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 July 31, 2021

or

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

For the transition period from________to________

Commission File Number 001-38069

CLOUDERA, INC.

(Exact name of registrant as specified in its charter)

Delaware	**26-2922329**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer identification no.)**

5470 Great America Parkway
Santa Clara, CA 95054
(650) 362-0488
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.00005 par value	CLDR	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 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	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by checkmark if the registrant has not elected to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act ☐

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

As of August 31, 2021, there were 296,216,908 shares of the registrant's common stock outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CLOUDERA, INC.
Condensed Consolidated Balance Sheets
(in thousands, except share data)

	July 31, 2021	January 31, 2021
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 134,075	$ 298,672
Marketable securities	302,989	297,721
Accounts receivable, net	177,823	316,098
Deferred contract costs	49,347	53,048
Prepaid expenses and other current assets	29,907	32,382
Total current assets	694,141	997,921
Property and equipment, net	15,925	18,065
Marketable securities, non-current	355,684	173,281
Intangible assets, net	537,995	532,630
Goodwill	620,724	599,291
Deferred contract costs, non-current	24,112	31,170
Operating lease right-of-use assets	131,668	146,424
Other assets	10,498	9,819
TOTAL ASSETS	$ 2,390,747	$ 2,508,601
LIABILITIES AND STOCKHOLDERS’ EQUITY		
Current liabilities:		
Accounts payable	$ 1,969	$ 2,713
Accrued compensation	56,463	56,643
Other accrued liabilities	30,331	30,196
Operating lease liabilities	23,152	19,574
Contract liabilities	475,853	553,983
Total current liabilities	587,768	663,109
Long-term debt	485,273	487,089
Operating lease liabilities, non-current	155,446	169,296
Contract liabilities, non-current	44,761	54,414
Other accrued liabilities, non-current	5,350	6,763
TOTAL LIABILITIES	1,278,598	1,380,671
STOCKHOLDERS’ EQUITY:		
Preferred stock, $0.00005 par value; 20,000,000 shares authorized, no shares issued and outstanding as of July 31, 2021 and January 31, 2021	—	—
Common stock $0.00005 par value; 1,200,000,000 shares authorized as of July 31, 2021 and January 31, 2021; 296,212,583 and 291,220,735 shares issued and outstanding as of July 31, 2021 and January 31, 2021, respectively	15	15
Additional paid-in capital	2,835,956	2,776,690
Accumulated other comprehensive (loss) income	(861)	580
Accumulated deficit	(1,722,961)	(1,649,355)
TOTAL STOCKHOLDERS’ EQUITY	1,112,149	1,127,930
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$ 2,390,747	$ 2,508,601

See accompanying notes to condensed consolidated financial statements.

CLOUDERA, INC.
Condensed Consolidated Statements of Operations
(in thousands, except per share data)
(unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Revenue:				
Subscription	$ 213,300	$ 191,522	$ 413,956	$ 378,607
Services	22,757	22,814	46,384	46,189
Total revenue	236,057	214,336	460,340	424,796
Cost of revenue:(1) (2)				
Subscription	25,457	27,929	49,049	56,565
Services	19,516	21,710	39,042	47,315
Total cost of revenue	44,973	49,639	88,091	103,880
Gross profit	191,084	164,697	372,249	320,916
Operating expenses:(1) (2)				
Research and development	70,785	62,304	136,610	126,520
Sales and marketing	110,257	105,760	218,085	218,895
General and administrative	42,895	33,167	84,159	67,842
Total operating expenses	223,937	201,231	438,854	413,257
Loss from operations	(32,853)	(36,534)	(66,605)	(92,341)
Interest (expense) income, net	(3,621)	1,444	(7,104)	3,685
Other income (expense), net	26	980	(674)	(1,517)
Loss before provision for income taxes	(36,448)	(34,110)	(74,383)	(90,173)
Benefit (provision) for income taxes	3,243	(1,887)	777	(3,838)
Net loss	$ (33,205)	$ (35,997)	$ (73,606)	$ (94,011)
Net loss per share, basic and diluted	$ (0.11)	$ (0.12)	$ (0.25)	$ (0.32)
Weighted-average shares used in computing net loss per share, basic and diluted	294,330	300,103	293,447	297,724

(1) Amounts include stock-based compensation expense as follows (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Cost of revenue – subscription	$ 4,162	$ 3,684	$ 8,454	$ 7,676
Cost of revenue – services	2,518	3,004	5,213	6,991
Research and development	22,506	17,057	43,767	36,881
Sales and marketing	16,024	14,031	31,879	29,854
General and administrative	13,339	8,841	27,860	18,653

(2) Amounts include amortization of acquired intangible assets as follows (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Cost of revenue – subscription	$ 2,058	$ 3,080	$ 3,081	$ 6,159
Sales and marketing	16,725	16,596	33,353	33,193

See accompanying notes to condensed consolidated financial statements.

CLOUDERA, INC.
Condensed Consolidated Statements of Comprehensive Loss
(in thousands)
(unaudited)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	**2020**	**2021**	**2020**
Net loss	$ (33,205)	$ (35,997)	$ (73,606)	$ (94,011)
Other comprehensive (loss) income, net of tax:				
Foreign currency translation loss	(662)	(85)	(427)	(921)
Unrealized (loss) gain on investments	(352)	559	(1,014)	1,411
Total other comprehensive (loss) income, net of tax	(1,014)	474	(1,441)	490
Comprehensive loss	$ (34,219)	$ (35,523)	$ (75,047)	$ (93,521)

See accompanying notes to condensed consolidated financial statements.

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CLOUDERA, INC.
Condensed Consolidated Statements of Stockholders' Equity
(in thousands)
(unaudited)

	Three Months Ended July 31, 2021					
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance as of April 30, 2021	293,062	$ 15	$ 2,800,559	$ 153	$ (1,689,756)	$ 1,110,971
Shares issued under employee stock plans	256	—	1,815	—	—	1,815
Shares issued from restricted stock units vesting	4,487	—	—	—	—	—
Shares issued under employee stock purchase plan	709	—	7,789	—	—	7,789
Repurchases of common stock	(847)	—	(10,143)	—	—	(10,143)
Stock-based compensation expense	—	—	58,549	—	—	58,549
Shares withheld related to net settlement of equity awards	(1,454)	—	(22,613)	—	—	(22,613)
Other comprehensive loss	—	—	—	(1,014)	—	(1,014)
Net loss	—	—	—	—	(33,205)	(33,205)
Balance as of July 31, 2021	296,213	$ 15	$ 2,835,956	$ (861)	$ (1,722,961)	$ 1,112,149

	Three Months Ended July 31, 2020					
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance as of April 30, 2020	295,349	$ 15	$ 2,937,795	$ 289	$ (1,544,636)	$ 1,393,463
Shares issued under employee stock plans	7,683	—	25,518	—	—	25,518
Shares issued from restricted stock units vesting	6,244	—	—	—	—	—
Shares issued under employee stock purchase plan	800	—	7,730	—	—	7,730
Stock-based compensation expense	—	—	46,617	—	—	46,617
Shares withheld related to net settlement of equity awards	(842)	—	(9,266)	—	—	(9,266)
Other comprehensive income	—	—	—	474	—	474
Net loss	—	—	—	—	(35,997)	(35,997)
Balance as of July 31, 2020	309,234	$ 15	$ 3,008,394	$ 763	$ (1,580,633)	$ 1,428,539

See accompanying notes to condensed consolidated financial statements.

CLOUDERA, INC.
Condensed Consolidated Statements of Stockholders' Equity
(in thousands)
(unaudited)

	Six Months Ended July 31, 2021					
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance as of January 31, 2021	291,221	$ 15	$ 2,776,690	$ 580	$ (1,649,355)	$ 1,127,930
Shares issued under employee stock plans	626	—	4,062	—	—	4,062
Shares issued from restricted stock units vesting	8,935	—	—	—	—	—
Shares issued under employee stock purchase plan	709	—	7,789	—	—	7,789
Repurchases of common stock	(2,389)	—	(29,088)	—	—	(29,088)
Stock-based compensation expense	—	—	117,173	—	—	117,173
Shares withheld related to net settlement of equity awards	(2,889)	—	(40,670)	—	—	(40,670)
Other comprehensive loss	—	—	—	(1,441)	—	(1,441)
Net loss	—	—	—	—	(73,606)	(73,606)
Balance as of July 31, 2021	296,213	$ 15	$ 2,835,956	$ (861)	$ (1,722,961)	$ 1,112,149

	Six Months Ended July 31, 2020					
	Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount				
Balance as of January 31, 2020	295,168	$ 15	$ 2,923,905	$ 273	$ (1,485,824)	$ 1,438,369
Shares issued under employee stock plans	7,837	—	25,961	—	—	25,961
Shares issued from restricted stock units vesting	12,096	—	—	—	—	—
Shares issued under employee stock purchase plan	800	—	7,730	—	—	7,730
Repurchases of common stock	(3,945)	—	(25,974)	—	—	(25,974)
Stock-based compensation expense	—	—	100,055	—	—	100,055
Shares withheld related to net settlement of equity awards	(2,722)	—	(23,283)	—	—	(23,283)
Other comprehensive income	—	—	—	490	—	490
Cumulative effect of accounting change	—	—	—	—	(798)	(798)
Net loss	—	—	—	—	(94,011)	(94,011)
Balance as of July 31, 2020	309,234	$ 15	$ 3,008,394	$ 763	$ (1,580,633)	$ 1,428,539

See accompanying notes to condensed consolidated financial statements.

CLOUDERA, INC.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Six Months Ended July 31,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (73,606)	$ (94,011)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	40,283	44,939
Non-cash lease expense	21,365	22,692
Stock-based compensation expense	117,173	100,055
Amortization of deferred contract costs	32,935	33,410
Other	2,927	5,126
Changes in assets and liabilities:		
Accounts receivable	138,654	100,340
Prepaid expenses and other assets	2,565	14,628
Deferred contract costs	(22,176)	(22,290)
Accounts payable	(247)	(830)
Accrued compensation	2,757	(6,646)
Other accrued liabilities	(6,723)	(4,279)
Operating lease liabilities	(16,893)	(21,206)
Contract liabilities	(89,002)	(71,123)
Net cash provided by operating activities	150,012	100,805
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities	(478,889)	(273,569)
Proceeds from sale of marketable securities	76,450	104,172
Maturities of marketable securities	210,243	123,710
Cash used in business combinations, net of cash acquired	(56,427)	—
Capital expenditures	(1,937)	(4,430)
Net cash used in investing activities	(250,560)	(50,117)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repurchases of common stock	(29,088)	(25,974)
Principal repayment of debt	(2,500)	—
Taxes paid related to net share settlement of restricted stock units	(40,670)	(23,283)
Proceeds from employee stock plans	9,191	33,639
Net cash used in financing activities	(63,067)	(15,618)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(982)	463
Net (decrease) increase in cash, cash equivalents and restricted cash	(164,597)	35,533
Cash, cash equivalents and restricted cash — Beginning of period	302,024	110,990
Cash, cash equivalents and restricted cash — End of period	$ 137,427	$ 146,523

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Purchases of property and equipment, accrued but not yet paid	$ 6	$ 127
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 2,647	$ 6,060

See accompanying notes to condensed consolidated financial statements.

CLOUDERA, INC.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	As of July 31,	
	2021	2020
Reconciliation of cash, cash equivalents and restricted cash as shown in the statement of cash flows		
Cash and cash equivalents	$ 134,075	$ 143,171
Restricted cash included in Other assets	3,352	3,352
Total cash, cash equivalents and restricted cash	$ 137,427	$ 146,523

See accompanying notes to condensed consolidated financial statements.

CLOUDERA, INC.

Notes to Condensed Consolidated Financial Statements
(*unaudited*)

1. Summary of Business and Significant Accounting Policies

Description of Business

Cloudera, Inc. was incorporated in the state of Delaware on June 27, 2008 and is headquartered in Santa Clara, California. Cloudera is an enterprise data cloud company. We sell software subscriptions and public cloud services for the Cloudera Data Platform (CDP) solution-set and software subscriptions for our traditional on-premises data platforms. Subscriptions include software access rights and technical support. We also provide professional services for the implementation and use of our software subscriptions, machine learning expertise and consultation, training and education services. Our offerings are based predominantly on open source software, utilizing data stored natively in public cloud object stores as well as in various open source data stores. Unless the context requires otherwise, the words "we," "us," "our" and "Cloudera" refer to Cloudera, Inc. and its subsidiaries taken as a whole.

Agreement and Plan of Merger

On June 1, 2021, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Sky Parent Inc., a Delaware corporation ("Parent"), and Project Sky Merger Sub Inc., a Delaware corporation and a wholly owned subsidiary of Parent ("Merger Sub"), pursuant to which, subject to the satisfaction or waiver of the conditions set forth therein, Merger Sub will be merged with and into Cloudera, Inc., with Cloudera, Inc. surviving the merger as a wholly-owned subsidiary of Parent (the "Merger"). Parent and Merger Sub are subsidiaries of investment funds advised by Clayton, Dubilier & Rice, LLC ("CD&R") and Kohlberg Kravis Roberts & Co. L.P. ("KKR"), US-based private equity firms.

Pursuant to the Merger Agreement, at the effective time of the Merger (the "Effective Time"), and as a result of the Merger:

- each share of our common stock, par value $0.00005 per share ("Common Stock") outstanding immediately prior to the Effective Time (subject to certain exceptions, including for shares of Common Stock owned by stockholders who have not voted in favor of the adoption of the Merger Agreement and have properly exercised appraisal rights in accordance with Section 262 of the General Corporation Law of the State of Delaware) will, at the Effective Time, automatically be converted into the right to receive $16.00 in cash (the "Merger Consideration"), subject to applicable withholding taxes;
- each then-outstanding, vested and unexercised option to purchase Common Stock (each a "Company Option") shall be cancelled, with the holder of such Company Option becoming entitled to receive, in full satisfaction of the rights of such holder with respect thereto, an amount in cash, less applicable tax withholdings, equal to the product obtained by multiplying (i) the excess of the Merger Consideration over the per share exercise price of such Company Option, by (ii) the number of shares of Common Stock covered by such Company Option immediately prior to the Effective Time;
- each award of restricted stock units granted under any of our equity incentive plans ("Company Restricted Stock Unit Award") that is outstanding immediately prior to the Effective Time and that vests upon the occurrence of the Effective Time by its terms and without any action by us shall be cancelled, with the holder of such Company Restricted Stock Unit Award becoming entitled to receive, in full satisfaction of the rights of such holder with respect thereto, an amount in cash, less applicable tax withholdings, equal to the product obtained by multiplying (i) the Merger Consideration by (ii) the number of shares of Common Stock covered by such Company Restricted Stock Unit Award immediately prior to the Effective Time; and
- each Company Restricted Stock Unit Award and each performance-based restricted stock unit ("Company Performance Stock Unit Award"), in each case, that is outstanding immediately prior to the Effective Time and that does not vest upon the occurrence of the Effective Time by its terms and without any action by us shall, in each case, be cancelled and be converted into the contractual right to receive a payment in an amount in cash (the "Cash Based Award") equal to the product obtained by multiplying (i) the Merger Consideration by (ii) the number of shares of Company common stock covered by such Company Restricted Stock Unit Award or Company Performance Stock Unit Award immediately prior to the Effective Time (in the case of any Company Performance Stock Unit Award, based on 100% of the shares of Common Stock underlying such award), which Cash Based Award shall be subject to the terms and conditions applicable to such Cash Based Award (except as otherwise provided in the Merger Agreement), including the time-based vesting conditions and any accelerated vesting provisions applicable to such Company Restricted Stock Unit Award or Company Performance Stock Unit Award.

Our board of directors unanimously approved and declared to be in the best interest of the company and its stockholders, the Merger Agreement and the transactions contemplated thereby, including the Merger, and recommended that our stockholders adopt the Merger Agreement. Our stockholders approved the Merger on August 25, 2021.

The total consideration for the Merger is approximately $5.3 billion. Closing of the deal is subject to customary closing conditions, including antitrust approval. Assuming the satisfaction of the remaining conditions set forth in the Merger Agreement, we expect the Merger to close in the second half of 2021.

The Merger Agreement contains certain termination rights for both the Company and Parent. Upon termination of the Merger Agreement under specified circumstances, including with respect to Cloudera’s entry into an agreement with respect to a Superior Proposal, the board of directors of Cloudera changing its recommendation or if Cloudera breaches its representations, warranties or covenants in a manner that would cause the related closing conditions to not be met, Cloudera will be required to pay Parent a termination fee of approximately $171.7 million.

In addition to the foregoing termination rights, and subject to certain limitations, Cloudera or Parent may terminate the Merger Agreement if the Merger is not consummated by March 1, 2022 (the “Termination Date”).

The foregoing description of the Merger Agreement does not purport to be complete and is qualified in its entirety by reference to the Merger Agreement, which was filed as Exhibit 2.1 to our Current Report on Form 8-K filed on June 1, 2021.

The transaction costs associated with the merger were approximately $4.5 million, which were included in general and administrative expense in our condensed consolidated statement of operations for the three and six months ended July 31, 2021.

Basis of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in the United States and the applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting. The condensed consolidated financial statements include the results of Cloudera, Inc. and its wholly owned subsidiaries, which are located in various countries, including the United States, Australia, China, India, Germany, Ireland, The Netherlands, Singapore, Hungary and the United Kingdom. All intercompany balances and transactions have been eliminated upon consolidation. The consolidated balance sheet as of January 31, 2021 has been derived from the audited consolidated financial statements at that date but does not include all of the information and notes required by GAAP for complete financial statements. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. The information contained herein reflects all adjustments necessary for a fair presentation of our results of operations, financial position, stockholders’ equity and cash flows. All such adjustments are of a normal, recurring nature. The results of operations for the three and six months ended July 31, 2021 are not necessarily indicative of results to be expected for the full year ending January 31, 2022 or for any other interim periods or for any other future years.

The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended January 31, 2021, filed with the SEC on March 25, 2021. There have been no material changes in our significant accounting policies as described in our Annual Report on Form 10-K for the year ended January 31, 2021.

Our fiscal year ends on January 31. References to fiscal 2022, for example, refer to the fiscal year ending January 31, 2022.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant items subject to such estimates include the useful lives of property and equipment and intangible assets, allowance for credit losses, stock-based compensation expense, bonus attainment, self-insurance costs incurred, the fair value and useful lives of tangible and intangible assets acquired and liabilities assumed resulting from business combinations, the evaluation for impairment of goodwill, intangible assets and other long-lived assets including operating lease right-of-use assets, the estimated period of benefit for deferred contract costs, estimates related to revenue recognition, such as the assessment of elements in a multi-element arrangement and the value assigned to each element, contingencies, and the incremental borrowing rate used in discounting our lease liabilities. These estimates and assumptions are based on management's best estimates and judgment. Management regularly evaluates its estimates and assumptions using historical experience and other factors; however, actual results could differ significantly from these estimates.

Segments

We operate as two operating segments – subscription and services. Operating segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the chief operating decision maker, who is our chief executive officer, in deciding how to allocate resources and assess performance.

Concentrations of Credit Risk and Significant Customers

Financial instruments that subject us to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, restricted cash and accounts receivable. Our cash is deposited with high credit quality financial institutions. At times, such deposits may be in excess of the Federal Depository Insurance Corporation insured limits. We have not experienced any losses on these deposits.

Our trade receivables are recorded at the invoice amount, net of an allowance for credit losses, which is not material. The allowance for credit losses reflects our best estimate of probable losses inherent in the receivable portfolio determined based on various factors including historical experience, credit quality of the customer, current economic conditions and management's expectations of future economic conditions. Receivables are written-off and charged against the recorded allowance when we have exhausted collection efforts without success.

We had one customer accounting for more than 10% of accounts receivable at July 31, 2021 and January 31, 2021. For each of the three and six months ended July 31, 2021 and 2020, no single customer accounted for 10% or more of revenue.

Recently Adopted Accounting Standard

We adopted the accounting standard updated (ASU) 2020-08 *Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs* as of February 1, 2021. The adoption of the accounting standard did not have a material impact on our condensed consolidated financial statements as of and for the three and six months ended July 31, 2021.

2. Revenue from Contracts with Customers

Significant changes in our contract liabilities during the period ended July 31, 2021 are as follows (in thousands):

	Contract Liabilities
January 31, 2021	$ 608,397
Performance obligations satisfied during the period that were included in the contract liability balance at the beginning of the period	(188,443)
Increases due to invoicing prior to satisfaction of performance obligations	129,055
April 30, 2021	$ 549,009
Performance obligations satisfied during the period that were included in the contract liability balance at the beginning of the period	(200,148)
Increases due to invoicing prior to satisfaction of performance obligations	171,753
July 31, 2021	$ 520,614

Remaining Performance Obligations

The transaction price allocated to remaining performance obligations represents contracted revenue that has been billed but not recognized, and unbilled non-cancelable amounts that will be recognized as revenue in future periods. Transaction price allocated to the remaining performance obligation is influenced by several factors, including seasonality, the timing of renewals and average contract terms.

During the three and six months ended July 31, 2021, net revenue recognized from our remaining performance obligations satisfied in previous periods was not material.

As of July 31, 2021, approximately $865.1 million of revenue is expected to be recognized from remaining performance obligations in the amount of approximately $617.4 million over the next 12 months and approximately $247.7 million thereafter.

Contract Assets

Contract assets consist of the right to consideration in exchange for product offerings that we have transferred to a customer when that right is conditional on something other than the passage of time (e.g., performance prior to invoicing on fixed fee service arrangements with substantive acceptance terms). We record unbilled accounts receivable related to revenue recognized in excess of amounts invoiced as we have an unconditional right to invoice and receive payment in the future related to those fulfilled obligations. As of July 31, 2021 and January 31, 2021, contract assets were $2.7 million and $5.0 million, respectively, which are included in prepaid expenses and other current assets.

3. Business Combinations

In June 2021, we acquired 100% voting interest in Cazena, Inc. and Datacoral, Inc. for aggregate cash consideration of $57.8 million. The acquisitions were made to further accelerate innovation in our Cloudera offerings. The purchase consideration of $57.8 million has been preliminarily allocated primarily to intangible assets and goodwill of $41.8 million and $21.4 million, respectively. The intangible assets are being amortized over their respective useful lives ranging from 4 to 5 years. The transaction costs associated with both acquisitions were not material and were included in general and administrative expense in our condensed consolidated statement of operations for the three and six months ended July 31, 2021. The results of operations for both business combinations have been included in our consolidated statements of operations from the acquisition date and were not material.

4. Cash Equivalents and Marketable Securities

The following are the fair values of our cash equivalents and marketable securities as of July 31, 2021 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Cash equivalents:				
Money market funds	$ 43,237	$ —	$ —	$ 43,237
Marketable securities:				
U.S. agency obligations	46,984	24	(2)	47,006
Corporate notes and obligations	350,890	476	(97)	351,269
Commercial paper	47,062	11	—	47,073
Municipal securities	85,741	187	(131)	85,797
Certificates of deposit	95,503	37	(7)	95,533
U.S. treasury securities	31,982	13	—	31,995
Total cash equivalents and marketable securities	$ 701,399	$ 748	$ (237)	$ 701,910

The following are the fair values of our cash equivalents and marketable securities as of January 31, 2021 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Cash equivalents:				
Money market funds	$ 186,127	$ —	$ —	$ 186,127
Certificates of deposit	4,000	—	—	4,000
Marketable securities:				
U.S. agency obligations	68,972	76	(4)	69,044
Asset-backed securities	2,901	2	—	2,903
Corporate notes and obligations	210,321	1,215	(72)	211,464
Commercial paper	48,212	19	(6)	48,225
Municipal securities	40,031	213	(5)	40,239
Certificates of deposit	60,749	53	—	60,802
U.S. treasury securities	38,291	34	—	38,325
Total cash equivalents and marketable securities	$ 659,604	$ 1,612	$ (87)	$ 661,129

The contractual maturities of investments in available-for-sale securities were as follows (in thousands):

	July 31, 2021		January 31, 2021	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	$ 346,010	$ 346,226	$ 487,201	$ 487,848
Due after one year through five years	355,389	355,684	172,403	173,281
Total cash equivalents and marketable securities	$ 701,399	$ 701,910	$ 659,604	$ 661,129

The unrealized loss for each of these fixed rate marketable securities was not material as of July 31, 2021 and January 31, 2021. The unrealized losses on these investments were primarily due to changes in market interest rates. We expect to receive the full principal and interest on all of these marketable securities and have the ability and intent to hold these investments until a recovery of fair value. We determined that no allowance for credit losses related to our marketable securities was required for the three and six months ended July 31, 2021 and 2020.

Realized gains and realized losses on our cash equivalents and marketable securities are included in other income (expense), net on the condensed consolidated statement of operations and were not material for the three and six months ended July 31, 2021 and 2020.

Reclassification adjustments out of accumulated other comprehensive income into net loss were not material for the three and six months ended July 31, 2021 and 2020.

5. Fair Value Measurement

Our financial assets and liabilities consist principally of cash and cash equivalents, marketable securities, accounts receivable and accounts payable. We measure and record certain financial assets and liabilities at fair value on a recurring basis. The estimated fair value of accounts receivable and accounts payable approximates their carrying value due to their short-term nature. Cash equivalents and marketable securities are recorded at estimated fair value.

All of our cash equivalents and marketable securities are classified within Level 1 or Level 2 because the cash equivalents and marketable securities are valued using quoted market prices or alternative pricing sources and models utilizing observable market inputs.

We follow a three-level valuation hierarchy for disclosure of fair value measurements as follows:

Level 1 Inputs are unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 Inputs (other than quoted market prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level 3 Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table represents our financial assets and liabilities according to the fair value hierarchy, measured at fair value as of July 31, 2021 (in thousands):

	Level 1	Level 2	Total
Financial assets			
Money market funds	$ 43,237	$ —	$ 43,237
U.S. agency obligations	—	47,006	47,006
Corporate notes and obligations	—	351,269	351,269
Commercial paper	—	47,073	47,073
Municipal securities	—	85,797	85,797
Certificates of deposit	—	95,533	95,533
U.S. treasury securities	—	31,995	31,995
Total financial assets	$ 43,237	$ 658,673	$ 701,910

The following table represents our financial assets according to the fair value hierarchy, measured at fair value as of January 31, 2021 (in thousands):

	Level 1	Level 2	Total
Financial assets			
Money market funds	$ 186,127	$ —	$ 186,127
U.S. agency obligations	—	69,044	69,044
Asset-backed securities	—	2,903	2,903
Corporate notes and obligations	—	211,464	211,464
Commercial paper	—	48,225	48,225
Municipal securities	—	40,239	40,239
Certificates of deposit	—	64,802	64,802
U.S. treasury securities	—	38,325	38,325
Total financial assets	$ 186,127	$ 475,002	$ 661,129

We value our Level 1 assets using quoted prices in active markets for identical instruments. We value our Level 2 assets with the help of a third-party pricing service using quoted market prices for similar instruments, non-binding market prices that are corroborated by observable market data, or pricing models such as discounted cash flow techniques. We use such pricing data as the primary input, to which we have not made any material adjustments during the periods presented, to make our determination and assessments as to the ultimate valuation of these assets.

Our foreign currency forward contract liabilities and assets are classified within Level 2 in the fair value hierarchy as the valuation inputs are based on quoted prices and market observable data of similar instruments in active markets, including currency spot and forward rates. The fair value of these contracts were not material as of July 31, 2021.

We have no Level 1 or 3 liabilities and no Level 3 assets measured on a recurring basis.

Assets Measured at Fair Value on a Nonrecurring Basis

Certain of our long-lived assets, including intangible assets, goodwill, and operating lease right-of-use assets are measured at fair value on a nonrecurring basis when there are indicators of impairment. There were no material impairment charges recognized during the three and six months ended July 31, 2021, and 2020.

6. Goodwill and Intangible Assets

Goodwill

The following table represents the changes to goodwill (in thousands):

Balance at January 31, 2021	$	599,291
Acquisitions		21,433
Balance at July 31, 2021	$	620,724

Intangible Assets

Intangible assets consisted of the following as of July 31, 2021 (in thousands):

		Gross Fair Value		Accumulated Amortization		Net Book Value	Weighted Average Remaining Useful Life (in years)
Developed technology	$	51,615	$	(7,740)	$	43,875	4.7
Customer relationships and other acquired intangible assets		665,946		(171,826)		494,120	7.4
Total	$	717,561	$	(179,566)	$	537,995	7.2

Intangible assets consisted of the following as of January 31, 2021 (in thousands):

		Gross Fair Value		Accumulated Amortization		Net Book Value	Weighted Average Remaining Useful Life (in years)
Developed technology	$	22,770	$	(14,814)	$	7,956	3.3
Customer relationships and other acquired intangible assets		671,947		(147,273)		524,674	7.9
Unbilled contracts		18,300		(18,300)		—	—
Total	$	713,017	$	(180,387)	$	532,630	7.8

Amortization expense for intangible assets was $18.8 million and $19.7 million for the three months ended July 31, 2021 and 2020, respectively, and $36.4 million and $39.4 million for the six months ended July 31, 2021 and 2020, respectively.

The expected future amortization expense of these intangible assets as of July 31, 2021 is as follows (in thousands):

Remaining six months of fiscal 2022	$	39,245
fiscal 2023		76,387
fiscal 2024		75,876
fiscal 2025		75,786
fiscal 2026		74,927
fiscal 2027 and thereafter		195,774
Total amortization expense	$	537,995

7. Derivative Contracts

We generate revenues and incur expenses in numerous currencies and are exposed to foreign currency risk. To mitigate the impact of changes in foreign currency rates, we execute foreign currency forward contracts to offset the gains and losses on foreign currency denominated monetary assets and liabilities. The duration of our foreign currency forward contracts is less than 12 months. We do not enter into any derivatives for trading or speculative purposes.

We recorded immaterial losses in both the three and six months ended July 31, 2021 and losses of $0.5 million and $1.0 million for the three and six months ended July 31, 2020, respectively. These losses were recorded in other expense, net within our condensed consolidated statements of operations and are reported as part of other adjustments to reconcile net loss to net cash provided by operating activities in the condensed consolidated statements of cash flows. As of July 31, 2021 and January 31, 2021, we had outstanding foreign currency forward contracts not designated as hedges with a total notional value of $32.1 million and $18.7 million, respectively.

8. Balance Sheet Components

Property and Equipment, Net

The cost and accumulated depreciation of property and equipment are as follows (in thousands):

	As of	
	July 31, 2021	January 31, 2021
Computer equipment and software	$ 25,905	$ 24,974
Office furniture and equipment	13,143	13,352
Leasehold improvements	19,557	24,719
Property and equipment, gross	58,605	63,045
Less: accumulated depreciation	(42,680)	(44,980)
Property and equipment, net	$ 15,925	$ 18,065

Depreciation expense was $1.8 million and $2.7 million for the three months ended July 31, 2021 and 2020, respectively, and $3.8 million and $5.6 million the six months ended July 31, 2021 and 2020, respectively.

Accrued Compensation

Accrued compensation consists of the following (in thousands):

	As of	
	July 31, 2021	January 31, 2021
Accrued salaries, benefits and commissions	$ 22,621	$ 22,538
Accrued bonuses	16,723	14,956
Accrued compensation-related taxes	13,182	10,834
Employee stock purchase plan (ESPP) withholdings[(1)]	—	2,634
Other[(2)]	3,937	5,681
Total accrued compensation	$ 56,463	$ 56,643

(1) As part of the planned merger discussed in Note 1, our ESPP was suspended after our latest offering period ended June 21, 2021.

(2) Other consists primarily of amounts owed for employment-related benefits.

Other Accrued Liabilities

Other accrued liabilities consist of the following (in thousands):

	As of	
	July 31, 2021	**January 31, 2021**
Accrued professional costs	$ 6,131	$ 3,790
Current portion of debt	3,616	3,610
Accrued taxes	3,262	5,596
Accrued self-insurance costs	4,041	4,720
Acquisition related holdback and retention payments (1)	3,492	3,368
Other (2)	9,789	9,112
Total other accrued liabilities	$ 30,331	$ 30,196

(1) Business combination related payments held by Cloudera for indemnification and retention purposes.

(2) Other relates primarily to amounts owed to third-party vendors that provide marketing, cloud-computing services, and travel related services.

9. Debt

On December 22, 2020, we entered into a senior secured credit agreement (the “Credit Agreement”). The Credit Agreement provides for a seven years senior secured institutional term loan "B" for an aggregate principal amount of $500.0 million (the "Term Loan"). The Term Loan amortizes at a per annum rate equal to 1.0% payable quarterly, with the balance payable at maturity on December 22, 2027. The proceeds of the Term Loan will be used for general corporate purposes, including to fund repurchases of our common stock and to pay transaction costs and expenses in connection therewith.

At our option, the Term Loan will bear interest at a per annum rate equal to a Eurocurrency Rate plus 2.50% or a Base Rate plus 1.50%, both subject to a 3.25% floor. As of July 31, 2021, the Term Loan is bearing interest at a per annum rate of 3.25%. During three and six months ended July 31, 2021, we recognized interest expense of $4.1 million and $8.2 million, respectively.

The Credit Agreement contains usual and customary representations and warranties, optional and mandatory prepayment provisions, and affirmative and negative covenants, including limitations on liens, investments, restricted payments, additional indebtedness, transactions with affiliates and asset sales and mergers. The Credit Agreement does not contain any financial covenants. Our obligations under the Credit Agreement may be accelerated upon customary events of default, including non-payment of principal, interest, fees and other amounts, inaccuracy of representations and warranties, violation of covenants, cross default and cross acceleration to material third party indebtedness, voluntary and involuntary bankruptcy or insolvency proceedings, inability to pay debts as they become due, material judgments, ERISA events, actual or asserted invalidity of security documents or guarantees and change in control.

We incurred debt discount and issuance costs of approximately $9.5 million in connection with obtaining our Term Loan. These debt discount and issuance costs are amortized on a straight-line basis, which approximates the effective interest rate method, to interest expense over the contractual term of the arrangement. Amortization of debt discount and issuance costs during the three and six months ended July 31, 2021 were immaterial.

As of July 31, 2021, the Term Loan had a carrying value of $488.9 million, of which $3.6 million is classified as current and recorded in other accrued liabilities and $485.3 million is classified as non-current on the condensed consolidated balance sheet.

As of July 31, 2021, the expected future principal payments under the Term Loan are due as follows (in thousands):

Remaining six months of fiscal 2022	$	2,500
2023		5,000
2024		5,000
2025		5,000
2026		5,000
2027 and thereafter		475,000
Total	$	497,500

10. Leases

We have entered into various non-cancelable operating lease agreements for our facilities. Our leases have various expiration dates through September 2031. Many leases include one or more options to renew. We do not assume renewals in our determination of the lease term unless the renewals are deemed to be reasonably assured at lease commencement.

Operating lease right-of-use assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The lease term is determined to be the non-cancelable period including any lessee renewal options which are considered to be reasonably certain of exercise. The interest rate implicit in the lease contracts is typically not readily determinable. As such, we utilized the appropriate incremental borrowing rate based on information available at the commencement date, which is the rate incurred to borrow on a collateralized basis over a similar term in a similar economic environment.

Components of lease expense are summarized as follows (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Operating lease cost	$ 10,314	$ 11,391	$ 21,365	$ 22,692
Short-term lease cost	386	480	713	959
Sublease income	(3,478)	(3,605)	(7,057)	(7,527)
Net lease cost	$ 7,222	$ 8,266	$ 15,021	$ 16,124

Lease term and discount rate information are summarized as follows:

	As of	
	July 31, 2021	January 31, 2021
Weighted Average Remaining Lease Term (years)	5.7	6.1
Weighted Average Discount Rate	6.0 %	5.9 %

Maturities of lease liabilities as of July 31, 2021 are as follows (in thousands):

		Minimum Lease Payments, Gross
Remaining six months of fiscal 2022	$	13,363
fiscal 2023		38,830
fiscal 2024		38,304
fiscal 2025		36,853
fiscal 2026		32,890
fiscal 2027 and thereafter		52,754
Total lease payments	$	212,994
Less imputed interest		(34,396)
Present value of lease liabilities	$	178,598

We expect to receive sublease rental proceeds of $5.8 million in the next six months of fiscal 2022 and $28.6 million thereafter.

There were no material lease related right-of-use asset impairment losses in the three and six months ended July 31, 2021 or 2020.

11. Commitments and Contingencies

Letters of Credit

As of July 31, 2021 and January 31, 2021, we had a total of $19.0 million and $19.4 million, respectively, in letters of credit outstanding in favor of certain landlords for office space. These letters of credit renew annually and expire at various dates through 2027.

Legal Proceedings

On June 7, 2019, a purported class action complaint was filed in the United States District Court for the Northern District of California, entitled *Christie v. Cloudera, Inc., et al.*, Case No. 5:19-cv-3221-LHK. The complaint named as defendants Cloudera, its former Chief Executive Officer, its Chief Financial Officer and a former officer and director, asserting alleged class claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (Exchange Act) and SEC Rule 10b-5. Two substantially similar class action complaints, entitled *Zarantonello v. Cloudera, Inc., et al.*, Case No. 5:19-cv-4007-LHK, and *Dvornic v. Cloudera, Inc., et al.*, Case No. 5:19-cv-4310-LHK, were subsequently filed against the same defendants in the same court on July 12, 2019 and July 26, 2019, respectively. The suits have been consolidated under the name, *In re Cloudera, Inc. Securities Litigation*, Case No. 5:19-cv-3221-LHK. The court subsequently appointed lead plaintiffs and lead counsel, and a consolidated complaint was filed on February 14, 2020. On March 18, 2020, the court vacated its prior order appointing lead plaintiffs and lead counsel and reopened the lead plaintiff process. On July 27, 2020, the court appointed new lead plaintiffs and lead counsel. On September 22, 2020, lead plaintiffs filed a consolidated amended complaint. The consolidated amended complaint asserted claims against Cloudera and four individual defendants under Sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5, based on allegedly false and misleading statements between April 28, 2017 and June 5, 2019. The consolidated amended complaint also asserted claims against Cloudera, Intel Corporation, and fourteen current and former officers and directors under the Securities Act of 1933, on behalf of all persons who acquired Cloudera stock pursuant or traceable to the S-4 registration statement filed in connection with Cloudera's January 2019 merger with Hortonworks, and alleged that the registration statement contained untrue statements of material fact and omitted material facts. On April 2, 2021, the Court denied a motion filed by two additional plaintiffs seeking permission to file an additional class action complaint alleging claims under the Securities Act of 1933. On May 25, 2021, the Court granted defendants' motions to dismiss the consolidated amended complaint with leave to amend. On June 24, 2021, plaintiffs filed their consolidated second amended complaint, asserting the same claims against the same defendants as in their previous complaint. On August 5, 2021, defendants filed their motion to dismiss. A hearing on that motion is scheduled for December 9, 2021.

On June 7, 2019, a purported class action complaint was filed in the Superior Court of California, County of Santa Clara, entitled *Lazard v. Cloudera, Inc., et al*., Case No. 19CV348674. The complaint named as defendants Cloudera, thirteen individuals who are current or former directors or officers of Cloudera, and Intel Corporation. Two substantially similar suits, entitled *Franchi v. Cloudera, Inc., et a*l., Case No. 19CV348790, and *Cannizzo v. Cloudera, Inc*., et al., Case No. 19CV348974, were subsequently filed in the same court on June 11, 2019 and June 14, 2019, respectively. The suits have been consolidated under the name *In re Cloudera, Inc. Securities Litigation*, Lead Case No. 19CV348674 and the consolidated amended complaint purports to assert claims under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 on behalf of all persons who acquired Cloudera stock pursuant or traceable to the S-4 registration statement filed in connection with Cloudera's January 2019 merger with Hortonworks. The consolidated amended complaint alleges that the registration statement contained untrue statements of material fact and omitted material facts. Plaintiffs seek, among other things, an award of damages and attorneys' fees and costs. On July 1, 2020, the court overruled Cloudera's demurrer to the consolidated amended complaint. On August 18, 2020, a purported shareholder class action captioned *Stahl v. Cloudera, Inc., et al.*, Case No. 20CV369480 was filed in the Superior Court of California, County of Santa Clara, and was subsequently consolidated into the lead case. On November 5, 2020, the court entered a stipulated order certifying a class consisting of all persons who acquired Cloudera common stock in exchange for Hortonworks securities pursuant to the registration statement and prospectus issued in connection with Cloudera's January 2019 merger and acquisition of Hortonworks. A further case management conference is currently scheduled for October 13, 2021. Cloudera believes that the allegations in the lawsuits are without merit.

On July 30, 2019, a purported shareholder derivative complaint was filed in the United States District Court for the District of Delaware, entitled *Lee, et al. v. Cole, et al*., Case No. 1:19-cv-01422-LPS. The complaint names as defendants eleven individuals who are current or former directors or officers of Cloudera, names Cloudera as a nominal defendant, and purports to assert claims on Cloudera's behalf against the individual defendants for breach of fiduciary duty, unjust enrichment, and alleged violation of Sections 10(b) and 20(a) of the Exchange Act. On September 5, 2019, a purported shareholder derivative complaint was filed in the United States District Court for the District of Delaware, entitled *Slattery v. Reilly, et* al., Case No. 1:19-cv-01662-LPS. The complaint names as defendants thirteen individuals who are current or former directors or officers of Cloudera, names Cloudera as a nominal defendant, and purports to assert claims on Cloudera's behalf against the individual defendants for breach of fiduciary duty, unjust enrichment, and alleged violations of Section 10(b), 14 and 20(a) of the Exchange Act. On October 16, 2019, a purported shareholder derivative complaint was filed in the United States District Court for the District of Delaware, entitled *Frentzel v. Bearden, et al*., Case No. 1:19-cv-01962-LPS. The complaint names as defendants thirteen individuals who are current or former directors or officers of Cloudera, and names Cloudera as a nominal defendant. The complaint purports to assert claims on Cloudera's behalf against the individual defendants for breach of fiduciary duty, alleged violations of Section 14 of the Exchange Act, insider selling and misappropriation of information. All three derivative actions are based on allegations that are substantially similar to those in the class actions filed in the United States District Court for the Northern District of California, described above. All three derivative actions seek, among other things, an award of damages on behalf of Cloudera, corporate governance reforms and attorneys' fees and costs. The *Slattery* and *Frentzel* actions additionally seek disgorgement on behalf of Cloudera. The suits have been consolidated under the name, *In re Cloudera, Inc. Stockholder Derivative Litigation*, Case No. 1:19-cv-01422-LPS. A consolidated amended complaint has not yet been filed and the case is currently stayed.

On September 3, 2019, a purported shareholder derivative complaint was filed in the United States District Court for the Northern District of California, entitled *Chen v. Reilly, et al*., Case No. 5:19-cv-05536-LHK. That complaint names as defendants thirteen individuals who are current or former directors or officers of Cloudera, names Cloudera as a nominal defendant, and purports to assert claims on Cloudera's behalf against the individual defendants for breach of fiduciary duty, unjust enrichment, waste of corporate assets, and alleged violation of Section 14(a) of the Exchange Act. On September 10, 2019, a purported shareholder derivative complaint that is substantially similar to the *Chen* action and is brought against the same defendants, was filed in the United States District Court for the Northern District of California, entitled *Fu v. Reilly, et al*., Case No. 5:19-cv-05705-LHK. Both derivative actions are based on allegations that are substantially similar to those in the class actions filed in the United States District Court for the Northern District of California, described above. Both derivative actions seek, among other things, an award of damages on behalf of Cloudera, corporate governance reforms and attorneys' fees and costs. The suits have been consolidated under the name, *In re Cloudera, Inc. Derivative Litigation*, Case No. 5:19-cv-05536-LHK. A consolidated amended complaint has not yet been filed, and the case is currently stayed.

Between July 9, 2021, and August 11, 2021, twelve purported stockholders of Cloudera commenced actions in the United States District Courts for the Southern District of New York, Northern District of California, Eastern District of New York, District of Delaware, and Eastern District of Pennsylvania. The twelve actions are captioned *Wang v. Cloudera, Inc., et al.*, Case No. 1:21-cv-05924 (S.D.N.Y.), *Whitfield v. Cloudera, Inc.*, *et al.*, Case No. 1:21-cv-06041 (S.D.N.Y.), *Muniz v. Cloudera, Inc., et al.*, Case No. 1:21-cv-06026 (S.D.N.Y.), *Bercovici v. Cloudera, Inc., et al.*, Case No. 3:21-cv-05457 (N.D. Cal.), *Raffo v. Cloudera, Inc., et al.*, Case No. 1:21-cv-06126 (S.D.N.Y.), *Kortis v. Cloudera, Inc., et al.*, Case No. 1:21-

cv-04064 (E.D.N.Y.), *Morgan v. Cloudera, Inc., et al.*, Case No. 1:21-cv-01137 (D. Del.), *Palkon v. Cloudera, Inc., et al.*, Case No. 5:21-cv-06040 (N.D. Cal.), *Justice v. Cloudera, Inc., et al.*, Case No. 2:21-cv-03498 (E.D. Pa.), *Christopher v. Cloudera, Inc. et al.*, Case No. 1:21-cv-06661 (S.D.N.Y.), *Shumacher v. Cloudera, Inc., et al.*, Case No. 1:21-cv-06708 (S.D.N.Y.), and *Jones v. Cloudera, Inc., et al.*, Case No. 5:21-cv-06177 (N.D. Cal.). The complaints name Cloudera and the members of the Cloudera board of directors as defendants. The complaints assert claims under Section 14(a) and Section 20(a) of the Exchange Act challenging the adequacy of the disclosures relating to the proposed acquisition of Cloudera by affiliates of CD&R and KKR made in the Preliminary Proxy Statement and Definitive Proxy Statement filed with SEC on July 7, 2021, and July 19, 2021, respectively. The complaints seek, among other relief, an injunction preventing the parties from consummating the proposed transaction, damages in the event the transaction is consummated, and an award of attorneys' fees. Cloudera believes that no further disclosure was required to supplement the Definitive Proxy Statement under applicable laws. However, to minimize the expense and distraction of responding to such actions, Cloudera provided additional disclosures related to the proposed acquisition and transactions related thereto, which were filed with the SEC on August 18, 2021. Nothing in the supplemental disclosures should be deemed an admission of the legal necessity or materiality of any of the supplemental disclosures.

On August 20 and August 24, 2021, two stockholders of Cloudera commenced actions in the Court of Chancery for the State of Delaware under Section 220 of the Delaware General Corporation Law. The two actions are captioned *Local 464A United Food and Commercial Workers Union Pension Fund v. Cloudera, Inc.*, C.A. No. 2021-0716 (Del. Ch.), and *Teamsters Local 677 Health Services & Insurance Plan v. Cloudera, Inc.*, C.A. No. 2021-0726 (Del. Ch.). The complaints name Cloudera as the defendant and seek to inspect certain of Cloudera's books and records related to the proposed acquisition of Cloudera beyond the books and records Cloudera has already provided, or already agreed to provide, to the stockholders in response to written demands sent to Cloudera on July 30, 2021, and August 13, 2021. Each stockholder moved for expedited proceedings in connection with its complaint. As of August 31, 2021, the Court has not yet ruled on plaintiffs' motions for expedited proceedings and schedules for further proceedings have not been entered.

In the ordinary course of business, we are or may be involved in a variety of litigation matters, suits, investigations, and proceedings, including actions with respect to intellectual property claims, government investigations, labor and employment claims, breach of contract claims, tax, and other matters. Regardless of the outcome, these litigation matters can have an adverse impact on us because of defense costs, diversion of management resources, harm to reputation, and other factors. Future litigation may be necessary to defend ourselves, or our customers or partners on indemnity matters, by determining the scope, enforceability and validity of third-party proprietary rights or by establishing our proprietary rights. Further, the ultimate outcome of any litigation is uncertain and, regardless of outcome, litigation can have an adverse impact on us because of defense costs, potential negative publicity, diversion of management resources and other factors. While we are not aware of other pending legal matters or claims, individually or in the aggregate, that are expected to have a material adverse impact on our business, consolidated financial position, results of operations or cash flows, our analysis of whether a claim may proceed to litigation cannot be predicted with certainty, nor can the results of litigation be predicted with certainty. Accordingly, there can be no assurance that existing or future legal proceedings arising in the ordinary course of business or otherwise will not have a material adverse effect on our business, consolidated financial position, results of operations or cash flows in a particular period or subject us to an injunction that could seriously harm our business.

We record a provision for contingent losses when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. With respect to our outstanding legal matters, our management believes that the amount or estimable range of possible loss will not, either individually or in the aggregate, have a material adverse effect on our business, consolidated financial position, results of operations, or cash flows. However, the outcome of litigation is inherently uncertain. Therefore, if one or more of these legal matters were resolved against us for amounts in excess of management's expectations, our results of operations and financial condition including in a particular reporting period, could be materially adversely affected.

Indemnification

From time to time, we enter into certain types of contracts that contingently require us to indemnify various parties against claims from third parties. These contracts primarily relate to (i) certain real estate leases under which we may be required to indemnify property owners for environmental and other liabilities and other claims arising from our use of the applicable premises, (ii) our amended and restated bylaws, under which we must indemnify directors and executive officers, and may indemnify other officers and employees, for liabilities arising out of their relationship with us, (iii) contracts under which we must indemnify directors and certain officers for liabilities arising out of their relationship with us, (iv) contracts under which we may be required to indemnify customers or partners against certain claims, including claims from third parties asserting, among other things, infringement of their intellectual property rights, and (v) procurement, consulting, or license agreements under which we may be required to indemnify vendors, consultants or licensors for certain claims, including claims that may be brought against them arising from our acts or omissions with respect to the supplied products, technology or services. From time to time, we may receive indemnification claims under these contracts in the normal course of business. In addition, under these contracts we may have to modify the accused infringing intellectual property and/or refund amounts received.

In the event that one or more of these matters were to result in a claim against us, an adverse outcome, including a judgment or settlement, may cause a material adverse effect on our future business, operating results or financial condition. It is not possible to determine the maximum potential amount under these contracts due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement.

We maintain director and officer insurance, which may cover certain liabilities arising from our obligation to indemnify our directors and certain officers.

To date, we have not incurred any material costs, and have not accrued any material liabilities in the condensed consolidated financial statements as a result of these provisions.

12. Common Stock Repurchases

Our board of directors have authorized share repurchases of up to $600.0 million of our outstanding shares of common stock. For the three months ended July 31, 2021, we used $10.2 million to repurchase 0.8 million shares of common stock at an average repurchase price of $11.97 per share under the repurchase program. For the six months ended July 31, 2021, we used $29.1 million to repurchase 2.4 million shares of common stock at an average repurchase price of $12.18. For both three and six months ended July 31, 2020, we used $26.0 million to repurchase 3.9 million shares of common stock at an average repurchase price of $6.56 per share under the repurchase program. As of July 31, 2021, there was approximately $230.8 million of authorized funds remaining under the repurchase programs. Pursuant to the Merger Agreement discussed in Note 1, our share purchase programs have been suspended since June 1, 2021.

Under the share repurchase programs, shares could be repurchased through open market purchases, block trades and/or privately negotiated transactions in compliance with Rule 10b-18 promulgated under the Exchange Act, subject to market conditions, applicable legal requirements, and other relevant factors. Repurchases could also be made under Rule 10b5-1 plans, which permit shares of common stock to be repurchased through pre-determined criteria. The timing, volume and nature of any repurchases would be at the discretion of our management based on their evaluation of our capital needs, market conditions, applicable legal requirements and other factors. The programs do not have an expiration date and could be suspended or discontinued at any time and do not obligate us to repurchase any shares.

13. Stock-Based Compensation

We maintain two stock-based compensation plans: the 2017 Equity Incentive Plan (2017 Plan) and the 2008 Equity Incentive Plan (2008 Plan), collectively referred to as the Stock Plans. We do not expect to grant any additional awards under the 2008 Plan. Outstanding awards under the 2008 Plan continue to be subject to the terms and conditions of the 2008 Plan.

The number of shares reserved for issuance under our 2017 Plan increases automatically on the first day of February of each calendar year during the term of the 2017 Plan by a number of shares of common stock equal to the lesser of (i) 5% of the total outstanding shares of our common stock as of the immediately preceding January 31 or (ii) a number of shares determined by our board of directors. On February 1, 2021, the number of shares reserved for issuance under the 2017 Plan increased automatically by 14,561,036 additional shares. As of July 31, 2021, there were 23,307,369 shares of common stock reserved and available for future issuance under the Stock Plans.

On June 1, 2021, we entered into a definitive agreement to be acquired by affiliates of CD&R and KKR. See Note 1 for details of the merger and description of resulting changes to our equity award programs and the treatment of our outstanding equity awards upon the closing of the merger.

Stock Options

The following table summarizes stock option activity and related information under the Stock Plans:

	Options Outstanding			
	Number of Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Balance — January 31, 2021	3,383	$ 9.27	3.0	$ 21,982
Exercised	(626)	6.49	—	—
Canceled	(139)	17.06	—	—
Balance — July 31, 2021	2,618	$ 9.52	2.7	$ 17,642

Restricted Stock Units (RSUs)

The following table summarizes RSUs activity and related information under the Stock Plans:

	RSUs Outstanding	
	Number of Shares (in thousands)	Weighted-Average Grant Date Fair Value Per Share
Balance — January 31, 2021	34,764	$ 11.91
Granted	8,345	15.78
Canceled	(2,642)	12.28
Vested and converted to shares	(8,935)	12.17
Balance — July 31, 2021	31,532	$ 12.83

The unamortized stock-based compensation expense for RSUs of $372.4 million as of July 31, 2021 will be recognized over the weighted average remaining vesting period of 2.2 years.

Performance Restricted Stock Units (PRSUs)

In February 2021, our Compensation Committee authorized the granting of PRSUs to certain executive officers under the 2017 Plan. The PRSUs will vest based on Cloudera's achievement of certain performance goals during the performance period commencing on February 1, 2021 and ending on January 31, 2024. Upon achievement of performance goals, up to 1/6th of the PRSUs shall vest each half fiscal year subject to the executive's continued service to Cloudera on the last day of the applicable half fiscal year. The number of PRSUs that will ultimately vest and be converted into shares of common stock will depend on Cloudera's: (i) EBITDA excluding stock-based compensation; and (ii) Revenue.

During the six months ended July 31, 2021, 2.2 million shares of PRSUs were granted at a weighted average grant date fair value of $17.29 per share. All shares were outstanding at July 31, 2021. The unamortized stock-based compensation expense for PRSUs of $32.2 million as of July 31, 2021 will be recognized over the weighted average remaining vesting period of 1.5 years.

Employee Stock Purchase Plan

In March 2017, we adopted our 2017 Employee Stock Purchase Plan (ESPP). Each offering period consists of a six-month purchase period (commencing each June 21 and December 21).

We initially reserved 3,000,000 shares of our common stock for issuance under our ESPP. The number of shares reserved for issuance under our ESPP increases automatically on February 1 of each of the first 10 calendar years following the first offering date by the number of shares equal to the lesser of (i) 1% of the total outstanding shares of our common stock as of the immediately preceding January 31 (rounded to the nearest whole share) or (ii) a number of shares of our common stock determined by our board of directors. On February 1, 2021, the number of shares reserved for issuance under the ESPP increased automatically by 2,912,207 additional shares. As of July 31, 2021, the total number shares available for grant under the ESPP was 6,547,157 shares.

As part of the planned merger discussed in Note 1, our ESPP was suspended after our latest offering period ended June 21, 2021.

14. Income Taxes

Our quarterly income taxes reflect an estimate of our corresponding year's annual effective tax rate and include, when applicable, adjustments for discrete items. For the three months ended July 31, 2021 and 2020, our tax benefit was $3.2 million and tax provision was $1.9 million, respectively. For the six months ended July 31, 2021 and 2020, our tax benefit was $0.8 million and tax provision was $3.8 million, respectively. Our tax benefit for the three and six months ended July 31, 2021 was primarily related to a reduction in our valuation allowance from an increase in deferred tax liabilities associated with the acquired intangible assets from our acquisitions of Cazena, Inc. and Datacoral, Inc. and reduced by withholding and foreign income taxes.

15. Related Party Transactions

Certain members of our board of directors currently serve on the board of directors or as an executive officer of certain companies that are our customers. The aggregate revenue we recognized from these customers was $1.2 million and $2.1 million for the three months ended July 31, 2021 and 2020, respectively, and $2.8 million and $4.0 million for the six months ended July 31, 2021 and 2020. There was $0.8 million and $2.2 million in accounts receivable due from these customers as of July 31, 2021 and January 31, 2021, respectively.

16. Segment Information

The results of the reportable segments are derived directly from our management reporting system and are based on our methods of internal reporting which are not necessarily in conformity with GAAP. Our management measures the performance of each segment based on several metrics, including contribution margin, as defined below. Our management does not use asset information to assess performance and make decisions regarding allocation of resources. Therefore, depreciation and amortization expense is not allocated among segments.

Contribution margin is used, in part, to evaluate the performance of, and allocate resources to, each of the segments. Segment contribution margin includes segment revenue less the related cost of sales excluding certain operating expenses that are not allocated to segments because they are separately managed at the consolidated corporate level. These unallocated costs include stock-based compensation expense, amortization of acquired intangible assets, impairment of real estate lease related assets, direct sales and marketing costs, research and development costs, corporate general and administrative costs, such as legal and accounting, interest income, interest expense, and other income and expense.

Financial information for each reportable segment was as follows (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Revenue:				
Subscription	$ 213,300	$ 191,522	$ 413,956	$ 378,607
Services	22,757	22,814	46,384	46,189
Total revenue	$ 236,057	$ 214,336	$ 460,340	$ 424,796

	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Contribution margin:				
Subscription	$ 194,063	$ 170,357	$ 376,442	$ 335,877
Services	5,759	4,108	12,555	5,865
Total segment contribution margin	$ 199,822	$ 174,465	$ 388,997	$ 341,742

The reconciliation of segment financial information to our loss from operations is as follows (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Segment contribution margin	$ 199,822	$ 174,465	$ 388,997	$ 341,742
Amortization of acquired intangible assets	(18,783)	(19,676)	(36,434)	(39,352)
Stock-based compensation expense	(58,549)	(46,617)	(117,173)	(100,055)
Corporate costs, such as research and development, corporate general and administrative and other	(155,343)	(144,706)	(301,995)	(294,676)
Loss from operations	$ (32,853)	$ (36,534)	$ (66,605)	$ (92,341)

Sales outside of the United States represented approximately 45% and 40% of our total revenue for the three months ended July 31, 2021 and 2020, respectively, and 44% and 40% for the six months ended July 31, 2021 and 2020, respectively. No individual foreign country represented more than 10% of revenue in any period presented. All revenues from external customers are attributed to individual countries on an end-customer basis, based on domicile of the purchasing entity, if known, or the location of the customer's headquarters if the specific purchasing entity within the customer is unknown.

As of July 31, 2021 and January 31, 2021, property and equipment, net located outside of the United States represented approximately 29% and 31% of total property and equipment, net, respectively.

17. Net Loss Per Share

The following table sets forth the calculation of basic and diluted net loss per share during the periods presented (in thousands, except per share data):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2021	2020	2021	2020
Numerator:				
Net loss	$ (33,205)	$ (35,997)	$ (73,606)	$ (94,011)
Denominator:				
Weighted-average shares used in computing net loss, per share basic and diluted	294,330	300,103	293,447	297,724
Net loss per share, basic and diluted	$ (0.11)	$ (0.12)	$ (0.25)	$ (0.32)

The following outstanding shares of common stock equivalents were excluded from the computation of the diluted net loss per share attributable to common stockholders for the periods presented because their effect would have been anti-dilutive (in thousands):

	As of July 31,	
	2021	2020
Stock options to purchase common stock	2,618	4,989
Restricted stock awards	33,768	30,835
Shares issuable pursuant to the ESPP	—	777
Total	36,386	36,601

18. Subsequent Events

On August 30, 2021, we announced that Jim Frankola will step down as Chief Financial Officer effective as of the closing of the transactions contemplated by the Agreement and Plan of Merger as disclosed in Note 1 or, if earlier, November 15, 2021. After stepping down as Chief Financial Officer, Mr. Frankola will remain employed with Cloudera as Strategic Advisor. Kevin Cook, Senior Vice President Finance, Corporate Development and Investor Relations, will succeed Mr. Frankola as Chief Financial Officer effective as of the closing of the Proposed Merger.

On August 30, 2021, we also announced that Arun Murthy has resigned as Chief Product Officer, effective as August 30, 2021. Mr. Murthy entered into a Separation Agreement with Cloudera pursuant to which, in exchange for a release of claims, he is entitled to a one-time cash severance payment of $2,120,000, less withholding obligations.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q. This report contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). These statements are often identified by the use of words such as "may," "will," "expect," "believe," "anticipate," "intend," "could," "estimate," or "continue," and similar expressions or variations. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those discussed under the section "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (the "SEC") on March 25, 2021 and in this Quarterly Report on Form 10-Q. You should carefully review the risks described in our Annual Report filed with the SEC on March 25, 2021, in this Quarterly Report on Form 10-Q, and in other documents we file from time to time with the SEC. You should review the risk factors for a more complete understanding of the risks associated with an investment in our securities. We disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. Our fiscal year end is January 31, and references throughout this report to a given fiscal year are to the twelve months ended on that date.

Overview

At Cloudera, we believe that data can make what is impossible today, possible tomorrow. We empower people to transform complex data into clear and actionable insights. Powered by the relentless innovation of the open source community, we advance digital transformation for the world's largest enterprises. We deliver an enterprise data cloud for any data, anywhere, from the Edge to AI. We are an enterprise data cloud company.

We pioneered the creation of the enterprise data cloud category. An enterprise data cloud is multi-function, hybrid and multi-cloud, secure and governed, and open and extensible. An enterprise data cloud offers cloud-native agility, elasticity and ease-of-use.

We generate revenue from subscriptions and services. Please see "Components of Results of Operations - Revenue" for further details.

We market and sell our platform to a broad range of organizations, although we focus our selling efforts on the largest enterprises globally. We target these organizations because they capture and manage the vast majority of the world's data and operate in highly complex information technology environments. We market our platform primarily through a direct sales force while benefiting from business driven by our ecosystem of technology partners, resellers, original equipment manufacturers (OEMs), managed service providers, independent software vendors and systems integrators.

We have a broad customer base that spans industries and geographies. For the three and six months ended July 31, 2021 and 2020, no customer accounted for more than 10% of our total revenue. We have significant revenue in the industries of banking and financial services, manufacturing, technology, business services, telecommunications, public sector, consumer and retail, and healthcare and life sciences verticals, and continue to expand our penetration across many other data-intensive industries. Sales outside of the United States represented approximately 45% and 40% of our total revenue for the three months ended July 31, 2021 and 2020, respectively, and 44% and 40% for the six months ended July 31, 2021 and 2020, respectively.

Our business model is based on a "land and expand" strategy designed to use the initial sale as a foothold to increase revenue per customer by increasing the amount of data and number of use cases each customer runs through our platform. After an initial purchase of our platform, we work with our customers to identify new use cases that can be developed on or moved to our platform, ultimately increasing the amount of data managed on our platform as well as the number and size of our platform deployments.

Agreement and Plan of Merger

On June 1, 2021, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Sky Parent Inc., a Delaware corporation ("Parent"), and Project Sky Merger Sub Inc., a Delaware corporation and a wholly owned subsidiary of Parent ("Merger Sub"), pursuant to which, subject to the satisfaction or waiver of the conditions set forth therein, Merger Sub will be merged with and into Cloudera, Inc., with Cloudera, Inc. surviving the merger as a wholly-owned subsidiary of Parent (the "Merger"). Parent and Merger Sub are subsidiaries of investment funds advised by Clayton, Dubilier & Rice, LLC ("CD&R") and Kohlberg Kravis Roberts & Co. L.P. ("KKR"), US-based private equity firms. For a summary of the transaction, please refer to Note 1 in the "Notes to Condensed Consolidated Financial Statements" included in this report and to our Current Report on Form 8-K filed on June 1, 2021.

Non-GAAP Financial Measures

In addition to our results determined in accordance with U.S. generally accepted accounting principles (GAAP), we believe the following non-GAAP financial measures are useful in evaluating our operating performance.

Annualized Recurring Revenue (ARR) is the primary metric that management uses to monitor customer retention and growth and to make operational decisions related to our business. ARR equals the annualized value of all recurring subscription contracts with active entitlements as of the end of the applicable period. ARR provides a normalized and composite view of customer retention, renewal and expansion as well as growth from new customers, that is a supplement to reported revenue.

	As of		Change	
	July 31, 2021	July 31, 2020	Amount	%
	(in thousands, except percentages)			
Annualized Recurring Revenue	$ 832,381	$ 739,355	$ 93,026	13 %

Approximately eight percentage points of the 13% increase in ARR was due to existing customers expanding their use of Cloudera products with the remainder of the increase due to new customers.

Non-GAAP operating income is our income from operations before stock-based compensation expense, amortization of acquired intangible assets and non-cash real estate impairment charges. We believe that this non-GAAP financial measure, when taken together with the corresponding GAAP financial measure, provides meaningful supplemental information regarding our performance by excluding certain items that may not be indicative of our business, operating results or future outlook. Our management uses, and believes that investors benefit from referring to, this non-GAAP financial measure in evaluating our operating results, as well as when planning, forecasting, budgeting and analyzing future periods. We also use non-GAAP operating income in conjunction with traditional GAAP measures to communicate with our board of directors regarding our financial performance.

	Three Months Ended July 31,		Change		Six Months Ended July 31,		Change	
	2021	2020	Amount	%	2021	2020	Amount	%
	(in thousands, except percentages)							
Non-GAAP operating income	$ 44,479	$ 29,759	$ 14,720	49 %	$ 87,002	$ 47,066	$ 39,936	85 %

We believe non-GAAP operating income provides investors and other users of our financial information consistency and comparability with our past financial performance and facilitates period to period comparisons of operations. We believe non-GAAP operating income is useful in evaluating our operating performance compared to that of other companies in our industry as this metric generally eliminates the effects of certain items that may vary for different companies for reasons unrelated to overall operating performance. Our definition may differ from the definitions used by other companies and therefore comparability may be limited. In addition, other companies may not publish this or similar metrics. Thus, our non-GAAP operating income should be considered in addition to, not as a substitute for or in isolation from, measures prepared in accordance with GAAP.

We compensate for these limitations by providing investors and other users of our financial information a reconciliation of loss from operations, the related GAAP financial measure, to non-GAAP operating income. We encourage investors and others to review our financial information in its entirety, not to rely on any single financial measure and to view non-GAAP operating income in conjunction with loss from operations. The following table provides a reconciliation of loss from operations to non-GAAP operating income:

	Three Months Ended July 31,		Change		Six Months Ended July 31,		Change	
	2021	2020	Amount	%	2021	2020	Amount	%
Loss from operations	$ (32,853)	$ (36,534)	$ 3,681	(10)%	$ (66,605)	$ (92,341)	$ 25,736	(28)%
Stock-based compensation expense	58,549	46,617	11,932	26	117,173	100,055	17,118	17
Amortization of acquired intangible assets	18,783	19,676	(893)	(5)	36,434	39,352	(2,918)	(7)
Non-GAAP operating income	$ 44,479	$ 29,759	$ 14,720	49 %	$ 87,002	$ 47,066	$ 39,936	85 %

For the reasons set forth below, we believe that excluding the components described provides useful information to investors and others in understanding and evaluating our operating results and future prospects in the same manner as we do and in comparing our financial results across accounting periods and to financial results of peer companies.

- *Stock-based compensation expense.* We exclude stock-based compensation expense from our non-GAAP financial measures consistent with how we evaluate our operating results and prepare our operating plans, forecasts and budgets. Further, when considering the impact of equity award grants, we focus on overall stockholder dilution rather than the accounting charges associated with such equity grants. The exclusion of the expense facilitates the comparison of results and business outlook for future periods with results for prior periods in order to better understand the long-term performance of our business.
- *Amortization of acquired intangible assets.* We exclude the amortization of acquired intangible assets from our non-GAAP financial measures. Although the purchase accounting for an acquisition necessarily reflects the accounting value assigned to intangible assets, our management team excludes the GAAP impact of acquired intangible assets when evaluating our operating results. Likewise, our management team excludes amortization of acquired intangible assets from our operating plans, forecasts and budgets. The exclusion of the expense facilitates the comparison of results and business outlook for future periods with results for prior periods in order to better understand the long-term performance of our business.

COVID-19 Update

The United States and the global communities in which we operate continue to face severe challenges posed by the COVID-19 Coronavirus pandemic (COVID-19 or COVID-19 pandemic). In response to these challenges, we have accelerated our transformation efforts and reduced costs, including, but not limited to, reduced travel for employees, decreases in employee-related expenses, minimizing use of outside contractors and consultants, temporary closure of our offices and, since mid-March 2020, a requirement that our employees work remotely. We have been operating effectively under our remote work model, which we anticipate continuing for some time to ensure the safety and well-being of our employees.

We do not believe there has been a material impact from the effects of the COVID-19 pandemic on our business and operations, results of operations, financial condition, cash flows, liquidity and capital resources as of and during the three and six months ended July 31, 2021.

The full extent of the future impact of the COVID-19 pandemic on our business and operating results is currently uncertain and will depend on certain developments, including the duration and spread of the outbreak; government responses to the pandemic; the speed of vaccination delivery and effectiveness; the impact on our customers and our sales cycles; the impact on our customer, the industry or employee events; the extent of delays in hiring and onboarding new employees; and the effect on our partners and vendors, all of which are uncertain and difficult to predict. We anticipate continued near-term impact on our services business since interacting directly with customers in either a sales setting or an on-site professional services setting is difficult in this environment. However, the majority of our revenues are subscription-based which we believe offers significant protection from the COVID-19 pandemic’s economic disruptions in the short term. Accordingly, we believe that our existing financial position will allow us to manage the impact of the COVID-19 pandemic for the foreseeable future.

Components of Results of Operations

Revenue

We generate revenue from subscriptions and services. Subscription revenue relates to term (or time-based) subscription agreements for both open source and propriety software, including support. Subscription arrangements are typically one to three years in length but may be up to seven years in limited cases. Arrangements with our customers typically do not include general rights of return. Services revenue relates to professional services for the implementation and use of our subscriptions, machine learning expertise and consultation, training and education services and related reimbursable travel costs. We price our subscription offerings based on the number of servers in a cluster, or nodes, core or edge devices, data under management and/or the scope of support provided. Our consulting services are priced primarily on a time and materials basis, and to a lesser extent, a fixed fee basis, and education services are generally priced based on attendance.

Cost of Revenue

Cost of revenue for subscriptions primarily consists of personnel costs including salaries, bonuses, travel costs, benefits and stock-based compensation for employees providing technical support for our subscription customers, allocated shared costs (including rent and information technology) and amortization of certain acquired intangible assets from business combinations. Cost of revenue for services primarily consists of personnel costs including salaries, bonuses, benefits and stock-based compensation, fees to subcontractors associated with service contracts, travel costs and allocated shared costs (including rent and information technology).

Operating Expenses

Research and Development. Research and development expenses primarily consist of personnel costs including salaries, bonuses, travel costs, benefits and stock-based compensation for our research and development employees, contractor fees, allocated shared costs (including rent and information technology), supplies, and depreciation of equipment associated with the continued development of our platform prior to establishment of technological feasibility and the related maintenance of the existing technology

Sales and Marketing. Sales and marketing expenses primarily consist of personnel costs including salaries, bonuses, travel costs, sales-based incentives, benefits and stock-based compensation for our sales and marketing employees. In addition, sales and marketing expenses also include costs for advertising, promotional events, corporate communications, product marketing and other brand-building activities, allocated shared costs (including rent and information technology) and amortization of certain acquired intangible assets from business combinations. Most sales-based incentives are capitalized and expensed over the period of benefit from the underlying contracts.

General and Administrative. General and administrative expenses primarily consist of personnel costs including salaries, bonuses, travel costs, benefits and stock-based compensation for our executive, finance, legal, human resources, information technology and other administrative employees. In addition, general and administrative expenses include fees for third-party professional services, including consulting, legal and accounting services, merger and acquisition related costs, other corporate expenses, and allocated shared costs (including rent and information technology).

Interest (Expense) Income, net

Interest income primarily relates to amounts earned on our cash and cash equivalents and marketable securities. Interest expense primarily relates to interest incurred on our debt and related amortization of debt discount and issuance costs.

Other Expense, net

Other expense, net primarily relates to gains and losses from foreign currency transactions and forward contracts, realized gains and losses on our marketable securities and other non-operating gains or losses.

Benefit (Provision) for Income Taxes

Benefit (provision) for income taxes primarily consists of withholding taxes on sales to international customers and income taxes in foreign jurisdictions wherein we conduct business. A valuation allowance is established, when necessary, for any portion of deferred income tax assets where it is considered more likely than not that such deferred tax assets will not be realized. The recognition of an intangible asset in certain acquisitions may result in a deferred tax liability that may be partially offset by a reduction of the valuation allowance, creating a taxable benefit.

Results of Operations

Revenue

Our total revenues for the three and six months ended July 31, 2021 and 2020 were as follows:

	Three Months Ended July 31,		Change		Six Months Ended July 31,		Change	
	2021	2020	Amount	%	2021	2020	Amount	%
	(in thousands, except percentages)							
Subscription	$ 213,300	$ 191,522	$ 21,778	11 %	$ 413,956	$ 378,607	$ 35,349	9 %
Services	22,757	22,814	(57)	— %	46,384	46,189	195	— %
Total revenue	$ 236,057	$ 214,336	$ 21,721	10 %	$ 460,340	$ 424,796	$ 35,544	8 %
As a percentage of total revenue:								
Subscription	90 %	89 %			90 %	89 %		
Services	10 %	11 %			10 %	11 %		
Total revenue	100 %	100 %			100 %	100 %		

The increase in subscription revenue for the three and six months ended July 31, 2021, as compared to the same period in the prior fiscal year, was primarily attributable to an increase in subscription sales to existing customers and the remainder driven by new customers, with international customers expanding faster than our U.S. customers.

There were no significant changes in services revenue for the three and six months ended July 31, 2021. Both periods were negatively impacted by COVID-19, due to lower services demand partially as a result of COVID-19 related customer budget restrictions as well as COVID-19 related limitations for on-site service delivery.

Cost of Revenue, Gross Profit and Gross Margin

	Three Months Ended July 31,		Change		Six Months Ended July 31,		Change	
	2021	2020	Amount	%	2021	2020	Amount	%
	(in thousands, except percentages)							
Cost of revenue:								
Subscription	$ 25,457	$ 27,929	$ (2,472)	(9)%	$ 49,049	$ 56,565	$ (7,516)	(13)%
Services	19,516	21,710	(2,194)	(10)%	39,042	47,315	(8,273)	(17)%
Total cost of revenue	$ 44,973	$ 49,639	$ (4,666)	(9)%	$ 88,091	$ 103,880	$ (15,789)	(15)%
Gross profit	$ 191,084	$ 164,697	$ 26,387	16 %	$ 372,249	$ 320,916	$ 51,333	16 %
Gross margin:								
Subscription	88 %	85 %			88 %	85 %		
Services	14 %	5 %			16 %	(2)%		
Total gross margin	81 %	77 %			81 %	76 %		
Cost of revenue, as a percentage of total revenue:								
Subscription	11 %	13 %			11 %	13 %		
Services	8 %	10 %			8 %	11 %		
Total cost of revenue	19 %	23 %			19 %	24 %		

The decrease in subscription cost of revenue for the three and six months ended July 31, 2021, as compared to the same periods in the prior fiscal year, was primarily due to reductions in acquired intangible asset amortization, payroll and facility allocations. Acquired intangible asset amortization expense declined by a $1.0 million and $3.1 million, respectively, as a result of acquired developed technologies that are now fully amortized. Payroll and facility allocations declined by $1.8

million and $3.3 million for the three and six months, respectively, as an increased portion of our support resources are now employed outside of the United States.

The decrease in services cost of revenue for the three and six months ended July 31, 2021, as compared to the same periods in the prior fiscal year, was primarily due to a decrease of $3.5 million and $7.5 million, respectively, in payroll costs as a result of decreased headcount.

Subscription gross margin increased for the three and six months ended July 31, 2021, as compared to the same periods in the prior fiscal year, due to growth in the business and improved margin as a result of reduced costs.

Services gross margin increased for the three and six months ended July 31, 2021, as compared to the same periods in the prior fiscal year, primarily due to a 10% and 17% reduction in cost of services revenue, respectively.

Operating Expenses

	Three Months Ended July 31,		Change		Six Months Ended July 31,		Change	
	2021	2020	Amount	%	2021	2020	Amount	%
	(in thousands, except percentages)							
Research and development	$ 70,785	$ 62,304	$ 8,481	14 %	$ 136,610	$ 126,520	$ 10,090	8 %
Sales and marketing	110,257	105,760	4,497	4 %	218,085	218,895	(810)	— %
General and administrative	42,895	33,167	9,728	29 %	84,159	67,842	16,317	24 %
Total operating expenses	$ 223,937	$ 201,231	$ 22,706	11 %	$ 438,854	$ 413,257	$ 25,597	6 %
Operating expenses, as a percentage of total revenue:								
Research and development	30 %	29 %			30 %	30 %		
Sales and marketing	47 %	49 %			47 %	51 %		
General and administrative	18 %	16 %			18 %	16 %		
Total operating expenses	95 %	94 %			95 %	97 %		

Research and Development

The increase in research and development expenses for the three and six months ended July 31, 2021, as compared to the same periods in the prior fiscal year, was primarily due to an increase of $9.8 million and $13.4 million, respectively, in payroll costs as a result of increased headcount, partially offset by a decrease of $2.6 million and $4.8 million, respectively, in facility allocations.

Sales and Marketing

The increase in sales and marketing expenses for the three months ended July 31, 2021, as compared to the same period in the prior fiscal year, was primarily due to an increase of $4.0 million in payroll costs as a result of increased headcount.

The decrease in sales and marketing expenses for the six months ended July 31, 2021, as compared to the same period in the prior fiscal year, was primarily due to reductions of $4.8 million in travel costs and $2.1 million in facility allocations, partially offset by an increase of $5.2 million in marketing costs.

General and Administrative

The increase in general and administrative expenses for the three and six months ended July 31, 2021, as compared to the same periods in the prior fiscal year, was primarily due to increases in payroll costs, merger and acquisition related costs, and facility costs. Payroll costs increased by $3.5 million and $6.9 million, respectively, mainly due to increased stock-based compensation expense on equity awards granted during the first quarter of fiscal year 2022. Merger and acquisition related costs increased by $4.7 million for both comparable periods as a result of our agreement and plan of merger with CD&R and KKR. Facilities expense increased by $2.5 million and $6.5 million, respectively, primarily due to the absorption of COVID-19 related vacated real estate in general and administrative expenses beginning mid-fiscal 2021. The increase for the six months ended July 31, 2021, was partially offset by a decrease in bad debt expense of $2.8 million.

Interest (Expense) Income, net

	Three Months Ended July 31,		Change		Six Months Ended July 31,		Change	
	2021	2020	Amount	%	2021	2020	Amount	%
	(in thousands, except percentages)							
Interest (expense) income, net	$ (3,621)	$ 1,444	$ (5,065)	(351)%	$ (7,104)	$ 3,685	$ (10,789)	(293)%

Interest expense, net for the three and six months ended July 31, 2021 as compared to interest income, net in the same periods in the prior fiscal year, is mainly due to interest expense of $4.1 million and $8.2 million, respectively, incurred on our December 2020 term loan which were not incurred in the comparable period and due to a lower yield on our marketable securities from declining interest rates.

Other Income (Expense), Net

	Three Months Ended July 31,		Change		Six Months Ended July 31,		Change	
	2021	2020	Amount	%	2021	2020	Amount	%
	(in thousands, except percentages)							
Other income (expense), net	$ 26	$ 980	$ (954)	(97)%	$ (674)	$ (1,517)	$ 843	(56)%

The change in other income, net for the three months ended July 31, 2021, as compared to the same period in the prior fiscal year, was primarily due to lower foreign currency exchange related activity.

The decrease in other expense, net for the six months ended July 31, 2021, as compared the same period in the prior fiscal year, was primarily due to a $2.0 million impairment charge recorded in the first quarter of fiscal year 2021 to write off our investment in equity securities of a privately held company.

Benefit (Provision) for Income Taxes

	Three Months Ended July 31,		Change		Six Months Ended July 31,		Change	
	2021	2020	Amount	%	2021	2020	Amount	%
	(in thousands, except percentages)							
Benefit (provision) for income taxes	$ 3,243	$ (1,887)	$ 5,130	(272)%	$ 777	$ (3,838)	$ 4,615	(120)%

Our tax benefit for the three and six months ended July 31, 2021 was primarily due to a reduction in our valuation allowance from the increase in deferred tax liabilities associated with the acquired intangible assets from our acquisitions of Cazena, Inc. and Datacoral, Inc., partially offset by withholding and foreign income taxes. Our tax provision for the three and six months ended July 31, 2020 was primarily due to foreign withholding taxes on international sales.

Seasonality

We have seasonal and end-of-quarter concentration of our sales, which impacts our ability to plan and manage cash flows and margins. Our sales vary by season with the fourth quarter typically being our strongest sales quarter, and the first quarter typically being our largest collections and operating cash flow quarter. In addition, within each quarter, most sales occur in the last month of that quarter.

Liquidity and Capital Resources

As of July 31, 2021, our principal sources of liquidity were cash, cash equivalents and marketable securities totaling $792.7 million which were held for working capital purposes. Our cash equivalents are comprised primarily of money market funds and our marketable securities are comprised of corporate notes and obligations, U.S. agency obligations, certificates of deposit, commercial paper, municipal securities and U.S. treasury securities. To date, our principal sources of liquidity has been payments received from customers in addition to amounts raised as a result of our December 2020 term loan and our equity offerings.

On December 22, 2020, we entered into a senior secured credit facility, which provides for a $500 million term loan facility with a syndicate of lenders (Term Loan) and borrowed the full amount on December 22, 2020 to be used for general corporate purposes, including to fund repurchases of our common stock and to pay transaction costs and expenses in connection therewith. Repayments made under the Term Loan are equal to 1.0% of the principal amount in equal quarterly installments for the life of the Term Loan, with the remainder due at maturity on December 22, 2027. At our option, the Term Loan will bear interest at a per annum rate equal to a Eurocurrency Rate plus 2.50% or a Base Rate plus 1.50%, both subject to a 3.25% floor. For further discussion, see Note 9 in the "Notes to Condensed Consolidated Financial Statements" included in this report.

Our board of directors have authorized share repurchases of up to $600 million of our outstanding shares of common stock. For further discussion on repurchase activity, see Note 12 in the "Notes to Condensed Consolidated Financial Statements" included in this report. Pursuant to the Merger Agreement (see Note 1 for details), our share purchase programs have been suspended.

We have non-cancelable contractual obligations related to our facilities leases as further discussed in Note 10 in the "Notes to Condensed Consolidated Financial Statements" included in this report. Additionally, pursuant to the Merger Agreement (see Note 1 for details), we have contractual obligations of approximately $55 million that were not accrued as of July 31, 2021, as they are contingently payable upon the completion of the proposed Merger with KKR and CD&R.

We believe that our currently available resources will be sufficient to meet our cash requirements for at least the next twelve months. Our future capital requirements may vary materially from those currently planned and will depend on many factors, including our expansion of annual recurring revenue, the timing and extent of spending on research and development efforts, the expansion of sales and marketing activities, the continuing market acceptance of our subscriptions and services and ongoing investments to support the growth of our business. We may in the future enter arrangements to acquire or invest in complementary businesses, services and technologies and intellectual property rights. From time to time, we may explore additional financing sources which could include equity, equity-linked and debt financing arrangements. We cannot assure you that any additional financing will be available on terms favorable to us, or at all. If adequate funds are not available on acceptable terms, or at all, we may not be able to adequately fund our business plans which could have a negative effect on our operating cash flows and financial condition.

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

	Six Months Ended July 31,	
	2021	**2020**
	(in thousands)	
Net cash provided by operating activities	$ 150,012	$ 100,805
Net cash used in investing activities	(250,560)	(50,117)
Net cash used in financing activities	(63,067)	(15,618)
Effect of exchange rate changes	(982)	463
Net (decrease) increase in cash, cash equivalents and restricted cash	$ (164,597)	$ 35,533

Cash Provided by Operating Activities

Our largest source of operating cash flows is cash collections from our customers following the purchase and renewal of their subscription agreements. Payments from customers for these subscription agreements are generally received near the beginning of the annual contract period. We also generate cash from the sales of our services offerings. Our primary uses of cash from operating activities are for employee related expenditures and leased facilities.

Operating cash flow increased during the six months ended July 31, 2021 mainly due to cash collections on increased sales of our subscription-based offerings.

For the six months ended July 31, 2021, net cash provided by operating activities mainly consisted of our net loss of $73.6 million, adjusted for stock-based compensation expense of $117.2 million, depreciation and amortization expense of $40.3 million, amortization of deferred contract costs of $32.9 million, non-cash lease expense of $21.4 million, and net cash inflow of $8.9 million from changes in assets and liabilities. The inflow from changes in assets and liabilities was primarily due to a decrease in accounts receivable of $138.7 million from strong collections, partially offset by a decrease in contract liabilities of $89.0 million, cash payments of $16.9 million for operating lease liabilities, an increase of $22.2 million in deferred contract costs related to sales commissions, and a net cash outflow of $1.6 million from changes in all other operating assets and liabilities.

For the six months ended July 31, 2020, net cash used in operating activities mainly consisted of our net loss of $94.0 million, adjusted for stock-based compensation expense of $100.1 million, depreciation and amortization expense of $44.9 million, amortization of deferred contract costs of $33.4 million, non-cash lease expense of $22.7 million, and net cash outflow of $11.4 million from changes in assets and liabilities. The outflow from changes in assets and liabilities was due to a decrease in contract liabilities of $71.1 million, an increase of $22.3 million in deferred contract costs related to sales commissions, cash payments of $21.2 million for operating lease liabilities, partially offset by decrease in accounts receivable of $100.3 million and a net cash inflow of $2.9 million from changes in all other operating assets and liabilities,

Cash Used in Investing Activities

The changes in cash flows from investing activities primarily relate to the timing of our purchases, maturities and sales of our investments in marketable securities, cash acquired or used for business combinations, and investments in capital and other assets to support our growth.

For the six months ended July 31, 2021, net cash used in investing activities consisted of purchases of marketable securities of $478.9 million, cash used in a business combination of $56.4 million, and capital expenditures for the purchases of property and equipment of $1.9 million, partially offset by sales and maturities of marketable securities of $286.7 million.

For the six months ended July 31, 2020, net cash used in investing activities consisted of purchases of marketable securities of $273.6 million and capital expenditures for the purchases of property and equipment of $4.4 million partially offset by sales and maturities of marketable securities of $227.9 million,

Cash Used in Financing Activities

The changes in cash flows from financing activities primarily relate to proceeds from employee stock plans, taxes paid related to net share settlement of equity awards, principal repayment of debt and proceeds used for common stock repurchased under our share repurchase programs as further discussed in Note 12 of our "Notes to Condensed Consolidated Financial Statements" included in this report.

For the six months ended July 31, 2021, net cash used in financing activities consisted of taxes paid related to the net share settlement of restricted stock units of $40.7 million, repurchases of common stock of $29.1 million, repayment of term loan of $2.5 million, partially offset by proceeds from the exercise of stock options and employee stock purchase plan $9.2 million.

For the six months ended July 31, 2020, net cash used in financing activities consisted of repurchases of common stock of $26.0 million, taxes paid related to the net share settlement of restricted stock units of $23.3 million, partially offset by proceeds from the exercise of stock options and employee stock purchase plan withholding of $33.6 million.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States (GAAP). The preparation of these financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these judgments and estimates under different assumptions or conditions and any such differences may be material. We refer to accounting estimates of this type as critical accounting policies and estimates.

We believe that the assumptions, judgments and estimates involved in the accounting for revenue recognition, business combinations, goodwill and intangible assets and impairment of long-lived assets to have the greatest potential impact on our condensed consolidated financial statements. These areas are key components of our results of operations and are based on complex rules requiring us to make judgments and estimates, and consequently, we consider these to be our critical accounting policies. Historically, our assumptions, judgments and estimates relative to our critical accounting policies have not differed materially from actual results.

There have been no significant changes in our critical accounting policies and estimates during the three and six months ended July 31, 2021, as compared to the critical accounting policies and estimates disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended January 31, 2021.

Recent Accounting Pronouncements

See Note 1 of our "Notes to Condensed Consolidated Financial Statements" included in this report for recently adopted accounting standards.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our market risk exposures for the six months ended July 31, 2021 as compared to those discussed in our Annual Report on Form 10-K for the fiscal year ended January 31, 2021.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

We maintain a set of disclosure controls and procedures designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and is accumulated and communicated to our management including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In accordance with Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act), as of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures, as of the end of the period covered by this Quarterly Report on Form 10-Q, were effective to provide reasonable assurance.

Changes in internal control over financial reporting.

There was no change in our internal control over financial reporting that occurred during the quarter ended July 31, 2021 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting even though most of our employees are working remotely due to the COVID-19 pandemic. We are continually monitoring and assessing the impact of the COVID-19 pandemic on our internal controls to minimize the impact on the operating effectiveness.

Inherent limitation on the effectiveness of internal control.

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake.

Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a discussion of legal proceedings, see Note 11 of the “Notes to Condensed Consolidated Financial Statements” included in this report, which is incorporated herein by reference.

Further, from time to time, we are a party to or act as an indemnitor to our customers, partners, directors or officers on various litigation matters, and we, our customers, partners, or our directors or officers are subject to claims that arise in the ordinary course of business. In addition, we or our customers or partners have received, and may in the future receive, various types of claims including potential claims from third parties asserting, among other things, infringement of their intellectual property rights.

Future litigation may be necessary to defend ourselves, or our customers or partners on indemnity matters, by determining the scope, enforceability and validity of third-party proprietary rights or by establishing our proprietary rights. Further, the ultimate outcome of any litigation is uncertain and, regardless of outcome, litigation can have an adverse impact on us because of defense costs, potential negative publicity, diversion of management resources and other factors. While we are not aware of other pending legal matters or claims, individually or in the aggregate, that are expected to have a material adverse impact on our business, consolidated financial position, results of operations or cash flows, our analysis of whether a claim may proceed to litigation cannot be predicted with certainty, nor can the results of litigation be predicted with certainty. Accordingly, there can be no assurance that existing or future legal proceedings arising in the ordinary course of business or otherwise will not have a material adverse effect on our business, consolidated financial position, results of operations or cash flows.

ITEM 1A. RISK FACTORS

Investing in our securities involves a high degree of risk. You should consider carefully the risks and uncertainties described under the section “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K filed with the SEC on March 25, 2021 and all of the other information in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and related notes, before making an investment decision. The risk factors in our Annual Report are not repeated in this Quarterly Report, unless the underlying risks have materially changed. The section “Risk Factors” in our Annual Report on Form 10-K for the year ended January 31, 2021, which was filed with the SEC on March 25, 2021, identified the risks and uncertainties that may have a material adverse effect on our business, financial condition, results of operations, cash flows, growth prospects, the trading price of our common stock, and future prospects. Our business could be harmed by any of these risks or additional risks and uncertainties not currently known to us. Our stock price could decline due to any of these risks, and you may lose all or part of your investment.

Risks Related to the Proposed Merger

On June 1, 2021, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Sky Parent Inc., a Delaware corporation (“Parent”), and Project Sky Merger Sub Inc., a Delaware corporation and a wholly owned subsidiary of Parent (“Merger Sub”), pursuant to which, subject to the satisfaction or waiver of the conditions set forth therein, Merger Sub will be merged with and into Cloudera, Inc., with Cloudera, Inc. surviving the merger as a wholly-owned subsidiary of Parent (the “Merger”). Parent and Merger Sub are subsidiaries of investment funds advised by Clayton, Dubilier & Rice, LLC (“CD&R”) and Kohlberg Kravis Roberts & Co. L.P. (“KKR”), US-based private equity firms.

The Merger Agreement was unanimously approved by our board of directors. The description of the Merger Agreement in these Risk Factors does not purport to be complete and is qualified in its entirety by reference to the Merger Agreement, which was filed as Exhibit 2.1 to our Current Report on Form 8-K filed on June 1, 2021.

We may fail to consummate the Merger, and uncertainties related to the consummation of the Merger may have a material adverse effect on our business, results of operations and financial condition and negatively impact the price of our common stock.

The Merger is subject to the satisfaction of a number of conditions beyond our control, including receiving stockholder approval, antitrust clearance, and other customary closing conditions. Our stockholders approved the Merger on August 25, 2021. Failure to satisfy the conditions to the Merger could prevent or delay the completion of the Merger. Further, regulators may impose conditions, obligations or restrictions on the Merger that may have the effect of delaying or preventing its completion.

The efforts and costs to satisfy the closing conditions of the Merger, may place a significant burden on management and internal resources, and the Merger and related transactions, whether or not consummated, may result in a diversion of management's attention from day-to-day operations. Any significant diversion of management's attention away from ongoing business and difficulties encountered in the Merger process could have a material adverse effect on our business, results of operations and financial condition.

There also is no assurance that the Merger and the other transactions contemplated by the Merger Agreement will occur on the terms and timeline currently contemplated or at all.

If the proposed Merger is not completed or the Merger Agreement is terminated, the price of our common stock may decline, including to the extent that the current market price of our common stock reflects an assumption that the Merger and the other transactions contemplated by the Merger Agreement will be consummated without further delays, which could have a material adverse effect on our business, results of operations and financial condition. If the Merger Agreement is terminated and we determine to seek another business combination, we may not be able to negotiate a transaction with another party on terms comparable to, or better than, the terms of the Merger.

If the Merger Agreement is terminated, we may, under certain circumstances, be obligated to pay a termination fee to Parent. These costs could require us to use available cash that would have otherwise been available for other uses.

If the Merger is not completed, in certain circumstances, we could be required to pay a termination fee of up to $171.7 million. If the Merger Agreement is terminated, the termination fee we may be required to pay, if any, under the Merger Agreement may require us to use available cash that would have otherwise been available for general corporate purposes or other uses. For these and other reasons, termination of the Merger Agreement could materially and adversely affect our business, results of operations or financial condition, which in turn would materially and adversely affect the price of our common stock.

We are subject to various uncertainties and restrictions on the conduct of our business while the Merger is pending, which could have a material adverse effect on our business, results of operations and financial condition.

Uncertainty about the pendency of the Merger and the effect of the Merger on employees, customers, vendors, communities and other third parties who deal with us may have a material adverse effect on our business, results of operations and financial condition. These uncertainties may impair our ability to attract, retain and motivate key personnel pending the consummation of the Merger, as such personnel may experience uncertainty about their future roles following the consummation of the Merger. Additionally, these uncertainties could cause customers, distributors, vendors and other third parties who deal with us to seek to change existing business relationships with us or fail to extend an existing relationship with us, all of which could have a material adverse effect on our business, results of operations, financial condition and market price of our common stock. In addition, the Merger Agreement restricts us from taking certain actions without Parent's consent while the Merger is pending. These restrictions and uncertainties could have a material adverse effect on our business, results of operations and financial condition.

We and our directors and officers may be subject to lawsuits relating to the Merger.

Litigation is very common in connection with the sale of public companies, regardless of whether the claims have any merit. One of the conditions to consummating the Merger is that no order preventing or otherwise prohibiting the consummation of the Merger shall have been issued by any court. Consequently, if any lawsuit challenging the Merger is successful in obtaining an order preventing the consummation of the Merger, that order may delay or prevent the Merger from being completed. While we will evaluate and defend against any lawsuits, the time and costs of defending against litigation relating to the Merger may adversely affect our business.

We will continue to incur substantial transaction-related costs in connection with the Merger.

We have incurred significant legal, advisory and financial services fees in connection with Merger. We have incurred, and expect to continue to incur, additional costs in connection with the satisfaction of the various conditions to closing of the Merger, including seeking approval from our stockholders and from applicable regulatory agencies. If there is any delay in the consummation of the Merger, these costs could increase significantly.

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

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Our board of directors have authorized share repurchases of up to $600 million of our outstanding shares of common stock. For further discussion on repurchase activity, see Note 12 in the "Notes to Condensed Consolidated Financial Statements" included in this report.

The following table provides a summary of repurchases of our common stock during the three months ended July 31, 2021 (in millions, except per share amounts):

Period	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
May 1 - May 31, 2021	0.8	$ 11.97	0.8	$ 230.8
June 1 - June 30, 2021	—	$ —	—	$ 230.8
July 1 - July 31, 2021	—	$ —	—	$ 230.8
Total	0.8		0.8	

(1) No shares were purchased outside of a publicly announced plan or program.

Exhibit Index

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
2.01	Agreement and Plan of Merger, dated as of June 1, 2021, by and among Parent, Merger Sub and the Company	8-K	001-38069	2.01	6/1/2021	
10.01	Voting and Support Agreement dated as of June 1, 2021, by and among Parent, the Company and Icahn	8-K	001-38069	10.01	6/1/2021	
31.01	Certification of Robert Bearden, Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
31.02	Certification of Jim Frankola, Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002					X
32.01*	Certification of Robert Bearden, Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
32.02*	Certification of Jim Frankola, Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002					X
101.INS	XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					X
101.SCH	Inline XBRL Taxonomy Extension Schema Document					X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					X
101.DEF	Inline XBRL Taxonomy Definition Linkbase Document					X
101.LAB	Inline XBRL Taxonomy Extension Labels Linkbase Document					X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					X
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)					X

* This certification is deemed not filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act.

SIGNATURES

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

CLOUDERA, INC.

September 2, 2021	By:	/s/ Robert Bearden
		Robert Bearden Chief Executive Officer and Director *(Principal Executive Officer)*
September 2, 2021	By:	/s/ Jim Frankola
		Jim Frankola Chief Financial Officer *(Principal Financial Officer)*

CERTIFICATION UNDER SECTION 302 OF THE

SARBANES-OXLEY ACT OF 2002

I, Robert Bearden, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cloudera, 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 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 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: September 2, 2021

/s/ Robert Bearden
Robert Bearden
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.02

CERTIFICATION UNDER SECTION 302 OF THE

SARBANES-OXLEY ACT OF 2002

I, Jim Frankola, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cloudera, 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 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 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: September 2, 2021

/s/ Jim Frankola
Jim Frankola
Chief Financial Officer
(Principal Financial Officer)

EXHIBIT 32.01

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

I, Robert Bearden, Chief Executive Officer of Cloudera, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Quarterly Report on Form 10-Q of the Company for the period ended July 31, 2021 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date:	September 2, 2021	By:	/s/ Robert Bearden Robert Bearden Chief Executive Officer (Principal Executive Officer)

EXHIBIT 32.02

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

I, Jim Frankola, Chief Financial Officer of Cloudera, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. the Quarterly Report on Form 10-Q of the Company for the period ended July 31, 2021 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the periods presented therein.

Date:	September 2, 2021	By:	/s/ Jim Frankola Jim Frankola Chief Financial Officer (Principal Financial Officer)