same relate to interior lighting (collectively, the "**Code**").

(d) Inspection by Landlord. Landlord shall have the right to inspect the Tenant Improvements at all reasonable times; provided, however, that Landlord's failure to inspect the Tenant Improvements shall in no event constitute a waiver of any of Landlord's rights hereunder nor shall Landlord's inspection of the Tenant Improvements constitute Landlord's approval of the same. In the event that Landlord should disapprove any portion of the Tenant Improvements during an inspection, Landlord shall notify Tenant in writing within a reasonable time of such inspection of such disapproval and shall specify in reasonably sufficient detail the items disapproved. Any defects or deviations in, and/or disapprovals in accordance herewith by Landlord of, the Tenant Improvements shall be rectified by Tenant at Tenant's expense and at no additional expense to Landlord; provided, however, that in the event Landlord determines that a defect or deviation exists or reasonably disapproves of any matter in connection with any portion of the Tenant Improvements, Landlord may, following notice to Tenant and a reasonable period

of time for Tenant to cure, take such action as Landlord deems necessary to correct the same, at Tenant's expense, and at no additional expense to Landlord, and without incurring any liability on Landlord's part.

(e) Meetings. Commencing upon the execution of this Lease, Tenant shall hold periodic meetings at a reasonable time, with the Architect and the Contractor regarding the progress of the preparation of Construction Drawings and the construction of the Tenant Improvements, which meetings shall be held at a location reasonably designated by Landlord, and Landlord and/or its agents shall receive prior notice of, and shall have the right to attend, all such meetings, and, upon Landlord's request, certain of Tenant's Agents shall attend such meetings. In addition, minutes shall be taken at all such meetings, a copy of which minutes shall be promptly delivered to Landlord. One such meeting each month shall include the review of Contractor's current request for payment.

(f) Timing. Tenant shall use its best, good faith, efforts and all due diligence to (i) cooperate with the Landlord to complete all phases of the space planning process, preparation of the Approved Construction Documents, estimating and bidding, and the permitting process in order to receive the Permits and be prepared to start Tenant Improvements upon the Commencement Date; (ii) coordinate Tenant's pre-commencement construction schedule with Landlord's Base Building Work construction schedule; and (iii) proceed with its work expeditiously, continuously and efficiently, and shall use its diligent efforts to complete the same within One Hundred and Twenty (120) days after the Commencement Date.

4.3 Notice of Completion; Copy of Record Set of Plans. Within ten (10) days after completion of construction of the Tenant Improvements, Tenant shall prepare a Notice of Completion, which Landlord shall execute if factually correct, and Tenant shall cause such Notice of Completion to be recorded in the office of the Recorder of the City and County of San Francisco in accordance with Section 8182 of the Civil Code of the State of California or any successor statute, and shall furnish a copy thereof to Landlord upon such recordation. If Tenant fails to do so, Landlord may execute and file the same on behalf of Tenant as Tenant's agent for such purpose, at Tenant's sole cost and expense. At the conclusion of construction, (i) Tenant shall cause the Architect and Contractor (A) to update the Approved Construction Drawings as necessary to reflect all changes made to the Approved Construction Drawings during the course of construction, (B) to certify to the best of their knowledge that the updated drawings are true and correct, which certification shall survive the expiration or termination of this Lease, and (C) to deliver to Landlord two (2) CO-ROMs of such updated Approved Construction Drawings, in CADD format, within thirty (30) days following issuance of a certificate of occupancy for the Premises, and (ii) Tenant shall deliver to Landlord a copy of all warranties, guaranties, and operating manuals and information relating to the improvements, equipment, and systems in the Premises.

5. MISCELLANEOUS

5.1 Tenant's Representative. Tenant shall designate in writing its representative with respect to the matters set forth in this Tenant Work Letter, who shall have full authority and responsibility to act on behalf of the Tenant as required in this Tenant Work Letter.

5.2 Landlord's Representative. Landlord has designated Doug Dahlin and Karl Danielson as its representatives with respect to the matters set forth in this Tenant Work Letter, who, until further notice to Tenant, shall have full authority and responsibility to act on behalf of the Landlord as required in this Tenant Work Letter.

5.3 Time of the Essence in This Tenant Work Letter. Unless otherwise indicated, all references herein to a "number of days" shall mean and refer to calendar days. If any item requiring approval is timely disapproved by Landlord, the procedure for preparation of the document and approval thereof shall be repeated until the document is approved by Landlord.

5.4 Tenant's Lease Default. Notwithstanding any terms to the contrary contained in this Lease, if Tenant is in default of this Lease (including, without limitation, this Tenant Work Letter) at any time on or before the completion of the Tenant Improvements, then (i) in addition to all other rights and remedies granted to Landlord pursuant to the Lease, Landlord shall have the right to withhold payment of all or any portion of the Tenant Improvement Allowance and/or Landlord may cause Contractor to cease the construction of the Tenant Improvements (in which case, Tenant shall be responsible for any delay in the completion of the Tenant Improvements caused by such work stoppage), and (ii) all other obligations of Landlord under the terms of this Tenant Work Letter shall be suspended until such time as such default is cured pursuant to the terms of the Lease (in which case, Tenant shall be responsible for any delay in the completion of the Tenant Improvements caused by such inaction by Landlord). Notwithstanding the forgoing, if a default by Tenant is cured, forgiven or waived, Landlord's suspended obligations shall be fully reinstated and resumed, effective immediately.

5.5 No Miscellaneous Charge. During the Tenant Improvement construction period and move-in, Landlord shall provide commercially reasonable use of freight elevators and/or loading docks during the Business Hours and commercially reasonable use of water, electricity and restrooms to the extent utilized in connection with the construction of the Tenant Improvements, subject to such policies and procedures as Landlord shall prescribe.

EXHIBIT B-1

BASE BUILDING STANDARDS

The Building shall be delivered by Landlord to Tenant in "warm shell" with improvements and materials as follows (collectively, the "Base Building Work"):

Description of Original Building:

1. The Building is a reinforced concrete structure with window bays on three sides, and attached at a common concrete wall on the southwest side. It is three (3) stories above ground and a single story Lower Level. The Townsend Street (northwest) side First Floor is approximately flush with the sidewalk. The Second Street (northeast) side First Floor is along a sloping sidewalk/street and is approximately flush with the sidewalk at Townsend Street and several feet above grade at the east corner and along the southeast side of the Building.
2. The Building perimeter and the Lot property are the same on three sides (Southwest Common wall; Northwest Townsend Street; Northeast Second Street). Along the Southeast Building perimeter is an area of vacant land approximately 16 feet wide running the length of the Southeast wall. It is gated.

DESCRIPTION OF PHASE 1 IMPROVEMENT

REMOVED.

IMPROVEMENT

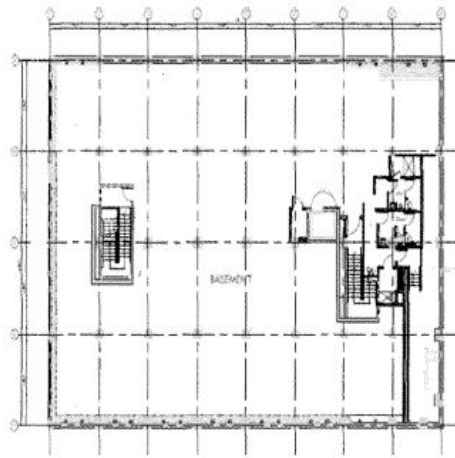
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SECTIONS OF B-1-1; PAGES B-1-2 & B-1-3

REMOVED.

B-1-12

09247\001\4214879.v8



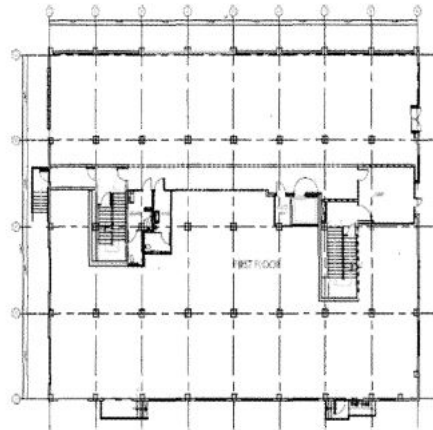
Basement Floor

TO BE MODIFIED TO REFLECT CLOUDFLARE CHANGES UP TO 11/1/2022

DAHLIN
ARCHITECTS
101 TOWNSEND
SAN FRANCISCO
CALIFORNIA

11/1/2022
11/1/2022

2022.05.01 SHEET
DRAWN BY
CHECK BY
DATE 11/1/2022 A2.0



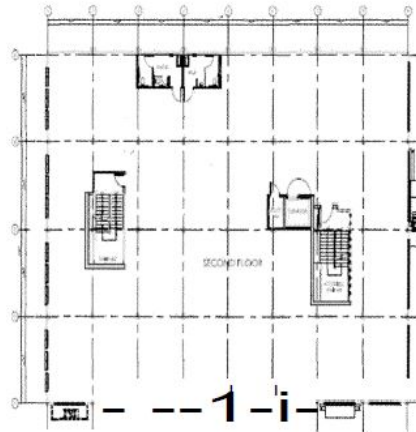
FIRST FLOOR PLAN

TO BE MODIFIED TO REFLECT CLOUDFLARE CHANGES UP TO 11/1/2022

DAHLIN
ARCHITECTS
101 TOWNSEND
SAN FRANCISCO
CALIFORNIA

101 TOWNSEND
SAN FRANCISCO
CALIFORNIA

PROJECT NO. 000001 SHEET
000001 OF 000001
DATE: 11/1/2022
SCALE: 1/8" = 1'-0" A2.1



DAHLIN
ARCHITECTS
101 TOWNSEND
SAN FRANCISCO
CALIFORNIA

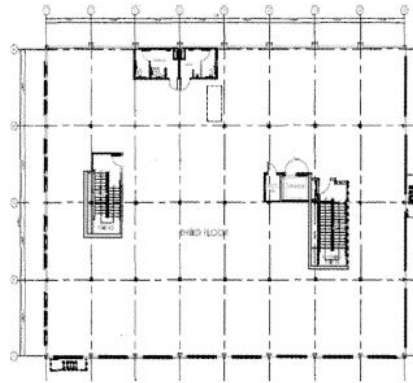
INTERIOR
SECTION

218 W. 10TH ST. SHEET
DRAWN BY
CHECK BY
DATE 11/1/2022 A2.

2

SECOND FLOOR PLAN
TO BE MODIFIED TO REFLECT CLOUDFLARE CHANGES UP TO 11/1/2022

DAHLIN ARCHITECTS
101 TOWNSEND
SAN FRANCISCO
CALIFORNIA



THIRD FLOOR PLAN



2/24/21 09:55 1:45P
DRAWN BY
CHECK BY
DATE 10/1/21 **A2.3**

TO BE MODIFIED TO REFLECT CLOUDFLARE CHANGES UP TO 11/1/2022

EXHIBIT C

COMMENCEMENT AND EXPIRATION DATE MEMORANDUM

LANDLORD: CIVITAS EQUITY FUND I, LLC

TENANT: CLOUDFLARE, INC.

LEASE DATE: November 1, 2022

PREMISES: Located at 101 Townsend Street, San Francisco, California 94107

Tenant hereby accepts the Premises as being in the condition required under the Lease.

The Commencement Date of the Lease is hereby established as November 1, 2022 and the Expiration Date is October 31, 2027.

TENANT CLOUDFLARE, INC.
a Delaware corporation

By /s/ Matthew Prince

Name Matthew Prince

Title CEO, Cloudflare, Inc.

By _____

Name _____

Title _____

Approved and Agreed:

LANDLORD CIVITAS EQUITY FUND I, LLC,
a California limited liability company

By /s/ Douglas Dahlin

Name Douglas Dahlin

Title Manager

EXHIBIT D

RULES AND REGULATIONS

This Exhibit, entitled "Rules and Regulations," is and shall constitute *Exhibit D* to the Lease Agreement, dated as of the Lease Date, by and between Landlord and Tenant for the Premises. The terms and conditions of this *Exhibit D* are hereby incorporated into and are made a part of the Lease. Capitalized terms used, but not otherwise defined, in this *Exhibit D* have the meanings ascribed to such terms in the Lease.

1. Tenant shall not use any method of heating or air conditioning other than that supplied by Landlord without the consent of Landlord.
2. All window coverings installed by Tenant and visible from the outside of the building require the prior written approval of Landlord.
3. Tenant shall not use, keep or permit to be used or kept any foul or noxious gas or substance or any flammable or combustible materials on or around the Premises, except to the extent that Tenant is permitted to use the same under the terms of Paragraph 33 of the Lease.
4. Tenant shall not alter any lock or install any new locks or bolts on any door at the Premises without the prior consent of Landlord.
5. Tenant shall not make any duplicate keys or key cards to the Premises or the Building without the prior consent of Landlord.
6. Tenant is responsible for the storage and removal of all trash and refuse. All such trash and refuse shall be contained in suitable receptacles stored behind screened enclosures at locations approved by Landlord.
7. Tenant shall not permit any animals, including, but not limited to, any household pets (but excluding service animals, which are permitted), to be brought or kept in or about the Premises, the Building, the Project, except as provided in the Lease.

EXHIBIT E

FORM OF ESTOPPEL CERTIFICATE

CLOUDFLARE, INC., a Delaware corporation (herein "Tenant") hereby certifies to _____, a _____ and its successors and assigns and any lender to any such party that (A) Tenant leases from CIVITAS EQUITY FUND I, LLC, a California limited liability company ("Landlord") approximately _____ square feet of space (the "Premises") in _____ pursuant to that certain Lease Agreement dated _____, _____ by and between Landlord and Tenant, as amended by _____ (collectively, the "Lease"), a true and correct copy of which is attached hereto as Exhibit A, and (B) as of the date hereof:

1. The Lease is in full force and effect and has not been modified, supplemented or amended, except as set forth in the introductory Paragraph hereof.
2. Tenant is in actual occupancy of the Premises under the Lease and Tenant has accepted the same. Landlord has performed all obligations under the Lease to be performed by Landlord, including, without limitation, completion of all tenant work required under the Lease and the making of any required payments or contributions therefor. Tenant is not entitled to any further payment or credit for tenant work.
3. The initial term of the lease commenced _____, _____ and shall expire _____, _____. Tenant has the following rights to renew or extend the term of the Lease or to expand the Premises:
4. Tenant has not paid any rentals or other payments more than one (1) month in advance except as follows: _____.
5. Base Rent payable under the Lease is _____ Dollars(\$ _). Base Rent and Additional Rent have been paid through _____, _____. There currently exists no claims, defenses, rights of set-off or abatement to or against the obligations of Tenant to pay Base Rent or Additional Rent or relating to any other term, covenant or condition under the Lease.
6. There are no concessions, bonuses, free months' rent, rebates or other matters affecting the rentals except as follows: _____.
7. No security or other deposit has been paid with respect to the Lease except as follows:
8. Landlord is not currently in default under the Lease and there are no events or conditions existing which, with or without notice or the lapse of time, or both, could constitute a default of the Landlord under the Lease or entitle Tenant to offsets or defenses against the prompt payment of rent except as follows: _____. Tenant is not in default under any of the terms and conditions of the lease nor is there now any fact or condition which, with notice or lapse of time or both, will become such a default.
9. Tenant has not assigned, transferred, mortgaged or otherwise encumbered its interest under the lease, nor subleased any of the Premises nor permitted any person or entity to use the Premises except as follows: .
10. Tenant has no rights of first refusal or options to purchase the property of which the Premises is a part.
11. The Lease represents the entire agreement between the parties with respect to Tenant's right to use and occupy the Premises.

Tenant acknowledges that the parties to whom this certificate is addressed will be relying upon the accuracy of this certificate in connection with their acquisition and/or financing of the Premises.

IN WITNESS WHEREOF, Tenant has caused this certificate to be executed this __day of ,2022

TENANT CLOUDFLARE, INC.
a Delaware corporation

By _____
Name _____
Title _____
By _____
Name _____
Title _____

EXHIBIT F

SUBORDINATION, NON-DISTURBANCE AND ATTORNMENMENT AGREEMENT

RECORDING REQUESTED BY AND
WHEN RECORDED MAIL TO:

SUBORDINATION, ATTORNMENMENT AND
NON-DISTURBANCE AGREEMENT

Notice: This Subordination Agreement is subject to the recorded interest in the property described in the deed of trust and shall not be a lien on the property as some other or later security instrument.

THIS AGREEMENT made this _____ day of _____ by _____ owner of the land hereinafter described and hereinafter referred to as "Owner", and present owner and holder of a leasehold interest in the land by reason of the Lease hereinafter described and hereinafter referred to as "Lessee";

WITNESSETH

THAT WHEREAS, Owner, as Landlord, did execute a Lease dated _____ to Lessee, as Tenant, covering all that certain real property described in Exhibit "A" attached hereto and by this reference incorporated herein; and

WHEREAS, Owner has executed, or is about to execute, a deed of trust and note in the sum of _____ dated of even date herewith in favor of _____, hereinafter referred to as "Lender", payable with interest and upon the terms and conditions described therein, which deed of trust is to be recorded concurrently herewith; and

WHEREAS, it is a condition precedent to obtaining said loan that said deed of trust above mentioned shall unconditionally be and remain at all times a lien or charge upon the land hereinafter described, prior and superior to the Lease and leasehold interest of Lessee above mentioned; and

WHEREAS, Lender is willing to make said loan provided the deed of trust securing the same is a lien or charge upon the above-described property prior and superior to the Lease and leasehold interest of Lessee above mentioned and provided that Lessee will specifically and unconditionally subordinate the Lease and leasehold interest of Lessee above mentioned to the lien or charge of the deed of trust in favor of Lender; and

WHEREAS, it is to the mutual benefit of the parties hereto that Lender make such loan to Owner; and Lessee is willing that the deed of trust securing the same shall, when recorded, constitute a lien or charge upon said land which is unconditionally prior and superior to the Lease and leasehold interest of Lessee above mentioned.

NOW, THEREFORE, in consideration of the mutual benefits accruing to the parties hereto and other valuable consideration, the receipt and sufficiency of which consideration is hereby acknowledged, and in order to induce Lender to make the loan above referred to, it is hereby declared, understood and agreed as follows:

- L. That said deed of trust securing said note in favor of Lender, and any renewals or extensions thereof shall unconditionally be and remain at all times a lien or charge on the property therein described, prior and superior to the Lease, and leasehold interest of Lessee above mentioned.
2. That Lender would not make its loan above described without this Agreement
3. That this Agreement shall be the whole and only agreement between the parties hereto with regard to the subordination of the Lease and leasehold interest of Lessee above mentioned to the lien or charge of the deed of trust in favor of Lender above referred to, and shall supersede and cancel any prior agreements as to such, or my subordination, including, but not limited to, those provisions contained in the lease above mentioned, which may or do provide for the subordination of the Lease and leasehold interest of Lessee to a deed or deeds of trust or a mortgage or mortgages to be thereafter executed.
4. Lessee declares, agrees and acknowledges that:
 - (a) It consents to and approves
 - (i) of all provisions of the note and deed of trust in favor of a. Lender above referred to,
and
 - (ii) all agreements, including but not limited to any loan or escrow agreements, between Owner and Lender for the disbursement of the proceeds of Lender's loan;
 - (b) Lender in making disbursements pursuant to any such agreement is under no obligation or duty to, nor has Lender represented that it will, see to the application of such proceeds by the person or persons to whom Lender disburses such proceeds and any application or use of such proceeds for purposes other than those provided for in such agreement or agreements shall not defeat the subordination herein made in whole or in part; and
 - (c) It intentionally and unconditionally waives, relinquishes and subordinates the lease and leasehold interest above mentioned in favor of the lien or charge upon said land of the deed of trust in favor of Lender above referred to and understands that in reliance upon, and in consideration of, this waiver, relinquishment and subordination specific loans and advances are being and will be made and, as part and parcel thereof, specific monetary and other obligations are being and will be entered into which would not be made or entered into but for said reliance upon this waiver, relinquishment and subordination.

5. Notwithstanding the foregoing, Lessee and owner hereby agree and the recordation of this Agreement by or on behalf of Lender shall constitute Lender's agreement as follows:

- (a) In the event of foreclosure of said deed of trust, Lender will not join Lessee in any summary proceedings so long as Lessee is not in default under any of the terms, covenants or conditions of the Lease.
- (b) It is the express intent of the parties hereto that a foreclosure of said deed of trust, the exercise of the power of sale- or the exercise of any other remedies provided therein, or provided in any other instruments securing the indebtedness secured by said deed of trust, or the delivery of a deed to the subject premises in lieu of foreclosure, shall not, of itself, result in the termination of or otherwise affect the Lease, but Lender and any purchaser or other grantee upon foreclosure of said deed of trust or conveyance in lieu of foreclosure shall thereby automatically succeed to the position of Owner under the Lease.
- (c) If, by dispossession, foreclosure, exercise of the power of sale, or otherwise, Lender, its successors or assigns, or any purchaser at a foreclosure sale, or otherwise shall come into possession of or become the owner of the premises demised by the Lease, such person shall succeed to the interest of Owner under the Lease, and, if no default then exists: under the terms, conditions and provisions of the Lease, the Lease shall remain in effect as a lease of said demised premises, together with all of the rights and privileges therein contained, between such person and Lessee for the balance of the term of the Lease between Owner and Lessee; Lessee agrees to attorn to and accept such person as Lessor under the Lease, and to be bound by and to perform all of the obligations imposed by the Lease upon the Lessee therein, and Lender, its successors or assigns, or any purchaser at a foreclosure or trustee's sale or otherwise will not disturb the possession of Lessee, and will be bound by all of the obligations imposed by the Lease upon the Lessor therein; provided, however, that Lender, or any purchaser at a foreclosure or trustee's sale or otherwise shall not be:
 - (i) Liable for any act or omission of a prior lessor (including Owner); or
 - (ii) subject to any offsets or defenses which Lessee might have against any prior lessor (including Owner); or
 - (iii) bound by any rent or additional rent which Lessee might have paid in advance to any prior lessor (including Owner) for any period beyond the month in which the foreclosure, sale termination or conveyance occurs; or
 - (iv) bound by any agreement or modification of the Lease made without the consent of Lender.
- (d) Upon the written request of either Lessee or Lender given to the other at the time of a foreclosure of said deed of trust or sale under power of sale therein contained or conveyance in lieu of foreclosure, and if no default then exists under the terms, conditions and provisions of the Lease, Lessee and lender agree to execute a lease of the premises demised by the Lease upon the same terms and conditions as the Lease between Owner and Lessee, which lease shall continue over any unexpired term of the Lease existing prior to such foreclosure, trustee's sale or conveyance in lieu of foreclosure.

6. This Agreement shall be binding upon and inure to the benefit of Lender and the parties hereto and their respective successors and assigns upon recordation by or on behalf of Lender.

NOTICE: This subordination agreement contains a provision which allows the person obligated on the real property which you lease to obtain a loan a portion of which may be expended for other purposes than improvement of the land.

OWNER:

By _____
Its _____

LESSEE:

By _____
Its _____

BENEFICIARY:

WESTAMERICA BANK, _____
By _____
Its _____

(ALL SIGNATURES MUST BE ACKNOWLEDGED AND NOTARIZED)

FIRST AMENDMENT TO OFFICE LEASE AGREEMENT

This First Amendment to Office Lease Agreement ("**First Amendment**") is made and entered into as of June 17, 2022 by and between Ichi Juu Ichi DE, LLC, a Delaware limited liability company ("**Landlord**") and Cloudflare, Inc. a Delaware corporation ("**Tenant**"). Landlord and Tenant are sometimes referred in this First Amendment individually to as a "**Party**" and collectively to as the "**Parties**."

Recitals

A. Ichi Juu Ichi, LLC, a California limited liability company, and Tenant had entered into an Office Lease Agreement ("**Original Lease**") dated November 1, 2017 for the entirety of the interior of the Building at 111 Townsend Street, San Francisco, California ("**Premises**").

B. Landlord is the current owner of the Property.

C. The Original Lease as amended by this First Amendment shall be referred to as the "**Lease**."

D. Landlord and Tenant now desire to extend the Term of the Lease for an additional five (5) years commencing on November 1, 2022 and expiring on October 31, 2027.

E. Landlord informs Tenant that the effectiveness of this First Amendment is conditioned on the approval of this First Amendment by Landlord's Lender. Landlord also informs Tenant that Landlord's Lender is currently holding the One Million One Hundred Thousand Dollars (\$1,100,000.00) deposited by Tenant as the Security Deposit required by the Original Lease.

For good and valuable consideration the receipt and adequacy of which are acknowledged, Landlord and Tenant enter into this First Amendment.

Terms of First Amendment

1. **Recitals.** The Recitals are incorporated into these Terms of First Amendment as though each Recital was restated in full in these Terms of First Amendment.

2. **Basic Lease Information.** The following terms from the Original Lease are amended as follows:

(a) 1.03 "**Base Rent**." The chart of "Base Rent" as stated in Section 1.03 of the Original Lease is deleted in its entirety and is replaced with the following:

<u>Period or Months of Term</u>	<u>Annual Base Rent</u>	<u>Monthly Base Rent</u>
1-3	Abated	\$0.00
4-36	\$65.00 per rsf	\$133,450.42
37-48	\$66.95 per rsf	\$137,454.93
49-60	\$68.96 per rsf	\$141,577.55

(b) 1.05 "**Base Year**" for Taxes and Expenses (each defined in Exhibit B to the Original Lease) shall be calendar year 2023.

(c) 1.06 "**Term**" is extended for the five (5) year period commencing on November 1, 2022 and expiring on October 31, 2027.

3. **Security Deposit.** Landlord shall instruct Landlord's Lender to wire the Security Deposit directly to Tenant once this First Amendment is fully executed by each of Landlord and Tenant. Tenant shall provide Landlord with Tenant's wire instructions.

4. **Option to Extend.** Landlord grants Tenant one (1) option (an “**Extension Option**”) to extend the Term with respect to the entirety of the Premises for a period of five (5) years (the “**Extension Period**”), subject to the conditions of Section 29 of the Original Lease titled “Option to Extend (Subject to Landlord Recapture Right).”

5. **Condition of Premises.** Tenant has been in possession of the Premises since the Commencement Date of the Lease and is fully aware of the condition of the Premises. Tenant shall continue to possess the Premises in its current “as is” condition and configuration without any representations or warranties by Landlord.

6. **Brokerage.** Tenant warrants and represents to Landlord that Tenant has not dealt with any real estate broker or agent in connection with this First Amendment or its negotiation. Tenant shall indemnify and hold Landlord harmless from any cost, expense or liability (including costs of suit and reasonable attorneys’ fees) for any compensation, commission or fees claimed by any other real estate broker or agent in connection with this First Amendment or its negotiation by reason of any act of Tenant.

7. **Lease Remains in Effect.** Except as amended by this First Amendment, the terms of the Original Lease remain in effect.

8. **Definitions.** Any term that is capitalized but is not defined in this First Amendment shall have the meaning given to such term in the Original Lease.

9. **Conflict in Terms.** If there is any conflict between any term of this First Amendment and any term of the Original Lease, the term of this First Amendment shall control.

10. **Reliance on Counsel.** In entering into this First Amendment, each Party has had the opportunity to rely upon the advice of its attorney and has not relied upon any representation of law or fact by the other Party. It is further acknowledged by each Party that the Party executing this First Amendment:

- (a) Fully understands and voluntarily accepts the terms, meaning, and significance of this First Amendment;
- (b) Has had ample time to obtain all of the legal advice that the Party deems necessary; and
- (c) Has had ample time to review this First Amendment.

11. **Execution.** This First Amendment may be executed in multiple counterparts, all of which shall constitute one and the same First Amendment. Delivery of an executed counterpart of this First Amendment by email or by electronic means (e.g. DocuSign) shall be as effective as delivery of a manually executed counterpart of this First Amendment. This First Amendment may be executed by a Party's signature transmitted by email, and copies of this First Amendment executed and delivered by means of signatures sent by email or electronic means shall have the same force and effect as copies executed and delivered with original signatures.

12. **Cooperation.** The Parties to this First Amendment will cooperate in all manners necessary to effectuate the terms of this First Amendment including, but not limited to, executing all necessary documents.

13. **Interpretation.** No provision of this First Amendment is to be interpreted for or against any Party because that Party, or that Party’s representative, drafted such provision.

The remainder of this page is intentionally left blank.
Signature page follows.

LANDLORD

Ichi Juu Ichi DE, LLC,
a Delaware limited liability company

Dated: 7/25/2022

/s/ Ronaldo Cinciarulo

By: Ronaldo Cinciarulo,
Its: Managing Member

TENANT

Cloudflare, Inc.
a Delaware corporation

Dated: 6/17/2022

/s/ Matthew Prince

By: Matthew Prince
Its: CEO, Cloudflare, Inc.

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14a OF
THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES OXLEY ACT OF 2002**

I, Matthew Prince, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cloudflare, 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 Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
 5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.
-

Date: August 4, 2022

CLOUDFLARE, INC.

/s/ Matthew Prince

Matthew Prince

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14a OF
THE SECURITIES EXCHANGE ACT OF 1934
AS ADOPTED PURSUANT TO SECTION 302
OF THE SARBANES OXLEY ACT OF 2002**

I, Thomas Seifert, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cloudflare, 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 Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
 5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.
-

Date: August 4, 2022

CLOUDFLARE, INC.

/s/ Thomas Seifert

Thomas Seifert

Chief Financial Officer

(Principal Financial Officer)

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

I, Matthew Prince, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Cloudflare, Inc. for the fiscal quarter ended June 30, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Cloudflare, Inc.

Date: August 4, 2022

/s/ Matthew Prince
Matthew Prince
Chief Executive Officer
(Principal Executive Officer)

I, Thomas Seifert, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Cloudflare, Inc. for the fiscal quarter ended June 30, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Cloudflare, Inc.

Date: August 4, 2022

/s/ Thomas Seifert
Thomas Seifert
Chief Financial Officer
(Principal Financial Officer)