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

FORM 10-Q

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

For the quarterly period ended April 30, 2022

OR

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

For the transition period from to

Commission File Number 001-36805

Box, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-2714444
(I.R.S. Employer
Identification No.)

900 Jefferson Ave.
Redwood City, California 94063
(Address of principal executive offices and Zip Code)
(877) 729-4269
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, \$0.0001 par value per share	BOX	New York Stock Exchange

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definition 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	☐	Small reporting company	☐
Emerging growth company	☐		

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

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

As of May 31, 2022, the number of shares of the registrant's Class A common stock outstanding was 144,057,397.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain words such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements about:

- our future financial and operating results; including expectations regarding revenues, deferred revenue, billings, remaining performance obligations, gross margins, operating income, and net retention rate;
- our ability to maintain an adequate rate of revenue and billings growth and our expectations regarding such growth;
- our market opportunity, business plan and ability to effectively manage our growth;
- our ability to achieve profitability and expand or maintain positive cash flow;
- our ability to achieve our long-term margin objectives;
- our ability to grow our remaining performance obligations;
- our expectations regarding our revenue mix;
- our ability to maintain, protect and enhance our brand and intellectual property;
- costs associated with defending intellectual property infringement and other claims and the frequency of such claims;
- our ability to attract and retain end-customers;
- our ability to further penetrate our existing customer base;
- our ability to displace existing products in established markets;
- our ability to expand our leadership position as a cloud content management platform;
- our ability to timely and effectively scale and adapt our existing technology;
- our ability to innovate new products and features and bring them to market in a timely manner and the expected benefits to customers and potential customers of our products;
- our investment strategy, including our plans to further invest in our business, including investment in research and development, sales and marketing, our data center infrastructure and our professional services organization, and our ability to effectively manage such investments;
- our ability to expand internationally;
- expectations about competition and its effect in our market and our ability to compete;
- the effects of seasonal trends on our operating results;
- use of non-GAAP financial measures;
- our belief regarding the sufficiency of our cash, cash equivalents and our credit facilities to meet our working capital and capital expenditure needs for at least the next 12 months;
- our expectations concerning relationships with third parties;
- our ability to attract and retain qualified employees and key personnel;
- our ability to realize the anticipated benefits of our partnerships with third parties;
- the effects of new laws, policies, taxes and regulations on our business;
- management’s plans, beliefs and objectives, including the importance of our brand and culture on our business;
- our ability to maintain, protect and enhance our brand and intellectual property;

- acquisitions of or investments in complementary companies, products, services or technologies and our ability to successfully integrate such companies or assets;
- the KKR-led investment in Box and achievement of its potential benefits;
- any potential repurchase of our Class A common stock;
- the potential impact of shareholder activism on Box's business and operations;
- the impact of the Russian invasion of Ukraine on our business and operating results; and
- the impact of public health epidemics or pandemics, such as the COVID-19 pandemic, and governmental responses thereto.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in the section titled "Risk Factors" and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Quarterly Report on Form 10-Q may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that the future results, levels of activity, performance or events and circumstances reflected in the forward-looking statements will be achieved or occur. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements. We undertake no obligation to update publicly any forward-looking statements for any reason after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results or to changes in our expectations, except as required by law.

You should read this Quarterly Report on Form 10-Q and the documents that we reference in this Quarterly Report on Form 10-Q and have filed with the SEC as exhibits to this Quarterly Report on Form 10-Q with the understanding that our actual future results, levels of activity, performance, and events and circumstances may be materially different from what we expect.

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

BOX, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	April 30, 2022 (unaudited)	January 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 391,377	\$ 416,274
Short-term investments	127,889	170,000
Accounts receivable, net	117,146	256,312
Deferred commissions	45,021	46,025
Other current assets	33,987	27,953
Total current assets	715,420	916,564
Property and equipment, net	92,043	105,755
Operating lease right-of-use assets, net	163,674	172,808
Goodwill	72,855	74,466
Deferred commissions, non-current	69,335	72,884
Other long-term assets	58,260	49,532
Total assets	\$ 1,171,587	\$ 1,392,009
LIABILITIES, CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable, accrued expenses and other current liabilities	\$ 46,459	\$ 58,942
Accrued compensation and benefits	23,972	54,705
Finance lease liabilities	38,455	41,235
Operating lease liabilities	45,741	44,608
Deferred revenue	458,084	519,485
Total current liabilities	612,711	718,975
Debt, net, non-current	367,934	367,463
Finance lease liabilities, non-current	13,278	20,836
Operating lease liabilities, non-current	156,096	168,192
Deferred revenue, non-current	10,266	14,757
Other long-term liabilities	6,916	8,993
Total liabilities	1,167,201	1,299,216
Commitments and contingencies (Note 8)		
Series A convertible preferred stock, par value of \$0.0001 per share; 500 shares (unaudited) authorized, issued and outstanding as of April 30 and January 31, 2022	488,351	487,880
Stockholders' deficit:		
Class A common stock, par value \$0.0001 per share; 1,000,000 shares authorized; 145,598 shares (unaudited) and 145,081 shares issued and outstanding as of April 30 and January 31, 2022, respectively	15	15
Additional paid-in capital	892,067	972,020
Accumulated other comprehensive loss	(8,769)	(4,543)
Accumulated deficit	(1,367,278)	(1,362,579)
Total stockholders' deficit	(483,965)	(395,087)
Total liabilities, convertible preferred stock and stockholders' deficit	\$ 1,171,587	\$ 1,392,009

See notes to condensed consolidated financial statements.

BOX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended April 30,	
	2022	2021
Revenue	\$ 238,432	\$ 202,441
Cost of revenue	62,209	60,947
Gross profit	176,223	141,494
Operating expenses:		
Research and development	61,733	50,859
Sales and marketing	83,067	69,811
General and administrative	30,799	31,087
Total operating expenses	175,599	151,757
Income (loss) from operations	624	(10,263)
Interest and other expense, net	(4,157)	(3,999)
Loss before provision for income taxes	(3,533)	(14,262)
Provision for income taxes	1,166	311
Net loss	(4,699)	(14,573)
Dividend on series A convertible preferred stock	(3,695)	—
Accretion of series A convertible preferred stock	(527)	—
Net loss attributable to common stockholders	\$ (8,921)	\$ (14,573)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.06)	\$ (0.09)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	144,725	161,733

See notes to condensed consolidated financial statements.

BOX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Three Months Ended April 30,	
	2022	2021
Net loss	\$ (4,699)	\$ (14,573)
Other comprehensive (loss) income:		
Net foreign currency translation (loss) gain	(5,266)	273
Net unrealized gain on cash flow hedge	1,064	294
Net unrealized loss on available-for-sale securities	(24)	—
Other comprehensive (loss) income	(4,226)	567
Comprehensive loss	<u>\$ (8,925)</u>	<u>\$ (14,006)</u>

See notes to condensed consolidated financial statements.

BOX, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CONVERTIBLE PREFERRED STOCK AND STOCKHOLDERS' (DEFICIT) EQUITY
(In thousands)
(Unaudited)

Three Months Ended April 30, 2022									
	Series A Convertible Preferred Stock		Class A Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Deficit	
	Shares	Amount	Shares	Amount					
Balance as of January 31, 2022	500	\$ 487,880	145,081	\$ 15	\$ 972,020	\$ (4,543)	\$ (1,362,579)	\$ (395,087)	
Issuance of common stock under employee equity plans, net of shares withheld for employee payroll taxes	—	—	4,159	—	(27,394)	—	—	(27,394)	
Stock consideration in connection with fiscal 2022 acquisition	—	—	559	—	—	—	—	—	
Stock-based compensation related to stock awards	—	—	—	—	61,785	—	—	61,785	
Accretion and dividend on series A convertible preferred stock, net of dividends paid	—	471	—	—	(4,221)	—	—	(4,221)	
Repurchases of common stock	—	—	(4,201)	—	(110,123)	—	—	(110,123)	
Other comprehensive loss	—	—	—	—	—	(4,226)	—	(4,226)	
Net loss	—	—	—	—	—	—	(4,699)	(4,699)	
Balance as of April 30, 2022	500	\$ 488,351	145,598	\$ 15	\$ 892,067	\$ (8,769)	\$ (1,367,278)	\$ (483,965)	

Three Months Ended April 30, 2021									
	Series A Convertible Preferred Stock		Class A Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity	
	Shares	Amount	Shares	Amount					
Balance as of January 31, 2021	—	\$ —	159,851	\$ 16	\$ 1,473,666	\$ (938)	\$ (1,321,679)	\$ 151,065	
Cumulative adjustment due to adoption of ASU 2020-06	—	—	—	—	(68,576)	—	559	(68,017)	
Issuance of common stock under employee equity plans, net of shares withheld for employee payroll taxes	—	—	2,911	—	(1,878)	—	—	(1,878)	
Stock consideration in connection with fiscal 2022 acquisition	—	—	—	—	10,000	—	—	10,000	
Stock-based compensation related to stock awards	—	—	—	—	47,649	—	—	47,649	
Other comprehensive income	—	—	—	—	—	567	—	567	
Net loss	—	—	—	—	—	—	(14,573)	(14,573)	
Balance as of April 30, 2021	—	\$ —	162,762	\$ 16	\$ 1,460,861	\$ (371)	\$ (1,335,693)	\$ 124,813	

See notes to condensed consolidated financial statements.

BOX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended April 30,	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (4,699)	\$ (14,573)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	18,536	19,380
Stock-based compensation expense	47,110	41,790
Amortization of deferred commissions	13,145	10,517
Other	299	443
Changes in operating assets and liabilities:		
Accounts receivable, net	136,876	116,835
Deferred commissions	(9,059)	(7,927)
Operating lease right-of-use assets, net	9,992	10,852
Other assets	(15,368)	(8,816)
Accounts payable, accrued expenses and other liabilities	(18,450)	(11,906)
Operating lease liabilities	(11,866)	(13,927)
Deferred revenue	(58,786)	(47,896)
Net cash provided by operating activities	107,730	94,772
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of short-term investments	(37,883)	(50,000)
Maturities of short-term investments	80,000	—
Purchases of property and equipment, net of sale proceeds	(558)	(1,145)
Capitalized internal-use software costs	(2,532)	(1,178)
Acquisitions, net of cash acquired	(300)	(56,642)
Other	(315)	—
Net cash provided by (used in) investing activities	38,412	(108,965)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repurchases of common stock	(117,240)	—
Payments of dividends to preferred stockholders	(3,750)	—
Proceeds from issuances of common stock under employee equity plans	14,464	13,866
Employee payroll taxes paid for net settlement of stock awards	(41,839)	(15,684)
Principal payments of finance lease liabilities	(11,503)	(13,262)
Other	(2,323)	(3,768)
Net cash used in financing activities	(162,191)	(18,848)
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(8,501)	(211)
Net decrease in cash, cash equivalents, and restricted cash	(24,550)	(33,252)
Cash, cash equivalents, and restricted cash, beginning of period⁽¹⁾	416,888	595,511
Cash, cash equivalents, and restricted cash, end of period⁽¹⁾	<u>\$ 392,338</u>	<u>\$ 562,259</u>

(1) Restricted cash is included in other current assets for the periods presented.

See notes to condensed consolidated financial statements.

BOX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Description of Business and Basis of Presentation

Description of Business

We were incorporated in the state of Washington in April 2005, and were reincorporated in the state of Delaware in March 2008. We changed our name from Box.Net, Inc. to Box, Inc. in November 2011. Box provides a leading cloud content management platform that enables organizations of all sizes to securely manage cloud content while allowing easy, secure access and sharing of this content from anywhere, on any device.

Basis of Presentation

The accompanying condensed consolidated balance sheet as of April 30, 2022 and the condensed consolidated statements of operations, the condensed consolidated statements of comprehensive loss, the condensed consolidated statements of convertible preferred stock and stockholders' (deficit) equity, and the condensed consolidated statements of cash flows for the three months ended April 30, 2022 and 2021, respectively, are unaudited. The condensed consolidated balance sheet data as of January 31, 2022 was derived from the audited consolidated financial statements that are included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2022 (the Form 10-K), which was filed with the Securities and Exchange Commission (the SEC) on March 16, 2022. The accompanying statements should be read in conjunction with the audited consolidated financial statements and related notes contained in our Form 10-K. There have been no other material changes to our critical accounting policies and estimates during the three months ended April 30, 2022 from those disclosed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K.

The accompanying condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all of the financial information and footnotes required by GAAP for complete financial statements. In the opinion of our management, the unaudited condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements in the Form 10-K and include all adjustments necessary for the fair presentation of our balance sheet as of April 30, 2022, and our results of operations, including our comprehensive loss, our convertible preferred stock and stockholders' (deficit) equity, and our cash flows for the three months ended April 30, 2022 and 2021. All adjustments are of a normal recurring nature. The results for the three months ended April 30, 2022 are not necessarily indicative of the results to be expected for any subsequent quarter or for the fiscal year ending January 31, 2023.

Certain prior period amounts reported in our condensed consolidated financial statements and notes thereto have been reclassified to conform to the current year presentation. Such reclassifications did not affect total revenues, operating income (loss), or net income (loss).

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make, on an ongoing basis, estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ from these estimates. Such estimates include, but are not limited to, the fair value of acquired intangible assets and goodwill, useful lives of acquired intangible assets and property and equipment, timing and costs associated with our asset retirement obligations, the standalone selling price allocation included in contracts with multiple performance obligations, the expected benefit period for deferred commissions, the useful life of capitalized internal-use software costs, the incremental borrowing rate we use to determine our lease liabilities, the valuation of deferred income tax assets, and unrecognized tax benefits, among others. Management bases its estimates on historical experience and on various other assumptions which management believes to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Certain Risks and Concentrations

Our financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, short-term investments, and accounts receivable. Although we deposit our cash with multiple financial institutions, our deposits, at times, may exceed deposit insurance coverage limits.

We sell to a broad range of customers. Our revenue is derived primarily from the United States across a multitude of industries. Accounts receivable are derived from the delivery of our services to customers primarily located in the United States. We accept and settle our accounts receivable using credit cards, electronic payments and checks. A majority of our lower dollar value invoices are settled by credit card on or near the date of the invoice. We do not require collateral from customers to secure accounts receivable. We maintain an allowance for doubtful accounts based upon the expected collectability, which takes into consideration specific customer creditworthiness and current economic trends. We believe collections of our accounts receivable are probable based on the size, industry diversification, financial condition and past transaction history of our customers. As of April 30, 2022, no single customer accounted for more than 10% of total accounts receivable. As of January 31, 2022, one reseller, which is also a customer, accounted for more than 10% of total accounts receivable. No single customer represented over 10% of our revenue for the three months ended April 30, 2022 and 2021.

We serve our customers and users from data center facilities operated by third parties. In order to reduce the risk of down time of our subscription services, we have established data centers and third-party cloud computing and hosting providers in various locations in the United States and abroad. We have internal procedures to restore services in the event of disaster at any one of our current data center facilities. Even with these procedures for disaster recovery in place, our cloud services could be significantly interrupted during the implementation of the procedures to restore services.

Geographic Locations

For the three months ended April 30, 2022 and 2021, revenue attributable to customers in the United States was 66% and 69%, respectively. For the three months ended April 30, 2022 and 2021, revenue attributable to customers in Japan was 19% and 17%, respectively.

As of April 30, 2022 and January 31, 2022, substantially all of our property and equipment was located in the United States.

Summary of Significant Accounting Policies

Marketable Securities

We classify our marketable securities as available-for-sale securities as we may sell these securities at any time for use in operations or for other purposes. We record such securities at fair value in our condensed consolidated balance sheet, with unrealized gains or losses reported as a component of accumulated other comprehensive loss. The amount of unrealized gains or losses reclassified into earnings is based on specific identification when the securities are sold. We periodically evaluate if any security has experienced credit-related declines in fair value, which are recorded against an allowance for credit losses with an offsetting entry to interest and other expense, net on the condensed consolidated statement of operations.

There have been no other material changes to our significant accounting policies during the three months ended April 30, 2022 from those disclosed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Form 10-K for the fiscal year ended January 31, 2022.

Note 2. Revenue

Contract Assets

Contract assets, which are presented within accounts receivable, was \$1.5 million and \$1.1 million as of April 30, 2022 and January 31, 2022, respectively.

Deferred Revenue

Deferred revenue was \$468.4 million and \$534.2 million as of April 30, 2022 and January 31, 2022, respectively. During the three months ended April 30, 2022 and 2021, we recognized \$202.4 million and \$167.4 million of revenue that was included in the deferred revenue balance as of January 31, 2022 and 2021, respectively.

Transaction Price Allocated to the Remaining Performance Obligations

As of April 30, 2022, we had remaining performance obligations from contracts with customers of \$1.0 billion. We expect to recognize revenue on 62% of these remaining performance obligations over the next 12 months, with the substantial majority of the remaining balance expected to be recognized within 24 months.

Note 3. Fair Value of Financial Instruments

The amortized cost, unrealized gain (loss) and estimated fair value of marketable securities were as follows (in thousands):

	April 30, 2022			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Cash equivalents:				
U.S treasury securities	\$ 9,999	\$ —	\$ —	\$ 9,999
Commercial paper	1,999	—	—	1,999
Money market funds	166,263	—	—	166,263
Total cash equivalents	\$ 178,261	\$ —	\$ —	\$ 178,261
Short-term investments:				
U.S treasury securities	\$ 35,921	\$ —	\$ (24)	\$ 35,897
Commercial paper	1,992	—	—	1,992
Total short-term investments	\$ 37,913	\$ —	\$ (24)	\$ 37,889
Total cash equivalents and short-term investments	\$ 216,174	\$ —	\$ (24)	\$ 216,150

	January 31, 2022			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Cash equivalents:				
Money market funds	\$ 202,446	\$ —	\$ —	\$ 202,446
Total cash equivalents	\$ 202,446	\$ —	\$ —	\$ 202,446

As of April 30, 2022, contractual maturities of marketable securities were all within one year.

As of April 30, 2022, we do not consider any portion of the unrealized losses to be credit losses.

Fair Value Measurements

We measure our financial assets and liabilities at fair value at each reporting period using a fair value hierarchy which requires us to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. We define fair value as the exchange price that would be received from selling an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A financial instrument's classification within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value:

- Level 1—Observable inputs are unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2—Observable inputs are quoted prices for similar assets and liabilities in active markets or inputs other than quoted prices which are observable for the assets or liabilities, either directly or indirectly through market corroboration, for substantially the full term of the financial instruments.
- Level 3—Unobservable inputs that are supported by little or no market activity and are significant to the fair value of the assets or liabilities. These inputs are based on our own assumptions used to measure assets and liabilities at fair value and require significant management judgment or estimation.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Financial assets subject to the fair value disclosure requirements were as follows (in thousands):

	April 30, 2022			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
U.S treasury securities	\$ 9,999	\$ —	\$ —	\$ 9,999
Commercial paper	—	1,999	—	1,999
Money market funds	166,263	—	—	166,263
Total cash equivalents	\$ 176,262	\$ 1,999	\$ —	\$ 178,261
Short-term investments:				
U.S treasury securities	\$ 35,897	\$ —	\$ —	\$ 35,897
Commercial paper	—	1,992	—	1,992
Total short-term investments	\$ 35,897	\$ 1,992	\$ —	\$ 37,889
Total cash equivalents and short-term investments	\$ 212,159	\$ 3,991	\$ —	\$ 216,150

	January 31, 2022			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$ 202,446	\$ —	\$ —	\$ 202,446

As of April 30, 2022 and January 31, 2022, we had certificates of deposit for a total of \$90 million and \$170 million, respectively, with original maturities of more than three months and less than twelve months that are classified as short-term investments in our consolidated balance sheet.

Fair Value Measurements of Other Financial Instruments

In November 2017, we entered into a secured credit agreement (as amended or otherwise modified from time to time, the “November 2017 Facility”). As of April 30, 2022 and January 31, 2022, we had total debt outstanding relating to the November 2017 Facility with a carrying amount of \$30.0 million. The estimated fair value of the November 2017 Facility, which we have classified as a Level 2 financial instrument, approximates its carrying value.

In January 2021, we issued \$345.0 million aggregate principal amount of 0.00% convertible senior notes due January 15, 2026 (the “Notes”). The fair value of the Notes is determined using observable market prices. The fair value of the Notes, which we have classified as a Level 2 instrument, was \$458.6 million and \$413.1 million as of April 30, 2022 and January 31, 2022, respectively.

Note 4. Balance Sheet Components

Property and Equipment, Net

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

	April 30, 2022	January 31, 2022
Servers and related equipment	\$ 353,906	\$ 353,787
Leasehold improvements	79,196	75,981
Computer hardware	21,284	20,935
Furniture and fixtures	15,307	14,421
Construction in progress	755	6,324
Total property and equipment	470,448	471,448
Less: accumulated depreciation	(378,405)	(365,693)
Total property and equipment, net	\$ 92,043	\$ 105,755

As of April 30, 2022, the gross carrying amount of property and equipment included \$258.9 million of servers and related equipment and construction in progress acquired under finance leases, and the accumulated depreciation of property and equipment acquired under these finance leases was \$207.6 million. As of January 31, 2022, the gross carrying amount of property and equipment included \$258.8 million of servers and related equipment and construction in progress acquired under finance leases, and the accumulated depreciation of property and equipment acquired under these finance leases was \$196.6 million.

Depreciation expense related to property and equipment was \$14.8 million and \$16.2 million for the three months ended April 30, 2022 and 2021, respectively. Included in these amounts were depreciation expense for servers and related equipment acquired under finance leases in the amount of \$12.0 million and \$13.1 million for the same periods, respectively.

Operating Lease Right-of-Use Assets, Net

Operating lease right-of-use assets, net consisted of the following (in thousands):

	April 30, 2022	January 31, 2022
Operating lease right-of-use assets	\$ 290,407	\$ 290,808
Less: accumulated amortization	(126,733)	(118,000)
Operating lease right-of-use assets, net	<u>\$ 163,674</u>	<u>\$ 172,808</u>

Note 5. Leases

We have entered into various non-cancellable operating lease agreements for certain of our offices and data centers with lease periods expiring primarily between fiscal years 2023 and 2029. Certain of these arrangements have free or escalating rent payment provisions and optional renewal or termination clauses. Our operating leases typically include variable lease payments, which are primarily comprised of common area maintenance and utility charges for our offices and power and network connections for our data centers, that are determined based on actual consumption. Our operating lease agreements do not contain any residual value guarantees, covenants, or other restrictions.

We have also entered into various finance lease arrangements to obtain servers and related equipment for our data center operations. These agreements are primarily for four years and certain of these arrangements have optional renewal or termination clauses. The leases are secured by the underlying leased servers and related equipment.

We sublease certain floors of our Redwood City and London offices. Our current subleases have total lease terms ranging from 11 to 96 months that will expire at various dates by fiscal year 2025.

The components of lease cost, which were included in operating expenses in our condensed consolidated statements of operations, were as follows (in thousands):

	Three Months Ended April 30,	
	2022	2021
Finance lease cost:		
Amortization of finance lease right-of-use assets	\$ 11,960	\$ 13,082
Interest on finance lease liabilities	665	1,171
Operating lease cost, gross	12,589	13,780
Variable lease cost, gross	1,992	2,302
Sublease income	(2,256)	(3,194)
Total lease cost	<u>\$ 24,950</u>	<u>\$ 27,141</u>

As of April 30, 2022, maturities of our operating and finance lease liabilities, which do not include short-term leases and variable lease payments, are as follows (in thousands):

Years ending January 31:	Operating Leases (1)	Finance Leases
Remainder of 2023	\$ 41,196	\$ 32,287
2024	54,253	\$ 19,585
2025	36,182	\$ 1,574
2026	31,731	—
2027	30,393	—
Thereafter	35,999	—
Total lease payments	\$ 229,754	\$ 53,446
Less: imputed interest	\$ (27,917)	\$ (1,713)
Present value of total lease liabilities	\$ 201,837	\$ 51,733

(1) Non-cancellable sublease proceeds for the remainder of the fiscal year ending January 31, 2023 and the fiscal years ending January 31, 2024, and 2025, of \$5.8 million, \$4.5 million, and \$4.2 million, respectively, are not included in the table above.

Note 6. Acquisitions

Results of operations for the acquisitions described in this Note have been included in our consolidated statements of operations since the acquisition dates and were not material. Pro forma results of operations for these acquisitions have not been presented because they were also not material to the consolidated results of operations.

SignRequest B.V.

On February 8, 2021, we completed the acquisition of SignRequest B.V. (SignRequest), an e-signature provider, for total aggregate consideration of \$54.3 million comprised of a combination of cash and shares of our Class A common stock. Box acquired SignRequest to develop Box Sign, an e-signature capability that will be developed on Sign-Request's technology and natively integrated into Box.

The consideration paid was \$44.3 million of cash and 550,366 shares of our Class A common stock valued at \$10.0 million.

Under the acquisition method of accounting, the total final purchase price was allocated to SignRequest's net tangible and intangible assets based upon their estimated fair values as of the acquisition date. Of the total purchase price, \$43.4 million was allocated to goodwill, \$14.9 million to the acquired developed technology, \$2.5 million to deferred tax liability and the remainder to net liabilities assumed which were not material. The goodwill recognized was primarily attributed to increased synergies that are expected to be achieved from the integration of the acquired developed technology into the Box service. Goodwill is non-deductible for tax purposes.

Cloud FastPath

On February 16, 2021, we purchased certain assets and assumed certain liabilities of, and hired certain employees from, Cloud FastPath, a cloud-based content migration solution, for total consideration of \$14.8 million paid in cash. We entered into this agreement with Cloud FastPath to supplement and enhance Box Shuttle, our full-service content migration program.

The fair value of the consideration transferred on the date of purchase totaled \$14.8 million, which consisted of cash consideration of \$12.4 million and \$2.4 million which has been held back for fifteen months from the date of purchase as partial security against indemnification obligations.

Under the acquisition method of accounting, the total final purchase price was allocated to Cloud FastPath's net tangible and intangible assets based on their estimated fair values as of the date of purchase. Of the total purchase price, \$13.2 million was allocated to goodwill, \$5.8 million to the acquired developed technology, \$4.8 million to deferred revenue and the remainder to net assets assumed which were not material. The goodwill recognized was primarily attributed to increased synergies that are expected to be achieved from the integration of the acquired developed technology into the Box service. Goodwill is deductible for tax purposes.

Note 7. Goodwill and Acquired Intangible Assets

Goodwill was \$72.9 million and \$74.5 million as of April 30, 2022 and January 31, 2022, respectively. Goodwill balances were partially offset by the effect of foreign currency translation. Goodwill as of January 31, 2022 included the acquisitions of SignRequest and Cloud FastPath described in Note 6 and others. We did not record any goodwill impairment during the three months ended April 30, 2022 and 2021.

Acquired intangible assets are included in other long-term assets in the condensed consolidated balance sheets. Acquired intangible assets consisted of the following (in thousands):

	Weighted-Average Remaining Useful Life (Years)	Gross Value	Accumulated Amortization	Net Carrying Value
Balance as of January 31, 2022		\$ 22,711	\$ (5,003)	\$ 17,708
Developed technology	3.04	160	(1,452)	(1,292)
Balance as of April 30, 2022		<u>\$ 22,871</u>	<u>\$ (6,455)</u>	<u>\$ 16,416</u>

Acquired intangible assets are amortized on a straight-line basis over the useful life. Acquired intangible assets amortization was \$1.5 million and \$0.9 million for the three months ended April 30, 2022 and 2021, respectively. Amortization of acquired developed technology is included in cost of revenue in the condensed consolidated statements of operations.

As of April 30, 2022, expected amortization expense for acquired intangible assets was as follows (in thousands):

Fiscal years ending January 31:

Remainder of 2023	\$ 4,356
2024	5,808
2025	3,490
2026	2,762
Total	<u>\$ 16,416</u>

Note 8. Commitments and Contingencies

Letters of Credit

As of April 30, 2022 and January 31, 2022, we had letters of credit in the aggregate amount of \$18.6 million in connection with our operating leases and voluntary disability insurance (VDI) program, which were primarily issued under the available sublimit for the issuance of letters of credit in conjunction with a secured credit agreement as disclosed in Note 9.

Purchase Obligations

Our purchase obligations relate primarily to infrastructure services and IT software and support services costs. As of April 30, 2022, future payments under non-cancellable contractual purchases, which were not recognized on our condensed consolidated balance sheet, are as follows, shown in accordance with the payment due date (in thousands):

Fiscal years ending January 31:

2023	\$ 3,745
2024	9,815
2025	144,984
2026	—
2027	263,750
Total	<u>\$ 422,294</u>

Our contracts for infrastructure services and IT software, which have terms ranging from 2 to 8 years, support our long-term goals of improving gross margin. In addition to the purchase obligations included above, as of April 30, 2022, we recognized a total of \$6.2 million related to non-cancellable contractual purchases, which were included in accounts payable, accrued expenses and other

current liabilities and other long-term liabilities on the condensed consolidated balance sheet. \$6.0 million and \$0.2 million is due to be paid in the remainder of the fiscal year ending January 31, 2023 and the fiscal year ending January 31, 2024, respectively.

Legal Matters

From time to time, we are subject to litigation and claims that arise in the ordinary course of business. We investigate litigation and claims as they arise and accrue estimates for resolution of legal and other contingencies when losses are probable and estimable. Although the results of litigation and claims cannot be predicted with certainty, we believe there was not at least a reasonable possibility that we had incurred a material loss with respect to such loss contingencies as of April 30, 2022.

Indemnification

We include service level commitments to our customers warranting certain levels of uptime reliability and performance and permitting those customers to receive credits in the event that we fail to meet those levels. In addition, our customer contracts often include (i) specific obligations that we maintain the availability of the customer's data through our service and that we secure customer content against unauthorized access or loss, and (ii) indemnity provisions whereby we indemnify our customers for third-party claims asserted against them that result from our failure to maintain the availability of their content or securing the same from unauthorized access or loss. To date, we have not incurred any material costs as a result of such commitments.

Our arrangements generally include certain provisions for indemnifying customers against liabilities if our products or services infringe a third party's intellectual property rights. It is not possible to determine the maximum potential amount under these indemnification obligations due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each particular agreement. To date, we have not incurred any material costs as a result of such obligations and have not accrued any material liabilities related to such obligations in the condensed consolidated financial statements. In addition, we indemnify our officers, directors and certain key employees while they are serving in good faith in their respective capacities. To date, there have been no claims under any indemnification provisions.

Note 9. Debt

Convertible Senior Notes

In January 2021, we issued \$345.0 million aggregate principal amount of 0.00% convertible senior notes due January 15, 2026. The Notes are senior unsecured obligations and do not bear regular interest. Each \$1,000 principal amount of the Notes will be convertible into 38.7962 shares of our Class A common stock, which is equivalent to a conversion price of approximately \$25.78 per share.

There have been no changes to the conversion or redemption terms of the Notes during the three months ended April 30, 2022 from those disclosed in Item 8. Financial Statements and Supplementary Data in our Form 10-K for the fiscal year ended January 31, 2022.

As of April 30, 2022, the conditions allowing holders of the Notes to convert were not met.

The net carrying amount of the Notes consisted of the following (in thousands):

	April 30, 2022	January 31, 2022
Principal	\$ 345,000	\$ 345,000
Unamortized issuance costs	(7,066)	(7,537)
Net carrying amount	<u>\$ 337,934</u>	<u>\$ 337,463</u>

Issuance costs are being amortized to interest expense over the term of the Notes using the effective interest rate method. The effective interest rate used to amortize the issuance costs was 0.56%. For the three months ended April 30, 2022 and 2021, our interest expense recognized related to the Notes were not material.

Capped Calls

In connection with the pricing of the Notes, we entered into privately negotiated capped call transactions with certain counterparties (the "Capped Calls"). The Capped Calls each have a strike price of approximately \$25.80 per share, subject to certain adjustments, which correspond to the initial conversion price of the Notes. The Capped Calls have initial cap prices of \$35.58 per share, subject to certain adjustments. The Capped Calls cover, subject to anti-dilution adjustments, approximately 13.4 million shares

of our Class A common stock. The Capped Calls are generally intended to reduce or offset the potential dilution to our common stock upon any conversion of the Notes with such reduction or offset, as the case may be, subject to a cap based on the cap price. The Capped Calls are separate transactions, and not part of the terms of the Notes. As these transactions meet certain accounting criteria, the Capped Calls are recorded in stockholders' (deficit) equity and are not accounted for as derivatives. The cost of \$27.8 million incurred in connection with the Capped Calls was recorded as a reduction to additional paid-in capital.

Line of Credit

On November 27, 2017, we entered into a secured credit agreement (as amended or otherwise modified from time to time, the November 2017 Facility). On July 26, 2021, we entered into Amendment No. 4 to the November 2017 Facility. Pursuant to the terms of the amendment, the maturity date of borrowings under the November 2017 Facility is July 26, 2024, the revolving commitment is \$65.0 million, and it provides for a sublimit for the issuance of letters of credit of \$45.0 million. The revolving loans accrue interest at a LIBOR rate (based on one, three or six-month interest periods) plus a margin ranging from 1.15% to 1.65%. The margin is determined based on the senior secured leverage ratio, as defined in the November 2017 Facility. Borrowings under the November 2017 Facility are collateralized by substantially all of our assets. The November 2017 Facility requires us to comply with a maximum leverage ratio and a minimum liquidity requirement. Additionally, the November 2017 Facility contains customary affirmative and negative covenants.

As of April 30, 2022, we had total debt outstanding with a carrying amount of \$30.0 million and we were in compliance with all financial covenants.

Note 10. Redeemable Convertible Preferred Stock and Stockholders' Deficit

Series A Convertible Preferred Stock

On April 7, 2021, we entered into an investment agreement with group of investors led by KKR & Co. Inc. (collectively "KKR") relating to the issuance and sale of 500,000 shares of our Series A Convertible Preferred Stock, par value \$0.0001 per share, for an aggregate purchase price of \$500 million, or \$1,000 per share. The closing of the Issuance occurred on May 12, 2021 (the "Closing Date").

The Series A Preferred Stock rank senior to our Class A common stock with respect to dividend rights and rights on the distribution of assets on any voluntary or involuntary liquidation, dissolution or winding up of the affairs of Box. The Series A Preferred Stock initially have a liquidation preference of \$1,000 per share. Holders of the Series A Preferred Stock are entitled to a cumulative dividend (the "Dividend") at the rate of 3.0% per annum, compounding quarterly, paid-in-kind or paid in cash, at our election. For any quarter in which we elect not to pay the Dividend in cash with respect to a share of Series A Preferred Stock, such Dividend will become part of the liquidation preference of such share, as set forth in the Certificate of Designations designating the Series A Preferred Stock (the "Certificate of Designations"). During the three months ended April 30, 2022, we paid cash dividends to our Series A Preferred Stockholders in the amount of \$3.8 million and as of April 30, 2022, we had accrued dividends of \$1.2 million on the Series A Preferred Stock. Accrued dividends are recorded against additional paid-in capital due to Box being in an accumulated deficit position. During the three months ended April 30, 2022, we recognized \$0.5 million of accretion.

The Series A Preferred Stock is convertible at the option of the holders thereof at any time into shares of Class A common stock at an initial conversion price of \$27.00 per share. At any time after the third anniversary of the Closing Date, if the volume weighted average price of our Class A common stock exceeds 200% of the conversion price set forth in the Certificate of Designations, for at least 20 trading days in any period of 30 consecutive trading days, including the last day of such trading period, at our election, all of the Series A Preferred Stock will be convertible into the applicable number of shares of Class A common stock.

There have been no changes to the voting rights or redemption terms of the Series A Preferred Stock during the three months ended April 30, 2022 from those disclosed in Item 8. Financial Statements and Supplementary Data in our Form 10-K for the fiscal year ended January 31, 2022.

Share Repurchase Plan

Between July 2021 and April 30, 2022, our board of directors authorized the repurchase of up to an aggregate of \$610 million of shares of our Class A common stock. As of April 30, 2022, we had used approximately \$438.4 million to repurchase 17.5 million shares and approximately \$147.7 million remained available for additional share repurchases. During the three months ended April 30, 2022, we repurchased 4.2 million shares at a weighted average price of \$26.17 per share for a total amount of \$109.9 million.

Note 11. Stock-Based Compensation

Employee Equity Plans

In January 2015, our board of directors adopted the 2015 Equity Incentive Plan (the “2015 Plan”), which became effective prior to the completion of our initial public offering (“IPO”). Awards granted under the 2015 Plan may be (i) incentive stock options, (ii) nonstatutory stock options, (iii) restricted stock units, (iv) restricted stock awards or (v) stock appreciation rights, as determined by our board of directors at the time of grant. Generally, our restricted stock units vest over four years and, (a) for employee new hire restricted stock unit grants, twenty-five percent vest one year from the vesting commencement date and continue to vest 1/16th per quarter thereafter; or (b) for employee refresh restricted stock unit grants, 1/16th per quarter vest from the vesting commencement date. As of April 30, 2022, 23,256,575 shares were reserved for future issuance under the 2015 Plan.

In January 2015, our board of directors adopted the 2015 Employee Stock Purchase Plan (the “2015 ESPP”), which became effective prior to the completion of our IPO. The 2015 ESPP allows eligible employees to purchase shares of our Class A common stock at a discount of up to 15% through payroll deductions of their eligible compensation, subject to any plan limitations. The 2015 ESPP provides for 24-month offering periods beginning March 16 and September 16 of each year, and each offering period consists of four six-month purchase periods.

On each purchase date, eligible employees may purchase our stock at a price per share equal to 85% of the lesser of (1) the fair market value of our stock on the offering date or (2) the fair market value of our stock on the purchase date. In the event the price is lower on the last day of any purchase price period, in addition to using that price as the basis for that purchase period, the offering period resets and the new lower price becomes the new offering price for a new 24 month offering period. As of April 30, 2022, 5,795,134 shares were reserved for future issuance under the 2015 ESPP.

Stock Options

The following table summarizes the stock option activity under the equity incentive plans and related information:

	Shares Subject to Options Outstanding		Weighted-Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
	Shares	Weighted-Average Exercise Price		
Balance as of January 31, 2022	5,726,893	\$ 11.74	3.04	\$ 82,481
Options granted	—	—		
Options exercised	(2,056,625)	2.99		
Options forfeited/cancelled	(650,000)	20.28		
Balance as of April 30, 2022	3,020,268	\$ 15.85	4.04	\$ 44,607
Vested and expected to vest as of April 30, 2022	3,014,014	\$ 15.84	4.04	\$ 44,538
Exercisable as of April 30, 2022	2,894,679	\$ 15.69	3.92	\$ 43,212

As of April 30, 2022, there was \$0.2 million of unrecognized stock-based compensation expense related to outstanding stock options granted to employees that is expected to be recognized over a weighted-average period of less than one year.

Restricted Stock Units

The following table summarizes the restricted stock unit activity under the equity incentive plans and related information:

	Number of Restricted Stock Units Outstanding	Weighted-Average Grant Date Fair Value
Unvested balance - January 31, 2022	14,840,913	\$ 21.35
Granted	6,648,364	29.16
Vested	(2,376,125)	22.75
Forfeited/cancelled	(718,642)	21.34
Unvested balance - October 31, 2021	18,394,510	\$ 23.99

As of April 30, 2022, there was \$412.4 million of unrecognized stock-based compensation expense related to outstanding restricted stock units granted to employees that is expected to be recognized over a weighted-average period of 3.06 years.

Performance-Based Restricted Stock Units

We use performance-based incentives for certain employees, including our named executive officers, to achieve our annual financial and operational objectives, while making progress towards our longer-term strategic and growth goals. Based on a review of our actual achievement of pre-established corporate financial objectives and additional inputs from our Compensation Committee, the Fiscal 2022 Executive Bonus Plan was determined, settled and paid out in the first quarter of fiscal year 2023 in the form of fully vested restricted stock units. During the first quarter of fiscal year 2023, our Compensation Committee also adopted and approved the performance criteria and targets for the Fiscal 2023 Executive Bonus Plan, which is expected to be paid out in the form of cash and fully vested restricted stock units in the first quarter of fiscal year 2024.

During the three months ended April 30, 2022, we recognized stock-based compensation expense related to the Fiscal 2022 and Fiscal 2023 Executive Bonus Plans in the amount of \$4.5 million and \$2.4 million, respectively. The unrecognized compensation expense related to the ungranted and unvested Fiscal 2023 Executive Bonus Plan is \$10.9 million, based on the expected performance against the pre-established corporate financial objectives as of April 30, 2022, which is expected to be recognized over a remaining weighted-average period of less than one year.

2015 ESPP

As of April 30, 2022, there was \$16.6 million of unrecognized stock-based compensation expense related to the 2015 ESPP that is expected to be recognized over the remaining term of the respective offering periods.

Stock-Based Compensation

The following table summarizes the components of stock-based compensation expense recognized in the condensed consolidated statements of operations (in thousands):

	Three Months Ended April 30,	
	2022	2021
Cost of revenue	\$ 4,355	\$ 5,340
Research and development	17,726	15,453
Sales and marketing	15,289	11,551
General and administrative	9,740	9,446
Total stock-based compensation	<u>\$ 47,110</u>	<u>\$ 41,790</u>

Note 12. Net Loss per Share

The following table sets forth the computation of basic and diluted net loss per share (in thousands, except per share amounts):

	Three Months Ended April 30,	
	2022	2021
Numerator:		
Net loss	\$ (4,699)	\$ (14,573)
Dividend on series A convertible preferred stock	(3,695)	—
Accretion of series A convertible preferred stock	(527)	—
Net loss attributable to common stockholders	<u>\$ (8,921)</u>	<u>\$ (14,573)</u>
Denominator:		
Weighted-average number of shares used to compute net loss per share attributable to common stockholders, basic and diluted	144,725	161,733
Net loss per share attributable to common stockholders, basic and diluted	<u>\$ (0.06)</u>	<u>\$ (0.09)</u>

The following weighted-average outstanding shares of common stock equivalents were excluded from the computation of diluted net loss per share for the periods presented because the impact of including them would have been antidilutive (in thousands):

	Three Months Ended April 30,	
	2022	2021
Options to purchase common stock	3,896	5,369
Restricted stock units	15,682	15,471
Employee stock purchase plan	1,746	1,743
Shares related to convertible preferred stock	18,540	—
Shares related to the convertible senior notes	1,007	601
Total	40,871	23,184

Note 13. Income Taxes

We evaluate uncertain tax positions for recognition using a more-likely-than-not recognition threshold, and those tax positions eligible for recognition are measured as the largest amount of tax benefit that is greater than 50% likely of being realized upon the effective settlement with a taxing authority that has full knowledge of all relevant information. We believe that we have provided adequate reserves for our income tax uncertainties in all open tax years.

We file tax returns in the U.S. for federal, California, and other states. All tax years remain open to examination for both federal and state purposes as a result of our net operating loss and credit carryforwards. We file tax returns in the United Kingdom and other foreign jurisdictions in which we operate. Certain tax years remain open to examination.

Note 14. Segments

Our chief operating decision maker reviews financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance. As such, we have a single reporting segment and operating unit structure. Since we operate in one operating segment, all required segment information can be found in the condensed consolidated financial statements.

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

You should read the following discussion and analysis of our financial condition and results of operations together with the condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed in the section titled "Risk Factors" and in other parts of this Quarterly Report on Form 10-Q.

Overview

Box is the Content Cloud: one secure, cloud-native platform for managing the entire content journey. Content – from blueprints to wireframes, videos to documents, proprietary formats to PDFs – is the source of an organization's unique value. The Box Content Cloud enables our customers, including 67% of the Fortune 500, to securely manage the entire content lifecycle, from the moment a file is created or ingested to when it's shared, edited, published, approved, signed, classified, and retained. Box keeps content secure and compliant, while also allowing easy access and sharing of this content from anywhere, on any device – both within the organization and with external partners.

With our Software-as-a-Service (SaaS) platform, users can collaborate on content both internally and with external parties, automate content-driven business processes, develop custom applications, and implement data protection, security and compliance features to comply with legal and regulatory requirements, internal policies and industry standards and regulations. The Box Content Cloud accelerates business processes, improves employee productivity, enables secure remote work, and protects an organization's most valuable data. Our platform enables a broad set of high-value business use cases across enterprises, hundreds of file formats and media types, and user experiences. Our platform integrates with more than 1,500 leading enterprise business applications, and is compatible with multiple application environments, operating systems and devices, ensuring that workers can securely access their critical business content whenever and wherever they need it.

In addition, we continue to innovate by expanding our core services and offerings with a focus on frictionless security and compliance, seamless internal and external collaboration and workflow, and integration with best-of-breed applications. For example, we provide Box Shield, our advanced security offering that helps customers reduce the risk of accidental content leakage and protect their business from insider threats and account compromise; Box KeySafe, a solution that builds on top of Box's strong encryption and security capabilities to give customers greater control over the encryption keys used to secure the file contents that are stored with Box; Box Governance, which gives customers a better way to comply with regulatory policies, satisfy e-discovery requests and effectively manage sensitive business information throughout its lifecycle; Box Relay, which allows our end users to easily build, manage and track their own workflows; Box Sign, which enables customers to securely send documents for electronic signature directly from Box; Box Platform, which further enables customers and partners to build enterprise apps using our open APIs and developer tools; and Box Zones, which gives global customers the ability to store their content locally in certain regions. We also offer self-service and managed content migration services with Box Shuttle and Box Consulting, which provide in-house professional services such as implementation support, assisted content migration, and change management. The increasing traction of these product innovations allows our customers to realize the full set of capabilities of our Content Cloud.

We are also continuing to expand the scope of what customers can do with their content using Box. At our annual BoxWorks conference in October 2021, we announced major new developments in our partnership with Microsoft, including giving customers the ability to default to Box as a storage option in Microsoft Teams, and the ability to co-author in real time in the Microsoft Office desktop and mobile apps, with all content saved to the Box Content Cloud. We also announced new deep learning-based malware scanning in Box Shield, to enable even more rigorous protections against sophisticated malware attacks, including ransomware. In November 2021, we rolled out Box Sign, our natively integrated signature product, to all Box Business and Enterprise plan customers globally; since then, we have continued to expand its enterprise-grade functionality, including a deeper integration with Salesforce, new compliance certifications, and new features to help customers leverage Box Sign for high-volume and high-value workloads. At our Content Cloud Summit in April 2022, we announced Box Canvas, our natively integrated, interactive virtual whiteboarding tool, which we expect to be released later this year in all Box plans.

We offer our solution to our customers as a subscription-based service, with subscription fees based on the requirements of our customers, including the number of users and functionality deployed. The majority of our customers subscribe to our service through one-year contracts, although we also offer our services for terms ranging from one month to three years or more. We typically invoice our customers at the beginning of the term, in multi-year, annual, quarterly or monthly installments. We recognize revenue as we satisfy our performance obligations. Accordingly, due to our subscription model, we recognize revenue for our subscription services ratably over the term of the contract.

Current Period Highlights

For the three months ended April 30, 2022 and 2021, our revenue was \$238.4 million and \$202.4 million, respectively, representing year-over-year growth of 18%. As of April 30, 2022, our remaining performance obligations were \$1.0 billion, representing a 16% increase from our remaining performance obligations of \$864.8 million as of April 30, 2021. For the three months ended April 30, 2022, our operating income was \$0.6 million, and our operating margin was 0.3%, compared to our operating loss of \$10.3 million and our operating margin of negative 5.1% for the three months ended April 30, 2021. For the three months ended April 30, 2022, our net cash provided by operating activities was \$107.7 million, an increase of \$12.9 million from our net cash provided by operating activities of \$94.8 million for the three months ended April 30, 2021. For the three months ended April 30, 2022, our free cash flow was positive \$90.9 million, an increase of \$15.0 million from our free cash flow of positive \$75.9 million for the three months ended April 30, 2021.

COVID-19

We continue to monitor, analyze and respond to evolving developments regarding the COVID-19 pandemic, which has significantly impacted global economic activity and social practices. We have re-opened our offices globally for employees on a voluntary basis and are transitioning to a hybrid workforce (with a mix of employees working from offices and others working remotely). In addition, our customer and marketing events in the United States continue to be virtual-only experiences.

Although the COVID-19 pandemic has not had a material adverse impact on our financial results for the first quarter of our fiscal year 2023, the pandemic has negatively impacted some of our customers and prospects. As a result, we have experienced, and may continue to experience, increased customer churn and delayed sales cycles, as well as customers and prospective customers reducing budgets related to services that we offer. Despite these adverse impacts, the COVID-19 pandemic has fundamentally changed how organizations get work done, with many businesses shifting to remote and hybrid remote work environments. This shift has created additional opportunities for Box by enabling our customers' and prospects' employees to engage in secure remote work through our platform.

The extent to which the COVID-19 pandemic ultimately impacts our business, results of operations, and financial position will depend on future developments, which are uncertain and cannot be predicted at this time. These factors are described in more detail in Part II, Item 1A "Risk Factors" of this Form 10-Q. As a result, the extent and magnitude of the impact COVID-19 will have on our business and operating results cannot be predicted at this time.

Key Business Metrics

We use the key metrics below for financial and operational decision-making and as a means to evaluate period-to-period comparisons. We believe that these key metrics provide meaningful supplemental information regarding our performance. We believe that both management and investors benefit from referring to these key metrics in assessing our performance and when planning, forecasting, and analyzing future periods. These key metrics also facilitate management's internal comparisons to our historical performance as well as comparisons to certain competitors' operating results. We believe these key metrics are useful to investors both because (1) they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making and (2) they are used by institutional investors and the analyst community to help analyze the health of our business. The below data is presented in millions, except for percentage rate data.

	Three Months Ended April 30,	
	2022	2021
Remaining performance obligations (period end)	\$ 1,005.2	\$ 864.8
Remaining performance obligations growth rate	16 %	20 %
Billings	\$ 172.2	\$ 159.4
Billings growth rate	8 %	24 %
Free cash flow	\$ 90.9	\$ 75.9
Net retention rate (period end)	111 %	103 %

Remaining Performance Obligations

Remaining performance obligations (RPO) represent, at a point in time, contracted revenue that has not yet been recognized. RPO consists of deferred revenue and backlog, offset by contract assets. Backlog is defined as non-cancellable contracts deemed certain to be invoiced and recognized as revenue in future periods. Future invoicing is determined to be certain when we have an executed non-cancellable contract or a significant penalty is due upon cancellation, and invoicing is not dependent on a future event such as the delivery of a specific new product or feature, or the achievement of contractual contingencies. While Box believes RPO is a leading indicator of revenue as it represents sales activity not yet recognized in revenue, it is not necessarily indicative of future revenue growth as it is influenced by several factors, including seasonality, contract renewal timing, average contract terms and foreign currency exchange rates. Box monitors RPO to manage the business and evaluate performance.

RPO as of April 30, 2022 was \$1.0 billion, an increase of 16% from April 30, 2021. The increase in RPO was primarily driven by expansion within existing customers as they broadened their deployment of our product offerings through the conversion to multi-product Suites, resulting in extended customer contract durations. The increase in RPO was also driven by the addition of new customers and the timing of customer-driven renewals. RPO growth was partially offset by a negative impact from foreign currency exchange rates.

Billings

Billings represent our revenue plus the changes in deferred revenue and contract assets in the period. Billings we record in any particular period primarily reflect subscription renewals and expansion within existing customers plus sales to new customers, and represent amounts invoiced for all of our products and professional services. We typically invoice our customers at the beginning of the term, in multi-year, annual, quarterly or monthly installments. If the customer negotiates to pay the full subscription amount at the beginning of the period, the total subscription amount for the entire term will be reflected in billings. If the customer negotiates to be invoiced annually or more frequently, only the amount billed for such period will be included in billings.

Billings help investors better understand our sales activity for a particular period, which is not necessarily reflected in our revenue given that we recognize subscription revenue ratably over the contract term. We consider billings a significant performance measure. We monitor billings to manage our business, make planning decisions, evaluate our performance and allocate resources. We believe that billings offer valuable supplemental information regarding the performance of our business and will help investors better understand the sales volumes and performance of our business. We do not consider billings to be a non-GAAP financial measure because it is calculated using exclusively revenue, deferred revenue, and contract assets, all of which are financial measures calculated in accordance with GAAP.

Billings for the three months ended April 30, 2022 were \$172.2 million, an increase of 8% from the three months ended April 30, 2021. The increase in billings was primarily driven by expansion within existing customers as they broadened their deployment of our product offerings through the conversion to multi-product Suites, the addition of new customers, and the timing of customer-driven renewals. Billings growth was partially offset by a negative impact from foreign currency exchange rates.

Our use of billings has certain limitations as an analytical tool and should not be considered in isolation or as a substitute for revenue or an analysis of our results as reported under GAAP. Billings are recognized when invoiced, while the related subscription and premier services revenue is recognized ratably over the contract term as we satisfy a performance obligation. Also, other companies, including companies in our industry, may not use billings, may calculate billings differently, may have different billing frequencies, or may use other financial measures to evaluate their performance, all of which could reduce the usefulness of billings as a comparative measure.

Over time, we expect to continue to normalize payment durations. In addition, as we have gained and expect to continue to gain more traction with large enterprise customers, we also anticipate our quarterly billings to increasingly concentrate in the back half of our fiscal year, especially in the fourth quarter.

A calculation of billings starting with revenue, the most directly comparable GAAP financial measure, is presented below (in thousands):

	Three Months Ended April 30,	
	2022	2021
GAAP revenue	\$ 238,432	\$ 202,441
Deferred revenue, end of period	468,350	423,249
Less: deferred revenue, beginning of period	(534,242)	(465,613)
Contract assets, beginning of period	1,111	25
Less: contract assets, end of period	(1,491)	(677)
Billings	<u>\$ 172,160</u>	<u>\$ 159,425</u>

Free Cash Flow

We define free cash flow as cash flows from operating activities less purchases of property and equipment, principal payments of finance lease liabilities, capitalized internal-use software costs, and other items that did not or are not expected to require cash settlement and that management considers to be outside of our core business. We specifically identify adjusting items in our reconciliation of GAAP to non-GAAP financial measures. We consider free cash flow to be a profitability and liquidity measure that provides useful information to management and investors about the amount of cash generated by the business that can possibly be used for investing in our business and strengthening the balance sheet, but it is not intended to represent the residual cash flow available for discretionary expenditures. A reconciliation of free cash flow to net cash provided by operating activities, its nearest GAAP equivalent, is presented in the non-GAAP Financial Measures section of this report. The presentation of free cash flow is also not meant to be considered in isolation or as an alternative to cash flows from operating activities as a measure of liquidity.

For the three months ended April 30, 2022 and 2021, free cash flow was positive \$90.9 million and positive \$75.9 million, respectively.

Net Retention Rate

Net retention rate is defined as the net percentage of Total Annual Recurring Revenue (Total ARR) retained from existing customers, including expansion. We define Total ARR as the annualized recurring revenue from all active customer contracts at the end of a reporting period. We adjust exchange rates used to calculate Total ARR on an annual basis, at the beginning of each fiscal year. We calculate constant currency Total ARR growth rates by applying the current period rate to prior period results. We calculate our net retention rate as of a period end by starting with the Total ARR from customers as of 12 months prior to such period end (Prior Period Total ARR). We then calculate Total ARR from these same customers as of the current period end (Current Period Total ARR). Finally, we divide the Current Period Total ARR by the Prior Period Total ARR to arrive at our net retention rate. In calculating our net retention rate, we include only Total ARR associated with those customers who have subscribed to Box for at least 12 months. We present net retention rate on a constant currency basis to provide a framework for assessing how our business performed excluding the effects of foreign currency rate fluctuations. We believe our net retention rate is an important metric that provides insight into the long-term value of our subscription agreements and our ability to retain and grow revenue from our customer base. Net retention rate is an operational metric and there is no comparable GAAP financial measure to which we can reconcile this particular key metric.

Our net retention rate was 111% and 103% as of April 30, 2022 and 2021, respectively. Our net retention rates were primarily attributable to seat growth in existing customers and strong attach rates of add-on products and our bundled Enterprise Plus plan. As our customers purchase add-on products or our bundled Enterprise Plus plan, we tend to realize significantly higher average contract values and stronger net retention rates as compared to customers who only purchase our core product. We believe our go-to-market efforts to deliver a solution selling strategy and our investments in product, customer success, and Box Consulting, including our Box Shuttle migration offering, have been significant factors in our customer retention results. As we penetrate customer accounts, we expect our net retention rate to remain above 100% for the foreseeable future.

Components of Results of Operations

Revenue

We derive our revenue primarily from three sources: (1) subscription revenue, which is comprised of subscription fees from customers who have access to our content cloud platform including routine customer support; (2) revenue from customers purchasing our premier services package; and (3) revenue from professional services such as implementing best practice use cases, project management and implementation consulting services.

To date, practically all of our revenue has been derived from subscription and premier services. Subscription and premier services revenue are driven primarily by the number of customers, the number of seats sold to each customer and the price of our services.

We recognize revenue as we satisfy our performance obligation. Accordingly, due to our subscription model, we recognize revenue for our subscription and premier services ratably over the contract term. We typically invoice our customers at the beginning of the term, in multi-year, annual, quarterly or monthly installments. Our subscription and premier services contracts are typically non-cancellable and do not contain refund-type provisions. The majority of our customers subscribe to our service through one-year contracts, although we also offer our services for terms ranging between one month to three years or more.

Professional services are generally billed on a fixed price basis, for which revenue is recognized over time based on the proportion performed. Professional services revenue was not material as a percentage of total revenue for all periods presented.

Revenue is presented net of sales and other taxes we collect on behalf of governmental authorities.

Cost of Revenue

Our cost of revenue consists primarily of costs related to providing our subscription services to our paying customers, including employee compensation and related expenses for data center operations, customer support and professional services personnel, payments to outside technology service providers, depreciation of servers and equipment, security services and other tools, as well as amortization expense associated with acquired technology and capitalized internally developed software. We allocate overhead such as rent, information technology costs and employee benefit costs to all departments based on headcount. As such, general overhead expenses are reflected in cost of revenue and each of the operating expense categories set forth below.

Operating Expenses

Our operating expenses consist of research and development, sales and marketing, and general and administrative expenses. Personnel costs are the most significant component of each category of operating expenses. Operating expenses also include allocated overhead costs for facilities, information technology costs and employee benefit costs.

Research and Development. Research and development expense consists primarily of employee compensation and related expenses, as well as allocated overhead. Our research and development efforts are focused on scaling our platform, building an ecosystem of best-of-breed applications and platforms, infrastructure, adding enterprise grade features, functionality and enhancements such as workflow automation, intelligent content management capabilities, and advanced security to enhance the ease of use of our cloud content management services. We capitalize certain qualifying costs to develop software for internal use incurred during the application development stage.

Sales and Marketing. Sales and marketing expense consists primarily of employee compensation and related expenses, sales commissions, marketing programs, travel-related expenses, as well as allocated overhead. Marketing programs include but are not limited to advertising, events, corporate communications, brand building, and product marketing. Sales and marketing expense also consists of data center and customer support costs related to providing our cloud-based services to our free users. We market and sell our cloud content management services worldwide through our direct sales organization and through indirect distribution channels such as strategic resellers.

General and Administrative. General and administrative expense consists primarily of employee compensation and related expenses for administrative functions including finance, legal, human resources, recruiting, information systems, security, compliance, fees for external professional services and cloud-based enterprise systems, as well as allocated overhead. External professional services fees are primarily comprised of outside legal, accounting, audit and outsourcing services.

Interest and Other Expense, Net

Interest and other expense, net consists of interest expense, interest income, gains and losses from foreign currency transactions, and other income and expense. Interest expense consists primarily of interest charges for our line of credit and interest rate swap agreement, interest expense related to finance leases, and the amortization of issuance costs of our convertible senior notes. Interest income consists primarily of interest earned on our cash and cash equivalents and short-term investments. We have historically invested our cash and cash equivalents in overnight deposits, certificates of deposit, money market funds, and short term, investment-grade corporate debt, marketable securities and asset-backed securities.

Provision for Income Taxes

Provision for income taxes consists primarily of income taxes in certain foreign jurisdictions in which we conduct business and state income taxes in the United States and, as applicable, changes in our deferred taxes and related valuation allowance positions and uncertain tax positions, and taxes associated with jurisdictional transfers of intellectual property.

Results of Operations

The following tables set forth our results of operations for the periods presented (in thousands, except per share data, and as a percentage of our revenue):

	Three Months Ended April 30,	
	2022	2021
Revenue	\$ 238,432	\$ 202,441
Cost of revenue (1)	62,209	60,947
Gross profit	176,223	141,494
Operating expenses:		
Research and development (1)	61,733	50,859
Sales and marketing (1)	83,067	69,811
General and administrative (1)	30,799	31,087
Total operating expenses	175,599	151,757
Income (loss) from operations	624	(10,263)
Interest and other expense, net	(4,157)	(3,999)
Loss before provision for income taxes	(3,533)	(14,262)
Provision for income taxes	1,166	311
Net loss	(4,699)	(14,573)
Dividend on series A convertible preferred stock	(3,695)	—
Accretion of series A convertible preferred stock	(527)	—
Net loss attributable to common stockholders	\$ (8,921)	\$ (14,573)
Net loss per share attributable to common stockholders, basic and diluted	\$ (0.06)	\$ (0.09)
Weighted-average shares used to compute net loss per share attributable to common stockholders, basic and diluted	144,725	161,733

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

	Three Months Ended April 30,	
	2022	2021
Cost of revenue	\$ 4,355	\$ 5,340
Research and development	17,726	15,453
Sales and marketing	15,289	11,551
General and administrative	9,740	9,446
Total stock-based compensation	\$ 47,110	\$ 41,790

	Three Months Ended April 30,	
	2022	2021
Percentage of Revenue:		
Revenue	100 %	100 %
Cost of revenue (1)	26	30
Gross profit	74	70
Operating expenses:		
Research and development (1)	26	25
Sales and marketing (1)	35	35
General and administrative (1)	13	15
Total operating expenses	74	75
Loss from operations	—	(5)
Interest and other expense, net	(2)	(2)
Loss before provision for income taxes	(2)	(7)
Provision for income taxes	—	—
Net loss	(2) %	(7) %

(1) Includes stock-based compensation as follows:

	Three Months Ended April 30,	
	2022	2021
Cost of revenue	2 %	3 %
Research and development	8	7
Sales and marketing	6	6
General and administrative	4	5
Total stock-based compensation	20 %	21 %

Comparison of the Three Months Ended April 30, 2022 and 2021

Revenue

	Three Months Ended April 30,		\$ Change	% Change
	2022	2021		
	(dollars in thousands)			
Revenue	\$ 238,432	\$ 202,441	\$ 35,991	18 %

The increase in revenue was primarily driven by an increase in the number of large deals and higher attach rates of our multi-product Suites offerings, particularly Enterprise Plus, driving improvement in our net retention rate from 103% during the three months ended April 30, 2021 to 111% during the three months ended April 30, 2022. The increase in subscription services was also driven by the addition of new customers, as the number of paying organizations increased by 2% from April 30, 2021 to April 30, 2022. During the three months ended April 30, 2022, we experienced strong growth in Japan, driving an increase in revenue from non-U.S. customers to 34%, compared to 31% during the three months ended April 30, 2021. The increase in revenue was also driven by an increase in non-recurring revenue, which increased 2900 basis points year-over-year. The increase was partially offset by customers partially churning their deployment with Box and a negative impact from foreign currency exchange rates.

Cost of Revenue

	Three Months Ended April 30,		\$ Change	% Change
	2022	2021		
	(dollars in thousands)			
Cost of revenue	\$ 62,209	\$ 60,947	\$ 1,262	2 %
Percentage of revenue	26 %	30 %		

The increase in absolute dollars was primarily due to an increase of \$3.1 million in public cloud infrastructure costs and an increase of \$2.5 million in subscription software contract expenses primarily driven by increases in subscription software contracts. The increase in cost of revenue was partially offset by a decrease of \$2.2 million in employee and related costs and stock-based compensation expense, a decrease of \$1.2 million in depreciation expense, and a decrease of \$1.0 million in data center rent expense. Cost of revenue as a percentage of revenue decreased 400 basis points year-over-year. We expect our cost of revenue to increase in absolute dollars but decrease as a percentage of revenue over time as we continue to optimize data center efficiencies and invest in public cloud infrastructure.

Research and Development

	Three Months Ended April 30,		\$ Change	% Change
	2022	2021		
	(dollars in thousands)			
Research and development	\$ 61,733	\$ 50,859	\$ 10,874	21 %
Percentage of revenue	26 %	25 %		

The increase in absolute dollars was primarily due to increases of \$6.6 million and \$2.3 million in employee and contractor related costs and allocated overhead costs, respectively, due to a 36% increase in headcount, and an increase of \$2.3 million in stock-based compensation expense driven by equity grants to existing and new employees. The increased employee headcount and related costs are driven by the growth of our new Research and Development Engineering center in Poland. The increase in research and development expenses was partially offset by an increase of \$0.5 million in capitalized internally developed software costs. Research and development expenses as a percentage of revenue increased 100 basis points year-over-year. We continue to invest in enhancements of our products and services, developing new products, and further differentiating our offerings. We expect our research and development expenses to increase in absolute dollars but decrease as a percentage of revenue over time as we continue to make significant improvements to our content cloud product offerings and services and migrate a larger portion of our development to lower cost regions.

Sales and Marketing

	Three Months Ended April 30,		\$ Change	% Change
	2022	2021		
	(dollars in thousands)			
Sales and marketing	\$ 83,067	\$ 69,811	\$ 13,256	19 %
Percentage of revenue	35 %	35 %		

The increase in absolute dollars was primarily due to increases of \$4.5 million and \$1.9 million in employee and related costs and allocated overhead costs, respectively, due to a 13% increase in headcount, an increase of \$3.7 million in stock-based compensation expense driven by equity grants to existing and new employees, and an increase of \$3.0 million in commission expense primarily driven by an 18% increase in revenue year-over-year. Sales and marketing expenses as a percentage of revenue remained flat year-over-year.

Our sales and marketing expenses are generally higher for acquiring new, or expanding existing, customers than for renewals of existing customer subscriptions. We expect to continue to invest in capturing our large market opportunity globally and capitalize on our competitive position with a continued focus on our profitability objectives. We expect our sales and marketing expenses to increase in dollars but decrease as a percentage of revenue over time as our existing customer base grows and a relatively higher percentage of our revenue is attributable to renewals versus new or expanding Box deployments and as we continue to focus on improving sales productivity. While we expect certain expenses that were reduced due to COVID-19 to increase over time, we currently do not expect to return to pre-COVID-19 levels, even as we return to a hybrid workforce which partially includes an office-based environment.

General and Administrative

	Three Months Ended April 30,		\$ Change	% Change
	2022	2021		
	(dollars in thousands)			
General and administrative	\$ 30,799	\$ 31,087	\$ (288)	-1 %
Percentage of revenue	13 %	15 %		

The decrease in absolute dollars was primarily due to a decrease of \$2.0 million in shareholder activism and acquisition-related fees and a decrease of \$0.3 million in IT hardware and software costs. The decrease in general and administrative expense was partially offset by an increase of \$1.0 million in employee and related costs and an increase of \$1.0 million in outside agency and consulting services. General and administrative expense as a percentage of revenue decreased 200 basis points year-over-year. We expect our general and administrative expense to increase in absolute dollars but continue to decrease as a percentage of revenue over time as we benefit from greater operational efficiency.

Interest and Other Expense, Net

	Three Months Ended April 30,		\$ Change	% Change
	2022	2021		
	(dollars in thousands)			
Interest and other expense, net	\$ (4,157)	\$ (3,999)	\$ (158)	4 %

The increase in absolute dollars was primarily due to an increase of \$0.8 million in foreign currency losses. The increase in interest and other expense, net was partially offset by a decrease of \$0.6 million in net interest expense primarily related to our finance leases.

Liquidity and Capital Resources

As of April 30, 2022, we had cash and cash equivalents, restricted cash, and short-term investments of \$520.2 million. Since our inception, we have financed our operations primarily through equity financing, cash generated from operations and debt financing. We believe our existing cash, cash equivalents and short-term investments, together with our finance leases and credit facilities, will be sufficient to meet our working capital and capital expenditure needs for at least the next 12 months and beyond. Our long-term capital requirements will depend on many factors including our growth rate, subscription renewal activity, billing frequency, data center obligations, the timing and extent of spending to support development efforts, the expansion of international activities, the introduction of new and enhanced service offerings, and the continuing market acceptance of our services. We may in the future enter into arrangements to acquire or invest in complementary businesses, services and technologies, including intellectual property rights. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all.

Cash Flows

For the three months ended April 30, 2022 and 2021, our cash flows were as follows (in thousands):

	Three Months Ended April 30,	
	2022	2021
Net cash provided by operating activities	\$ 107,730	\$ 94,772
Net cash provided by (used in) investing activities	38,412	(108,965)
Net cash used in financing activities	(162,191)	(18,848)

Operating Activities

For the three months ended April 30, 2022, cash provided by operating activities was \$107.7 million. The primary factors affecting our operating cash flows during this period were our net loss of \$4.7 million, favorably offset by non-cash charges of \$47.1 million for stock-based compensation, \$18.5 million for depreciation and amortization of our property and equipment and capitalized software, and \$13.1 million for amortization of deferred commissions. Cash provided by operating activities during the three months ended April 30, 2022 were further adjusted by net cash inflows of \$33.3 million provided by changes in our operating assets and liabilities.

The primary drivers for the changes in operating assets and liabilities include a \$136.9 million decrease in accounts receivable that was primarily due to higher billings in the prior quarter and timing of our cash collections and a \$10.0 million decrease in operating right-of-use assets due to amortization, partially offset by a \$58.8 million decrease in deferred revenue, a \$18.5 million decrease in accounts payable, accrued expenses and other liabilities, a \$15.4 million increase in other assets, a \$11.9 million decrease in operating lease liabilities, and a \$9.1 million increase in deferred commissions resulting from capitalization of incremental commissions paid to our sales force.

Investing Activities

Cash provided by investing activities of \$38.4 million for the three months ended April 30, 2022 was primarily driven by \$80 million in maturities of short-term investments, partially offset by \$37.9 million in purchases of short-term investments, \$2.5 million of capitalized internally developed software costs, and \$0.6 million of fixed asset purchases.

Financing Activities

Cash used in financing activities of \$162.2 million for the three months ended April 30, 2022 was primarily driven by \$117.2 million in repurchases of our common stock, \$41.8 million of employee payroll taxes paid related to net share settlement of stock awards, \$11.5 million of principal payments of finance lease liabilities, and \$3.8 million of dividend payments to preferred stockholders. This was partially offset by \$14.5 million from issuances of common stock under our employee equity plans.

Debt

In January 2021, we issued \$345.0 million aggregate principal amount of 0.00% convertible senior notes due January 15, 2026. The Notes are senior unsecured obligations and do not bear regular interest. Each \$1,000 principal amount of the Notes is convertible into 38.7962 shares of our Class A common stock, which is equivalent to a conversion price of approximately \$25.78 per share, subject to adjustment upon the occurrence of specified events. We have made an irrevocable election to settle the principal portion of the Notes only in cash. Accordingly, upon conversion, we will pay the principal in cash and we will pay or deliver, as the case may be, the conversion premium in cash, shares of common stock or a combination of cash and shares of common stock, at our election.

In connection with the pricing of the Notes, we entered into privately negotiated Capped Calls. The Capped Calls each have a strike price of approximately \$25.80 and initial cap prices of \$35.58 per share, subject to certain adjustments.

On November 27, 2017, we entered into a secured credit agreement (as amended or otherwise modified from time to time, the November 2017 Facility). On July 26, 2021, we entered into Amendment No. 4 to the November 2017 Facility. Pursuant to the terms of the amendment, the maturity date of borrowings under the November 2017 Facility is July 26, 2024, the revolving commitment is \$65.0 million, and it provides for a sublimit for the issuance of letters of credit of \$45.0 million. As of April 30, 2022, debt outstanding under the November 2017 Facility was \$30.0 million. Refer to Note 9 for a detailed description of the November 2017 Facility.

Series A Convertible Preferred Stock

On April 7, 2021 we entered into an investment agreement with KKR and certain other investors relating to the issuance and sale of 500,000 shares of our Series A Convertible Preferred Stock, par value of \$0.0001 per share, for an aggregate purchase price of \$500 million, or \$1,000 per share. The closing of the issuance of such stock occurred on May 12, 2021. Refer to Note 10 for a detailed description of our Series A Convertible Preferred Stock.

Share Repurchase Plan

Between July 2021 and April 30, 2022, our board of directors authorized the repurchase of up to an aggregate of \$610 million of shares of our Class A common stock. As of April 30, 2022, we had used \$438.4 million to repurchase 17.5 million shares and approximately \$147.7 million remained available for additional share repurchases.

Off-Balance Sheet Arrangements

Through April 30, 2022, we did not have any relationships with unconsolidated entities that have, or are reasonably likely to have, a material effect on our financial statements.

Contractual Obligations and Commitments

Our principal commitments consist of (i) obligations under operating leases for office spaces and data centers, (ii) obligations under finance leases for servers and related equipment for our data center operations, (iii) purchase obligations not recognized on the condensed consolidated balance sheet as of April 30, 2022, which relate primarily to infrastructure services and IT software and support services, and (iv) debt, including obligations under both our November 2017 Facility and Notes. For more information regarding our obligations for leases, purchase agreements, and debt, refer to Notes 5, 8, and 9, respectively, in Part I, Item 1. Financial Statements.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

There have been no material changes to our critical accounting policies and estimates during the three months ended April 30, 2022 from those disclosed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended January 31, 2022.

Recent Accounting Pronouncements

Refer to Part I, Item 1. Financial Statements—Note 1 for information regarding the effect of new accounting pronouncements on our financial statements.

Non-GAAP Financial Measures

Regulation S-K Item 10(e), "Use of Non-GAAP Financial Measures in Commission Filings," defines and prescribes the conditions for use of non-GAAP financial information. Our measures of non-GAAP operating income (loss), non-GAAP operating margin, non-GAAP net income (loss), non-GAAP net income (loss) per share, and free cash flow (collectively, the non-GAAP financial measures) each meet the definition of a non-GAAP financial measure.

We use these non-GAAP financial measures and our key metrics for financial and operational decision-making (including for purposes of determining variable compensation of members of management and other employees) and as a means to evaluate period-to-period comparisons. We believe that these non-GAAP financial measures and key metrics provide meaningful supplemental information regarding our performance by excluding certain expenses that may not be indicative of our recurring core business operating results. We believe that both management and investors benefit from referring to these non-GAAP financial measures and key metrics in assessing our performance and when planning, forecasting, and analyzing future periods. These non-GAAP financial measures and key metrics also facilitate management's internal comparisons to our historical performance as well as comparisons to our competitors' operating results. We believe these non-GAAP financial measures and key metrics are useful to investors both because (1) they allow for greater transparency with respect to key metrics used by management in its financial and operational decision-making and (2) they are used by our institutional investors and the analyst community to help them analyze the health of our business.

Non-GAAP operating income (loss) and non-GAAP operating margin

We define non-GAAP operating income (loss) as operating income (loss) excluding expenses related to stock-based compensation (SBC), acquired intangible assets amortization, and as applicable, other special items. Non-GAAP operating margin is defined as non-GAAP operating income (loss) divided by revenue. Although SBC is an important aspect of the compensation of our employees and executives, determining the fair value of certain of the stock-based instruments we utilize involves a high degree of judgment and estimation and the expense recorded may bear little resemblance to the actual value realized upon the vesting or future exercise of the related stock-based awards. Management believes it is useful to exclude SBC in order to better understand the long-term performance of our core business and to facilitate comparison of our results to those of peer companies. Management also views amortization of acquisition-related intangible assets, such as the amortization of the cost associated with an acquired company's developed technology and trade names, as items arising from pre-acquisition activities determined at the time of an acquisition. While these intangible assets are continually evaluated for impairment, amortization of the cost of purchased intangibles is a static expense, one that is not typically affected by operations during any particular period. Furthermore, Box excludes the following expenses as they are considered by management to be special items outside of Box's core operating results: (1) fees related to shareholder activism, (2) expenses related to certain litigation, (3) expenses associated with restructuring activities, consisting primarily of severance and other personnel-related costs, and (4) expenses related to acquisitions, including transaction and discrete tax costs. There are no expenses related to litigation excluded from non-GAAP operating income (loss) in any of the periods presented.

Non-GAAP net income (loss) and net income (loss) per share

We define non-GAAP net income (loss) as net loss excluding expenses related to stock-based compensation, acquired intangible assets amortization and as applicable, other special items. We specifically identify other adjusting items in our reconciliation of GAAP to non-GAAP net income (loss). These items include expenses related to certain litigation and the amortization of the issuance costs associated with our Notes, which are amortized as interest expense, because they are considered by management to be special items outside our core operating results. We define non-GAAP net income (loss) per share as non-GAAP net income (loss) divided by the weighted-average outstanding shares. Similarly, the same adjusting items specified in our reconciliation of GAAP to non-GAAP net income (loss) are also excluded from the calculation of non-GAAP net income (loss) per share.

Free Cash Flow

We define free cash flow as cash flows from operating activities less purchases of property and equipment, principal payments of finance lease liabilities, capitalized internally developed software costs, and other items that did not or are not expected to require cash settlement and that management considers to be outside of our core business. We specifically identify other adjusting items in our reconciliation of GAAP to non-GAAP financial measures. We consider free cash flow to be a profitability and liquidity measure that provides useful information to management and investors about the amount of cash generated by the business that can possibly be used for investing in our business and strengthening the balance sheet; but it is not intended to represent the residual cash flow available for discretionary expenditures. A reconciliation of free cash flow to net cash provided by operating activities, its nearest GAAP equivalent, is presented below. The presentation of free cash flow is also not meant to be considered in isolation or as an alternative to cash flows from operating activities as a measure of liquidity.

Limitations on the use of non-GAAP financial measures

A limitation of our non-GAAP financial measures is that they do not have uniform definitions. Our definitions will likely differ from the definitions used by other companies, including peer companies, and therefore comparability may be limited. Thus, our non-GAAP financial measures should be considered in addition to, not as a substitute for, or in isolation from, measures prepared in accordance with GAAP. Additionally, in the case of stock-based compensation expense, if we did not pay a portion of compensation in the form of stock-based compensation expense, the cash salary expense included in cost of revenue and operating expenses would be higher which would affect our cash position.

We compensate for these limitations by reconciling non-GAAP financial measures to the most comparable GAAP financial measures. We encourage investors and others to review our financial information in its entirety, not to rely on any single financial measure and to view our non-GAAP financial measures in conjunction with the most comparable GAAP financial measures.

Our reconciliation of the non-GAAP financial measures for the three months ended April 30, 2022 and 2021 are as follows (in thousands, except per share data and percentages):

	Three Months Ended April 30,	
	2022	2021
GAAP operating income (loss)	\$ 624	\$ (10,263)
Stock-based compensation	47,110	41,790
Acquired intangible assets amortization	1,452	901
Acquisition-related expenses	53	920
Fees related to shareholder activism	(77)	1,050
Non-GAAP operating income	<u>\$ 49,162</u>	<u>\$ 34,398</u>
GAAP operating margin	0.3 %	(5.1) %
Stock-based compensation	19.7	20.6
Acquired intangible assets amortization	0.6	0.5
Acquisition-related expenses	—	0.5
Fees related to shareholder activism	—	0.5
Non-GAAP operating margin	<u>20.6 %</u>	<u>17.0 %</u>
GAAP net loss attributable to common stockholders	\$ (8,921)	\$ (14,573)
Stock-based compensation	47,110	41,790
Acquired intangible assets amortization	1,452	901
Acquisition-related expenses	53	920
Fees related to shareholder activism	(77)	1,050
Amortization of debt issuance costs	471	469
Undistributed earnings attributable to preferred stockholders	(4,552)	—
Non-GAAP net income attributable to common stockholders	<u>\$ 35,536</u>	<u>\$ 30,557</u>
GAAP net loss per share attributable to common stockholders, basic and diluted	\$ (0.06)	\$ (0.09)
Stock-based compensation	0.33	0.26
Acquired intangible assets amortization	0.01	—
Acquisition-related expenses	—	0.01
Fees related to shareholder activism	—	0.01
Amortization of debt issuance costs	—	—
Undistributed earnings attributable to preferred stockholders	(0.03)	—
Non-GAAP net income per share attributable to common stockholders, basic	<u>\$ 0.25</u>	<u>\$ 0.19</u>
Non-GAAP net income per share attributable to common stockholders, diluted	<u>\$ 0.23</u>	<u>\$ 0.18</u>
Weighted-average shares used to compute GAAP net loss per share attributable to common stockholders, basic and diluted	144,725	161,733
Weighted-average shares used to compute non-GAAP net income per share attributable to common stockholders		
Basic	144,725	161,733
Diluted	152,845	169,221
GAAP net cash provided by operating activities	\$ 107,730	\$ 94,772
Purchases of property and equipment, net of proceeds from sales	(558)	(1,145)
Principal payments of finance lease liabilities	(11,503)	(13,262)
Capitalized internal-use software costs	(4,805)	(4,475)
Non-GAAP free cash flow	<u>\$ 90,864</u>	<u>\$ 75,890</u>
GAAP net cash provided by (used in) investing activities	<u>\$ 38,412</u>	<u>\$ (108,965)</u>
GAAP net cash used in financing activities	<u>\$ (162,191)</u>	<u>\$ (18,848)</u>

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We had cash and cash equivalents, restricted cash, and short-term investments of \$520.2 million as of April 30, 2022. Our cash and cash equivalents and short-term investments primarily consist of overnight cash deposits, money market funds, certificates of deposit, U.S. treasury securities, and commercial paper. We do not expect our operating results or cash flows to be materially affected by a sudden change in market interest rates and we do not enter into investments for trading or speculative purposes.

Interest rate risk also reflects our exposure to movements in interest rates associated with the November 2017 Facility. As of April 30, 2022, we had total debt outstanding with a carrying amount of \$30.0 million which approximates fair value. The revolving loans accrue interest at a LIBOR rate (based on one, three or six-month interest periods) plus a margin ranging from 1.15% to 1.65%.

Effective September 5, 2019, we entered into the Swap Agreement in order to minimize our interest rate risk exposure due to the volatility of LIBOR. Under the Swap Agreement, we have hedged a portion of the variable interest payments of our debt by effectively fixing our interest payments over the five-year term of the agreement. As of April 30, 2022, our interest rate swap had a notional value of \$30.0 million.

A hypothetical change in interest rates of 100 basis points after April 30, 2022 would not have a material impact on the combined net fair value of our outstanding debt and Swap Agreement.

Foreign Currency Risk

Our sales contracts are denominated predominantly in U.S. dollars. We support sales contracts denominated in 11 foreign currencies and consequently, our customer billings denominated in foreign currencies are subject to foreign currency exchange risk. Specifically, given our growth in Japan, we have increasing exposure to changes in the Japanese Yen. Five of the 11 currencies are only offered at this time through our online sales experience and are required to be settled by credit cards; accordingly, our foreign currency exposure on these transactions is limited only to ordinary credit card settlement timeframes. A portion of our operating expenses are incurred outside the United States and are denominated in foreign currencies, which are also subject to fluctuations due to changes in foreign currency exchange rates. Our international subsidiaries maintain certain asset and liability balances that are denominated in foreign currencies. Additionally, fluctuations in foreign currency exchange rates can result in fluctuations in our total assets, liabilities, and cash flows and may cause us to recognize transaction gains and losses in our statement of operations impacting our revenue and operating expenses. To date we have managed our foreign currency risk by maintaining offsetting assets and liabilities and minimizing non-U.S. dollar cash balances and have not entered into derivatives or hedging transactions; however, we may do so in the future. For the three months ended April 30, 2022 and 2021, we incurred \$3.0 million and \$2.2 million, respectively, in foreign currency exchange losses, which are recognized in interest and other expense, net on our condensed consolidated statements of operations.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. The design of disclosure controls and procedures and internal control over financial reporting must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Refer to Note 8 in Part I, Item 1 of this Quarterly Report on Form 10-Q under the subheading “Legal Matters,” which is incorporated herein by reference.

Item 1A. RISK FACTORS

Investing in our Class A common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q, including in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our condensed consolidated financial statements and related notes, before making a decision to invest in our Class A common stock. If any of the risks actually occur, our business, financial condition, operating results and prospects could be materially and adversely affected. In that event, the market price of our Class A common stock could decline, and you could lose part or all of your investment.

Risk Factors Summary

Our business is subject to a number of risks and uncertainties, including those risks discussed at length below. These risks include, among others, the following:

- If we do not compete effectively, our customers do not renew their subscriptions or expand their use of our services, we are unable to attract new customers at rates that are consistent with our expectations, or if the market for cloud-based enterprise services declines or develops more slowly than we expect, our business could be adversely affected.
- Because we recognize revenue from subscriptions for our services over the term of the subscription, downturns or upturns in new business may not be immediately reflected in our operating results.
- The continuing impacts of the COVID-19 pandemic, including the resultant economic impacts, may have an adverse effect on our business, operations and future financial performance.
- Adverse economic conditions may negatively impact our business.
- As a substantial portion of our sales efforts are increasingly focused on cloud content management use cases and are targeted at enterprise and highly-regulated customers, our sales cycles may become longer and more expensive, we may encounter greater pricing pressure and implementation and customization challenges, and we may have to delay revenue recognition for more complicated transactions, all of which could harm our business and operating results.
- If we fail to meet the service level commitments we provide under our subscription agreements, we could be obligated to provide credits or refunds for prepaid amounts related to unused subscription services or face subscription terminations, which could adversely affect our revenue. Furthermore, any failure in our delivery of high-quality customer support services may adversely affect our relationships with our customers and our financial results.
- Actual or perceived security vulnerabilities in our services or any breaches of our security controls and unauthorized access to our or a customer’s data could harm our business and operating results.
- Privacy concerns and laws or other domestic or foreign regulations may reduce the effectiveness of our services and harm our business, and we may not be able to satisfy data protection, security, privacy, and other government- and industry-specific requirements, which may harm our growth.
- Our platform must integrate with a variety of operating systems and software applications that are developed by others, and if we are unable to ensure that our solutions interoperate with such systems and applications, our service may become less competitive, and our operating results may be harmed.
- If we fail to effectively manage our technical operations infrastructure or suffer from interruptions or delays in service from our third-party providers, the delivery of our services may be harmed, which may adversely affect our business.
- Our services are becoming increasingly mission-critical for our customers and if these services fail to perform properly or if we are unable to scale our services to meet the needs of our customers, our reputation could be adversely affected, our market share could decline and we could be subject to liability claims.
- Our growth depends in part on the success of our strategic relationships with third parties.

- We depend on our key employees and other highly skilled personnel to grow and operate our business, and if we are unable to hire, retain and motivate our personnel, including expanding and optimizing our direct sales force, we may not be able to grow effectively.
- We may be sued by third parties for alleged infringement of their proprietary rights.
- Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and brand.
- Our Series A Convertible Preferred Stock has rights, preferences and privileges that are not held by, and are preferential to the rights of, our Class A common stockholders, which could adversely affect our liquidity and financial condition.

Risks Related to Our Business and Our Industry

The market in which we participate is intensely competitive, and if we do not compete effectively, our operating results could be harmed.

The market for cloud content management services is fragmented, rapidly evolving and highly competitive, with relatively low barriers to entry for certain applications and services. Many of our competitors and potential competitors are larger and have greater brand recognition, longer operating histories, and significantly greater resources than we do. Our primary competitors in the cloud content management market include Microsoft and OpenText (Documentum). In the enterprise file sync and share market, our primary competitors include Microsoft, Google and, to a lesser extent, Dropbox. With the introduction of new technologies and market entrants, we expect competition to intensify in the future. If we fail to compete effectively, our business will be harmed. Some of our competitors offer their products or services at a lower price or for free, which has placed pricing pressure on our business. If we are unable to achieve our target pricing levels, our operating results will be negatively impacted. In addition, pricing pressures and increased competition could result in reduced sales, lower margins, losses or the failure of our services to achieve or maintain widespread market acceptance, any of which could harm our business.

Many of our competitors are able to devote greater resources to the development, promotion and sale of their products or services. In addition, many of our competitors have established marketing relationships and major distribution agreements with channel partners, consultants, system integrators and resellers. Moreover, many software vendors could bundle products or offer them at lower prices as part of a broader product sale or enterprise license arrangement. Competitors may offer products or services that address business execution functions at lower prices or with greater depth than our services. Our competitors may be able to respond more quickly and effectively to new or changing opportunities, technologies, standards or customer requirements. Furthermore, some potential customers, particularly large enterprises, may elect to develop their own internal solutions. For any of these reasons, we may not be able to compete successfully against our competitors.

Our business depends substantially on customers renewing their subscriptions with us and expanding their use of our services. Any decline in our customer renewals or failure to convince our customers to broaden their use of our services would harm our future operating results.

In order for us to maintain or improve our operating results, it is important that our customers renew their subscriptions with us when their existing subscription term expires. We cannot assure you that customers will renew their subscriptions upon expiration at the same or higher level of service, if at all. Although our net retention rate has increased in recent quarters, we have also experienced periods where it has decreased and it may decrease again in the future if our customers do not renew their subscriptions with us or decrease their use of our services. Our net retention rate was approximately 111% and 103% as of April 30, 2022 and 2021, respectively.

Although our net retention rate has increased in recent quarters, it may decline or fluctuate as a result of a number of factors, including our customers' satisfaction with our services, the effectiveness of our customer support services, the performance of our partners and resellers, our pricing, the prices of competing products or services, mergers and acquisitions affecting our customer base, our ability to successfully integrate acquired technology into our products, our ability to execute on our product roadmap, the effects of global economic conditions, such as those arising from the COVID-19 pandemic, or reductions in our customers' spending levels. If our customers do not renew their subscriptions, renew them on less favorable terms, purchase fewer seats, or fail to purchase new product offerings, our revenue may decline, and we may not realize improved operating results from our customer base.

In addition, our business growth depends in part on our customers expanding their use of our services. The use of our cloud content management platform often expands within an organization as new users are added or as additional services are purchased by or for other departments within an organization. Further, as we have introduced new services throughout our operating history, our existing customers have constituted a significant portion of the users of such services. If our customers do not expand their use of our services, our operating results may be adversely affected.

If the market for cloud-based enterprise services declines or develops more slowly than we expect, our business could be adversely affected.

The market for cloud-based enterprise services is not as mature as the on-premise enterprise software market. Because we derive, and expect to continue to derive, substantially all of our revenue and cash flows from sales of our cloud content management solutions, our success will depend to a substantial extent on the widespread adoption of cloud computing in general and of cloud-based content management services in particular. Many organizations have invested substantial personnel and financial resources to integrate traditional enterprise software into their organizations and may be reluctant or unwilling to migrate to a cloud-based model for managing their content. It is difficult to predict customer adoption rates and demand for our services, the future growth rate and size of the cloud computing market or the entry of competitive services. The expansion of the cloud content management market depends on a number of factors, including the cost, performance and perceived value associated with cloud computing, as well as the ability of companies that provide cloud-based services to address security and privacy concerns. If there is a reduction in demand for cloud-based services, it could result in decreased revenue, harm our growth rates, and adversely affect our business and operating results.

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

We generally recognize revenue from customers ratably over the terms of their subscription agreements, which range from one month to three years or more. As a result, most of the revenue we report in each quarter is the result of subscription agreements entered into during prior quarters. Consequently, a decline in new or renewed subscriptions in any one quarter may not be reflected in our revenue results for that quarter. However, any such decline will negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales, our failure to achieve our internal sales targets, a decline in the market acceptance of our services, or a decrease in our net retention rate may not be fully reflected in our operating results until future periods. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from additional sales must be recognized over the applicable subscription term.

If we are unable to attract new customers at rates that are consistent with our expectations, our future revenue and operating results could be adversely impacted.

In order for us to improve our operating results and continue to grow our business, it is important that we continue to attract new customers and expand deployment of our solutions and products with existing customers. To the extent we are successful in increasing our customer base, we could incur increased losses because costs associated with new customers are generally incurred up front, while revenue is recognized ratably over the term of our subscription services. Alternatively, to the extent we are unsuccessful in increasing our customer base, we could also incur increased losses as costs associated with marketing programs and new products intended to attract new customers would not be offset by incremental revenue and cash flow. Catastrophic events, such as the COVID-19 pandemic, may financially impact our existing and prospective customers and cause them to delay or reduce their technology spending, which may adversely affect our ability to attract new customers. All of these factors could negatively impact our future revenue and operating results.

The continuing impacts of the COVID-19 pandemic may have an adverse effect on our business, operations and future financial performance.

In March 2020, the World Health Organization declared COVID-19 a pandemic. Governments and municipalities around the world have instituted measures to control the spread of COVID-19, including quarantines, shelter-in-place orders, school closures, travel restrictions, vaccine mandates, and closure of non-essential businesses. These measures have led to significant adverse economic impacts which have had, and could continue to have, an adverse impact on our business operations in a number of ways, including, without limitation, (1) disruptions to our sales operations and marketing efforts as a result of restrictions on our sales team's ability to travel and meet customers in person, (2) negative impacts on our customers and prospects that could result in (i) extended customer sales cycles, delayed spending on our services, impairment of our ability to collect accounts receivable, and (ii) reduced payment frequencies, demand for our services, renewal rates, and spending on our services, and (3) negative impacts to the financial condition or operations of our vendors and business partners, as well as disruptions to the supply chain of hardware needed to offer our services. Although we have re-opened offices globally for employees on a voluntary basis, our transition to a hybrid workforce (with a mix of employees working from offices and others working remotely) may lead to disruptions and decreased productivity and other adverse operational business impacts. The extent to which the COVID-19 pandemic and resultant economic impact affects our business, results of operations and financial condition will depend on future developments (such as the potential emergence of new variants, vaccines, treatments, and government responses to such developments), which are highly uncertain and cannot be predicted.

Adverse economic conditions may negatively impact our business.

Our business depends on the overall demand for cloud content management services and on the economic health of our current and prospective customers. The United States and other key international economies have experienced cyclical downturns from time to time that have resulted in a significant weakening of the economy, more limited availability of credit, a reduction in business confidence and activity, and other difficulties that may affect the industries to which we sell our services. An economic downturn, recession, or uncertainty about economic conditions, including the effects of COVID-19 and the Russian invasion of Ukraine, could cause customers to delay or reduce their information technology spending. This could result in reduced sales, longer sales cycles, slower adoption of new technologies and increased price competition. Any of these events would likely have an adverse effect on our business, operating results and financial position. In addition, there can be no assurance that cloud content management and collaboration spending levels will increase following any recovery.

If we are not able to successfully launch new products and services or provide enhancements or new features to our existing products and services, our business could be adversely affected.

Our industry is marked by rapid technological developments and new and enhanced applications and services. If we are unable to enhance our existing services or offer new services such as our electronic signature offering, Box Sign, or our recently-announced virtual whiteboarding offering, Box Canvas, that achieve market acceptance or keep pace with rapid technological developments, our business could be adversely affected. The success of any new services or enhancements to our existing services depends on several factors, including their timely completion, introduction and market acceptance. We also may experience business or economic disruptions that could adversely affect the productivity of our employees and result in delays in our product development process. For example, we have recently re-opened our offices in the United States to non-essential personnel for the first time since March 2020 and are transitioning to a hybrid workforce (with a mix of employees working from offices and others working remotely). This may lead to disruptions and decreased productivity that could result in delays in our product development process. Failure in this regard may significantly impair our revenue growth and our future financial results. In addition, because our services are designed to operate on a variety of systems, we must continuously modify and enhance our services to keep pace with changes in internet-related hardware, mobile operating systems, and other software, communication, browser and database technologies. We may not be successful in developing these modifications and enhancements or bringing them to market in a timely fashion. Furthermore, modifications to existing platforms or technologies will increase our research and development expenses. Any failure of our services to operate effectively with existing or future network platforms and technologies could reduce the demand for our services, result in customer dissatisfaction and adversely affect our business.

Our sales to government entities are subject to a number of additional challenges and risks.

We sell to government customers, which can be highly competitive, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. Government certification requirements may change, or we may lose one or more government certifications, and in doing so restrict our ability to sell into the government sector or maintain existing government customers until we attain revised certifications. Government demand and payment for our products and services are affected by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our solutions. Moreover, an extended federal government shutdown resulting from budgetary decisions may limit or delay federal government spending on our solutions and adversely affect our revenue. Government entities may also have statutory, contractual or other legal rights to terminate contracts with us for convenience or due to a default, and any such termination may adversely affect our future operating results.

As our sales efforts are increasingly focused on cloud content management use cases and are targeted at enterprise and highly-regulated customers, our sales cycles may become longer and more expensive, we may encounter greater pricing pressure and implementation and customization challenges, and we may have to delay revenue recognition for more complicated transactions, all of which could harm our business and operating results.

As our sales efforts are increasingly focused on cloud content management use cases and are targeted at enterprise and highly-regulated customers, we face greater costs, longer sales cycles and less predictability in the completion of some of our sales. In this market segment, a customer's decision to use our services may be an enterprise-wide decision. These types of sales opportunities require us to provide greater levels of customer education regarding the uses and benefits of our services, as well as education regarding security, privacy, and data protection laws and regulations, especially for customers in more heavily regulated industries or with significant international operations. In addition, larger enterprises may demand more customization, integration, support services, and features. Furthermore, our sales efforts may be impeded by catastrophic events, including public health epidemics such as the COVID-19 pandemic, that limit our ability to travel or meet customers in person. These factors could increase our costs, lengthen our sales cycles and leave fewer sales support and professional services resources for other customers. Professional services may also be performed by a third party or a combination of our own staff and a third party. Our strategy is to work with third parties to increase the breadth of capability and depth of capacity for delivery of these services to our customers. If a customer is not satisfied with the quality or interoperability of our services with their own IT environment, we could incur additional costs to address the situation,

which could adversely affect our margins. Moreover, any customer dissatisfaction with our services could damage our ability to encourage broader adoption of our services by that customer. In addition, any negative publicity resulting from such situations, regardless of its accuracy, may further damage our business by affecting our ability to compete for new business with current and prospective customers.

If we fail to meet the service level commitments we provide under our subscription agreements, we could be obligated to provide credits or refunds for prepaid amounts related to unused subscription services or face subscription terminations, which could adversely affect our revenue. Furthermore, any failure in our delivery of high-quality customer support services may adversely affect our relationships with our customers and our financial results.

Our customer subscription agreements provide service level commitments. If we are unable to meet our service level commitments or suffer periods of downtime that exceed the periods allowed under our customer agreements, we may be obligated to provide customers with service credits, which could significantly impact our revenue in the period in which the downtime occurs and the credits could be due. We have encountered issues in the past, and may again in the future, that have caused Box services to be temporarily unavailable. We could also face subscription terminations, which could significantly impact our current and future revenue. Any extended service outages could also adversely affect our reputation, which would also impact our future revenue and operating results.

Our customers depend on us to resolve technical issues relating to our services. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for support services. Increased customer demand for these services, without corresponding revenue, could increase costs and adversely affect our operating results. In addition, our sales process is highly dependent on the ease of use of our services, our reputation and positive recommendations from our existing customers. Any failure to maintain, or a market perception that we do not maintain, high-quality customer support could adversely affect our reputation and our ability to sell our services to existing and prospective customers.

We are in the process of expanding our international operations, which exposes us to significant risks.

A key element of our growth strategy is to expand our international operations and develop a worldwide customer base. In addition, we have opened, and may continue to open, international offices and hire employees to work at these offices in order to gain access to additional talent. For example, we recently established an office in Warsaw, Poland and acquired SignRequest B.V., a company located in The Netherlands. Operating in international markets requires significant resources and management attention and will subject us to regulatory, economic, geographic, social, and political risks that differ from those in the United States. Because of our limited experience with international operations and significant differences between international and U.S. markets, we may not succeed in creating demand for our services outside of the United States or in effectively selling our services in all of the international markets we enter. In addition, we will face challenges in doing business internationally that could adversely affect our business, including:

- the need to localize and adapt our services for specific countries, including translation into foreign languages and associated expenses;
- laws (and changes to such laws) relating to privacy, data protection and data transfer that, among other things, could require that customer data be stored and processed in a designated territory;
- difficulties in staffing and managing foreign operations;
- different pricing environments, longer sales cycles and longer accounts receivable payment cycles and collections issues;
- new and different sources of competition;
- weaker protection for intellectual property and other legal rights than in the United States and practical difficulties in enforcing intellectual property and other rights outside of the United States;
- laws and business practices favoring local competitors, including economic tariffs;
- changes in the geopolitical environment, the perception of doing business with U.S. based companies, and changes in regulatory requirements that impact our operating strategies, access to global markets or hiring;
- compliance challenges related to the complexity of multiple, conflicting and changing governmental laws and regulations, including employment, tax, privacy and data protection laws and regulations;
- increased financial accounting and reporting burdens and complexities;
- restrictions on the transfer of funds;

- reliance on third-party resellers and other parties;
- adverse tax consequences; and
- unstable regional, economic, social and political conditions, such as the Russian invasion of Ukraine.

We sell our services and incur operating expenses in various currencies. Therefore, fluctuations in the relative value of the U.S. dollar and foreign currencies, particularly the Japanese yen, the British pound and the euro, may impact our operating results. For example, the Japanese yen, the British pound and the euro have all recently experienced declines in value vis-à-vis the U.S. dollar, which adversely affected our results of operations during the quarter ended April 30, 2022 and could continue to negatively impact our results of operations in future periods. We currently manage our exchange rate risk by matching foreign currency assets with payables and by maintaining minimal non-U.S. dollar cash reserves, but we do not have any other hedging programs in place to limit the risk of exchange rate fluctuation. In the future, however, to the extent our foreign currency exposures become more material, we may elect to deploy normal and customary hedging practices designed to more proactively mitigate such exposure. Such practices may not ultimately be available and/or effective at mitigating the foreign currency risk to which we are exposed. If we are unsuccessful in detecting material exposures in a timely manner, any hedging strategies we deploy are not effective, or there are no hedging strategies available for certain exposures that are prudent given the associated risks and the potential mitigation of the underlying exposure achieved, our operating results or financial position could be adversely affected in the future.

In addition, the United Kingdom's (UK) withdrawal from the European Union (EU), or Brexit, became effective on January 31, 2020. The UK and EU subsequently signed an EU-UK Trade and Cooperation Agreement. This agreement provides details on how some aspects of the UK and EU's relationship will operate going forward, however there continues to be uncertainty over the practical consequences of Brexit. Many of the regulations that now apply in the UK will likely be amended in the future as the UK determines its new approach, which may result in significant divergence from EU regulations. This lack of clarity could lead to economic and legal uncertainty, including significant volatility in global stock markets and currency exchange rates, among other things. Any of these effects of Brexit, among others, could adversely affect our operations, especially in the United Kingdom where we have a significant employee and customer base, and our financial results.

If we are unable to maintain and promote our brand, our business and operating results may be harmed.

We believe that maintaining and promoting our brand is critical to expanding our customer base. Maintaining and promoting our brand will depend largely on our ability to continue to provide useful, reliable and innovative services, which we may not do successfully. We may introduce new features, products, services or terms of service that our customers do not like, which may negatively affect our brand and reputation. Additionally, the actions of third parties may affect our brand and reputation if customers do not have a positive experience using third-party apps or other services that are integrated with Box. Maintaining and enhancing our brand may require us to make substantial investments, and these investments may not achieve the desired goals. If we fail to successfully promote and maintain our brand or if we incur excessive expenses in this effort, our business and operating results could be adversely affected.

We have a history of cumulative losses, and we may not be able to achieve or maintain profitability.

We incurred net losses of \$41.5 million, \$43.4 million, and \$144.3 million in our fiscal years ended January 31, 2022, 2021 and 2020, respectively, and \$4.7 million in the three months ended April 30, 2022. As of April 30, 2022, we had an accumulated deficit of \$1.4 billion. These losses and accumulated deficit reflect the substantial investments we made to acquire new customers and develop our services. We intend to continue scaling our business to increase our number of users and paying organizations and to meet the increasingly complex needs of our customers. As a result, we cannot assure you that we will achieve profitability in the future or that, if we do become profitable, we will sustain profitability.

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

Our quarterly operating results may vary significantly in the future, and period-to-period comparisons of our operating results may not be meaningful. Accordingly, the results of any one quarter should not be relied upon as an indication of future performance. Our quarterly financial results may fluctuate as a result of a variety of factors, and as a result, may not fully reflect the underlying performance of our business. Factors that may cause fluctuations in our quarterly financial results include, but are not limited to:

- our ability to attract and retain new customers;
- our ability to convert users of our limited free version to paying customers;
- the addition or loss of large customers, including through acquisitions or consolidations;
- changes in our net retention rate;
- the timing of revenue recognition;
- the impact on billings of customer shifts between payment frequencies;

- the amount and timing of operating expenses related to the maintenance and expansion of our business, operations and infrastructure;
- network or service outages, internet disruptions, disruptions to the availability of our service, or actual or perceived security breaches, incidents and vulnerabilities;
- general economic, industry and market conditions, including those caused by the COVID-19 pandemic and the Russian invasion of Ukraine;
- changes in our go-to-market strategies and/or pricing policies and/or those of our competitors;
- seasonal variations in our billings results and sales of our services, which have historically been highest in the fourth quarter of our fiscal year;
- the timing and success of new services and product introductions by us and our competitors or any other change in the competitive dynamics of our industry, including consolidation or new entrants among competitors, customers or strategic partners;
- changes in usage or adoption rates of content management services;
- the success of our strategic partnerships, including the performance of our resellers; and
- the timing of expenses related to the development or acquisition of technologies or businesses and potential future charges for impairment of goodwill from acquired companies.

Risks Related to Data Privacy and Data Security

Actual or perceived security vulnerabilities in our services or any breaches of our security controls and unauthorized access to our or a customer's data could harm our business and operating results.

The services we offer involve the storage of large amounts of our and our customers' sensitive and proprietary information, some of which may be considered personally identifiable. Cyberattacks and other malicious internet-based activity, including ransomware, malware and viruses, continue to increase in frequency and magnitude and we face security threats from malicious third parties that could obtain unauthorized access to, or disrupt, our systems, infrastructure and networks. These threats may come from a variety of sources including nation-state sponsored espionage and hacking activities, industrial espionage, organized crime, sophisticated organizations, hacking groups and individuals and insider threats. These sources can also implement social engineering techniques to induce our partners, users, employees or customers to disclose passwords or other sensitive information or take other actions to gain access to our data or our users' data. Hackers that acquire user account information at other companies can attempt to use that information to compromise the accounts of personnel, or our users' accounts if an account shares the same sensitive information such as passwords. As we increase our customer base, our brand becomes more widely known and recognized, and our service is used in more heavily regulated industries where there may be a greater concentration of sensitive and protected data, such as healthcare, government, life sciences, and financial services, we may become more of a target for these malicious third parties.

In addition, because Box is configured by administrators and users to select their default settings, the third-party integrations they enable, and their privacy and permissions settings, an administrator or user could intentionally or inadvertently configure settings to share their sensitive data. For example, a Box user can choose to share the content they store in Box with third parties by creating a link that can be customized to be accessible by anyone with the link. While this feature is designed to be used for a variety of legitimate use cases in which a user wishes to share non-sensitive content with a broad or public audience, if a user were to intentionally or inadvertently configure a setting that allowed public access to their sensitive data, that data could be discovered and accessed by an unintended third party.

There can be no assurance that any security measures that we or third parties on which we rely have implemented will be effective against current or future security threats, and we cannot guarantee that our systems and networks or those of such third parties have not been breached or otherwise compromised, or that they and any software in our or their supply chains do not contain bugs, vulnerabilities, or compromised code that could result in a breach of or disruption to our systems and networks or the systems and networks of third parties that support us or our products or services. Given that our customers manage significant amounts of sensitive and proprietary information on our platform, and many of our customers are in heavily regulated industries where there may be a greater concentration of sensitive and proprietary data, our reputation and market position are particularly sensitive to impacts from actual or perceived security breaches or incidents, security vulnerabilities, or concerns regarding security. If our security measures or those of third parties on which we rely are or are believed to be inadequate or breached or otherwise compromised as a result of third-party action, employee negligence, error or malfeasance, product defects, social engineering techniques, improper user configuration or otherwise, and this results in, or is believed to result in, unauthorized access to or disclosure, modification, misuse, loss, corruption, unavailability, or destruction of our data or our customers' data, or any other disruption of the confidentiality,

integrity or availability of our data or our customers' data, we could incur significant liability to various parties, including our customers and individuals or organizations whose information is stored by our customers, and our business, reputation or competitive position may be harmed. Techniques used to obtain unauthorized access to, or to sabotage, systems or networks, are constantly evolving and generally are not recognized until launched against a target. Therefore, we may be unable to anticipate these techniques, react in a timely manner, or implement adequate preventive measures, and we may face delays in our detection or remediation of, or other responses to, security breaches and other security-related incidents or vulnerabilities. We also expect to incur significant costs in our ongoing efforts to detect and prevent security breaches and other security-related incidents, and in the event of actual or perceived security breaches or other security-related incidents. Additionally, our service providers may suffer, or be perceived to suffer, data security breaches or other incidents that may compromise data stored or processed for us that may give rise to any of the foregoing.

Our customer contracts often include (i) specific obligations that we maintain the availability of the customer's data through our service and that we secure customer content against unauthorized access or loss, and (ii) provisions whereby we indemnify our customers for third-party claims asserted against them that result from our failure to maintain the availability of their content or securing the same from unauthorized access or loss. While our customer contracts contain limitations on our liability in connection with these obligations and indemnities, if an actual or perceived security breach or incident occurs, the market perception of the effectiveness of our security measures could be harmed, we could be subject to indemnity or damage claims in certain customer contracts, and we could lose future sales and customers, any of which could harm our business and operating results. Furthermore, while our errors and omissions insurance policies include liability coverage for certain of these matters, if we experience a security breach or other incident, we could be subject to indemnity claims or other damages that exceed our insurance coverage. We also cannot be certain that our insurance coverage will be adequate for data handling or data security liabilities actually incurred, that insurance will continue to be available to us on economically reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims against us that exceed available insurance coverage, or the occurrence of changes in our insurance policies, including premium increases or the imposition of large deductible or co-insurance requirements, could have a material adverse effect on our business, including our financial condition, operating results, and reputation.

Privacy concerns and laws or other regulations may reduce the effectiveness of our services and harm our business.

Users can use our services to store identifying information or information that otherwise is considered personal information. Federal, state and foreign government bodies and agencies have adopted or are considering adopting laws and regulations regarding the collection, use and disclosure of personal information obtained from consumers, businesses and other individuals and entities. Data protection, privacy, consumer protection, cybersecurity and other laws and regulations, particularly in Europe, are often more restrictive than those in the United States. The costs of compliance with, and other burdens imposed by, such laws, policies and regulations that apply to our business or our customers' businesses may limit the use and adoption of our services and reduce overall demand for them.

These laws and regulations, which may be enforceable by private parties and/or governmental entities, are constantly evolving and can be subject to significant change. A number of new laws coming into effect and/or proposals pending before federal, state and foreign legislative and regulatory bodies could affect our business. For example, the European Commission enacted the General Data Protection Regulation (GDPR), which imposes significant obligations on companies regarding the handling of personal data and provides for penalties for noncompliance of up to the greater of 20 million euros or four percent of a company's global revenue. Further, local data protection authorities in Europe may adopt regulations and/or guidance more stringent than the GDPR, which may impose additional compliance costs or other burdens that impact our business. In 2020, the Court of Justice of the European Union (CJEU) invalidated the EU-US Privacy Shield framework, and imposed additional obligations on companies when relying on model contractual clauses approved by the European Commission (EC) to transfer personal data from the EU to the U.S. On September 8, 2020, the Swiss Federal Data Protection and Information Commissioner invalidated the Swiss-U.S. Privacy Shield in light of the CJEU's decision. These developments or other developments relating to cross-border data transfer may result in the EC and European data protection regulators applying differing standards for, and requiring ad hoc verification of, transfers of personal data from the European Economic Area (EEA), Switzerland, or the United Kingdom (UK) to the U.S. On June 4, 2021, the EC published new standard contractual clauses (SCCs) that are required to be implemented by companies relying on the SCCs as a basis for cross-border transfers of personal data. These or other developments relating to cross-border data transfer also may require us to change our policies and practices, engage in additional contractual negotiations, and undertake additional measures to legitimize personal data transfers, which may result in increased costs of compliance and limitations on our customers and us. This CJEU decision or other legal challenges relating to cross-border data transfers may serve as a basis for challenges to our personal data handling practices, or those of our customers, and may otherwise adversely impact our business, financial condition and operating results.

Brexit has created uncertainty around data protection issues and could lead to further legislative and regulatory changes. For example, the UK Data Protection Act of 2018 substantially implements the GDPR in the UK and was the subject of statutory amendments that further aligned it with the GDPR in 2019. In June 2021, the EC announced a decision that the UK is an "adequate country" to which personal data could be exported from the EEA, but this decision must be renewed and may face challenges in the

future, creating uncertainty regarding transfers of personal data to the UK from the EEA. It remains unclear how UK data protection laws or regulations will develop, and how data transfers to and from the United Kingdom will be regulated, over time.

In 2018, the State of California enacted the California Consumer Privacy Act (CCPA), which became operative on January 1, 2020. The CCPA requires covered companies to, among other things, provide new disclosures to California consumers and afford such consumers new abilities to opt-out of certain sales of personal information. Additionally, a new privacy law, the California Privacy Rights Act (CPRA), was approved by California voters in November 2020. The CPRA's substantive provisions become effective on January 1, 2023, and new guidance and supporting regulations are expected to be introduced by July 1, 2022. The CPRA will replace the CCPA and may potentially result in further uncertainty and require us to incur additional costs and expenses. Further, similar privacy legislation has been proposed and/or enacted in other states. Aspects of the interpretation and enforcement of the CCPA, CPRA and other enacted and proposed state laws remain unclear. We cannot fully predict the impact of these laws on our business or operations, but they may require us to modify our data processing practices and policies and incur substantial costs and expenses in an effort to comply. There also have been a number of other recent legislative proposals in the United States, at both the federal and state level, that would impose new obligations in areas such as privacy and liability for copyright infringement by third parties.

In addition, some countries are considering or have enacted legislation requiring local storage and processing of data that could increase the cost and complexity of delivering our services. If we are unable to develop and offer services that meet our legal duties or help our customers meet their obligations under the laws or regulations relating to privacy, data protection, or information security, we may become subject to significant fines and penalties, which would harm our business.

We also expect laws, regulations, industry standards and other obligations worldwide relating to privacy, data protection, ransomware and cybersecurity to continue to evolve, and that there will continue to be new, modified, and re-interpreted laws, regulations, standards, and other obligations in these areas. We cannot yet determine the impact such future laws, regulations and standards, or amendments to or re-interpretations of, existing laws and regulations, industry standards, or other obligations may have on us or our business. Moreover, these existing and proposed laws, regulations, standards, and other actual or asserted obligations can be difficult and costly to comply with, delay or impede the development or adoption of our products and services, reduce the overall demand for our products and services, increase our operating costs, require modifications to our policies, practices, or products or services, require significant management time and attention, and slow the pace at which we close (or prevent us from closing) sales transactions. Additionally, any actual or alleged noncompliance with these laws, regulations, standards, or other actual or asserted obligations could result in negative publicity and subject us to investigations and other proceedings by regulatory authorities, claims, demands, and litigation by private entities, or other requested remedies or demands, including demands that we modify or cease existing business practices, and expose us to significant fines, penalties and other damages and liabilities. In addition to the possibility of fines, proceedings, demands, claims, and litigation, we may find it necessary or appropriate to fundamentally change our business activities and practices, including the establishment of in-region data storage or other data processing operations, or modify or cease offering certain products or services, any of which could have an adverse effect on our business. We may be unable to make such changes and modifications in a commercially reasonable manner or at all, and our ability to develop new offerings and features could be limited.

Furthermore, government agencies may seek to access sensitive information that our users upload to Box, or restrict users' access to Box. Laws and regulations relating to government access and restrictions are evolving, and compliance with such laws and regulations could limit adoption of our services by users and create burdens on our business. Moreover, regulatory investigations into, or other proceedings by regulators or private entities involving, our compliance with privacy-related laws and regulations could increase our costs and divert management attention.

If we are not able to satisfy data protection, security, privacy, and other government- and industry-specific requirements, our growth could be harmed.

There are a number of data protection, security, privacy and other government- and industry-specific requirements, including those that require companies to notify individuals of data security incidents involving certain types of personal data. Security compromises experienced by our competitors, by our customers or by us may lead to public disclosures, which could harm our reputation, erode customer confidence in the effectiveness of our security measures, negatively impact our ability to attract new customers, or cause existing customers to elect not to renew their agreements with us. Our customers also expect, and in some instances require, us to meet voluntary certifications or adhere to guidelines or standards established by third parties, to offer particular controls, or otherwise support customer-specific requirements. Although we currently have certain certifications such as AICPA SOC 1, 2 and 3 reports, and ISO/IEC 27001, 27017, and 27018, we may not be successful in continuing to maintain these certifications or in obtaining other certifications or otherwise being able to adhere to or comply with all customer requirements. In addition, some of the industries we serve have industry-specific requirements relating to compliance with certain security and regulatory standards, such as GxP and FedRAMP, and those required by HIPAA, FINRA, and the HITECH Act. As we expand into new industries and regions, we will likely need to comply with these and other new requirements to compete effectively. We may not always be able to support or comply with all of these customer requirements. If we cannot adequately comply with these requirements, our growth could be

adversely impacted, we may face a loss of customers or difficulty attracting new customers in impacted industries, and we could incur significant liability and our reputation and business could be harmed.

Risks Related to Our Technical Operations Infrastructure and Dependence on Third Parties

If we are unable to ensure that our solutions interoperate with operating systems and software applications developed by others, our service may become less competitive, and our operating results may be harmed.

We offer our services across a variety of operating systems and through the internet. We are dependent on the interoperability of our platform with third-party mobile devices, tablets, desktop and mobile operating systems, as well as web browsers that we do not control. Any changes in such systems, devices or web browsers that degrade the functionality of our services or give preferential treatment to competitive services could adversely affect usage of our services and our ability to deliver high quality services. We may not succeed in developing relationships with key participants in the mobile industry or in developing services that operate effectively with these operating systems, networks, infrastructure, devices, web browsers and standards. In the event that our users experience difficulty accessing and using our services, our user growth may be harmed, and our business and operating results could be adversely affected.

If we fail to effectively manage our technical operations infrastructure, our customers may experience service outages and delays in the deployment of our services, which may adversely affect our business.

We have experienced significant growth in the number of users and the amount of data that our operations infrastructure supports. We seek to maintain sufficient excess capacity in our operations infrastructure to meet our customers' needs. We also seek to maintain excess capacity to facilitate the rapid provisioning of new customer deployments and the expansion of existing customer deployments. In addition, we need to properly manage our technological operations infrastructure in order to support version control, changes in hardware and software parameters and the evolution of our services. However, the provision of new hosting infrastructure requires significant lead-time. We have experienced, and may in the future experience, website disruptions, incidents of data corruption and loss, service outages and other performance problems. These problems may be caused by a variety of factors, including infrastructure changes, changes to our core services architecture, changes to our infrastructure necessitated by legal and compliance requirements governing the storage and transmission of data, human or software errors, viruses, security attacks, fraud, spikes in customer usage, primary and redundant hardware or connectivity failures, dependent data center and other service provider failures and denial of service issues. Additionally, our ability to properly manage our technical operations infrastructure depends on the reliability of the global supply chain for hardware, network, and platform infrastructure equipment. Significant and unforeseen disruptions to the supply chain may impede our ability to meet our infrastructure capacity requirements. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time, which may harm our reputation and operating results. Furthermore, if we encounter any of these problems in the future, our customers may lose access to important data or experience data corruption or service outages that may subject us to financial penalties, other liabilities and customer losses. If our operations infrastructure fails to keep pace with increased sales, customers may experience delays as we seek to obtain additional capacity, which could adversely affect our reputation and our business.

Interruptions or delays in service from our third-party data center hosting facilities and cloud computing and hosting providers could impair the delivery of our services and harm our business.

We currently store and process our customers' information within multiple third-party data center hosting facilities located in Nevada and, increasingly, in third-party cloud computing and hosting facilities inside and outside of the United States. As we continue to migrate more of our storage and processing operations to cloud computing and hosting facilities operated by third parties, our service will become more susceptible to interruptions or delays that are out of our direct control. Similarly, as part of our disaster recovery arrangements, our production environment and metadata related to our customers' data is currently replicated in near real time in facilities located in Nevada. In addition, all of our customers' data is typically replicated on third-party storage platforms located inside and outside of the United States. These facilities may be located in areas prone to natural disasters and may experience events such as earthquakes, floods, fires, power loss, telecommunications failures and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism, cyber-attacks and similar misconduct, including by state-sponsored or otherwise well-funded actors. Any damage to, or failure of, our systems generally, or those of the third-party cloud computing and hosting providers, could result in interruptions in our service, which may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their subscriptions and adversely affect our renewal rate and our ability to attract new customers. In addition, we may not have adequate insurance coverage to compensate for losses from a major interruption. Our business will also be harmed if our customers and potential customers believe our service is unreliable. Despite precautions taken at our third-party data center hosting facilities, the occurrence of disasters, security issues (including an act of terrorism or an armed conflict), certain geopolitical events, labor or trade disputes, or pandemics (such as COVID-19), could lead to a decision to close the facilities without adequate notice or other unanticipated problems that result in lengthy interruptions in our service or cause us to not comply with certification requirements. Even with the disaster recovery arrangements, we have never performed a full live failover of our services and, in an actual disaster, we could learn our recovery arrangements are not sufficient to address all possible scenarios and our service could be

interrupted for a longer period than expected. We have encountered issues in the past, and may again in the future, that have caused Box services to be temporarily unavailable. As we migrate from data centers we currently operate to third-party cloud computing and hosting providers, we may move or transfer our data and our customers' data. Despite precautions taken during any of these data center moves and data transfers, any unsuccessful data transfers may impair the delivery of our service and materially and adversely disrupt our operations and our service delivery to our customers, which could result in contractual penalties or damage claims from customers. In addition, changes to our data center infrastructure could occur over a period longer than planned, require greater than expected investment and other internal and external resources and cause us to incur increased costs as we operate multiple data center facilities. It may also take longer than expected to realize the intended benefits from any data center infrastructure migrations and improvements, and disruptions or unexpected costs may continue to occur while we enhance our data center infrastructure.

Our services are becoming increasingly mission-critical for our customers and if these services fail to perform properly or if we are unable to scale our services to meet our customers' needs, our reputation could be adversely affected, our market share could decline and we could be subject to liability claims.

Our services are becoming increasingly mission-critical to our customers' business operations, as well as their ability to comply with legal requirements, regulations, and standards such as GxP, FINRA, HIPAA, and FedRAMP. These services and offerings are inherently complex and may contain material defects or errors that could cause interruptions in the availability of our services, as well as user error, which could result in loss or delayed market acceptance and sales, breach of contract or warranty claims, issuance of sales credits or refunds for prepaid amounts related to unused subscription services, loss of customers, diversion of development and customer service resources, and harm to our reputation. The costs incurred in correcting any material defects or errors might be substantial and could adversely affect our operating results. Further, our errors and omissions insurance may be inadequate or may not be available in the future on acceptable terms, or at all. In addition, our insurance may not cover all claims made against us and defending a lawsuit, regardless of its merit, could be costly and divert management's attention. Because of the large amount of data that we collect and manage, it is possible that hardware failures, software errors, errors in our systems, or by third-party service providers, user errors, or internet outages could result in significant data loss or corruption. Furthermore, the availability or performance of our services could be adversely affected by a number of factors, including customers' inability to access the internet, the failure of our network or software systems, security breaches or variability in customer traffic for our services. We have been, and in the future may be, required to issue credits or refunds for prepaid amounts related to unused services or otherwise be liable to our customers for damages they may incur resulting from some of these events.

Furthermore, we will need to ensure that our services can scale to meet the needs of our customers, particularly as we continue to focus on larger enterprise customers. If we are not able to provide our services at the scale required by our customers, potential customers may not adopt our solution and existing customers may not renew their agreements with us.

We rely on third parties for certain financial and operational services essential to our ability to manage our business. A failure or disruption in these services could materially and adversely affect our ability to manage our business effectively.

We rely on third parties for certain essential financial and operational services. We receive many of these services on a subscription basis from various software-as-a-service companies that are smaller and have shorter operating histories than traditional software vendors. Moreover, these vendors provide their services to us via a cloud-based model instead of software that is installed on our premises. We depend upon these vendors to provide us with services that are always available and are free of errors or defects that could cause disruptions in our business processes, and any failure by these vendors to do so, or any disruptions in networks or the availability of the internet, would adversely affect our ability to operate and manage our operations.

We employ third-party software for use in or with our services, and the inability to maintain licenses to this software, or errors in the software, could result in increased costs, or reduced service levels, which would adversely affect our business.

Our services incorporate certain third-party software obtained under open source licenses or licenses from other companies. We anticipate that we will continue to rely on such third-party software and development tools in the future. Although we believe that there are commercially reasonable alternatives to the third-party software we currently license, this may not always be the case, or it may be difficult or costly to replace. In addition, integration of the software used in our services with new third-party software may require significant work and require substantial investment of our time and resources. Also, to the extent that our services depend upon the successful operation of third-party software in conjunction with our software, any undetected errors or defects in this third-party software could prevent the deployment or impair the functionality of our services, delay the introduction of new services, result in a failure of our services, and injure our reputation. Our use of additional or alternative third-party software would require us to enter into additional license agreements with third parties. If we are unable to maintain licenses to software necessary to operate our business, or if third-party software that we use contains errors or defects, our costs may increase, or the services we provide may be harmed, which would adversely affect our business.

Our growth depends in part on the success of our strategic relationships with third parties.

In order to grow our business, we anticipate that we will continue to depend on our relationships with third parties, such as alliance partners, resellers, distributors, system integrators and developers. For example, we have entered into agreements with partners such as Google, IBM, Macnica Networks, Microsoft, Mitsui Knowledge Industry and Salesforce to market, resell, integrate with or endorse our services. Identifying partners and resellers, and negotiating and documenting relationships with them, requires significant time and resources.

We also depend on our ecosystem of system integrators, partners and developers to create applications that will integrate with our platform or permit us to integrate with their product offerings. This presents certain risks to our business, including:

- we cannot provide any assurance that these third-party applications and products meet the same quality standards that we apply to our own development efforts, and to the extent that they contain bugs or defects or otherwise fail to perform as expected, they may create disruptions in our customers' use of our services or negatively affect our brand and reputation;
- we do not currently provide support for software applications developed by our partner ecosystem, and users may be left without support and potentially cease using our services if these system integrators and developers do not provide adequate support for their applications;
- we cannot provide any assurance that we will be able to successfully integrate our services with our partners' products or that our partners will continue to provide us the right to do so; and
- these system integrators, partners and developers may not possess the appropriate intellectual property rights to develop and share their applications.

In addition, our competitors may be effective in providing incentives to third parties to favor their products or services, or to prevent or reduce subscriptions to our services. In some cases, we also compete directly with our partners' product offerings, and if these partners stop reselling or endorsing our services or impede our ability to integrate our services with their products, our business and operating results could be adversely affected. Moreover, competitor acquisitions of our partners could result in a decrease in the number of current and potential customers, as our partners may no longer facilitate the adoption of our services by potential customers.

If we are unsuccessful in establishing or maintaining our relationships with third parties, or realizing the anticipated benefits from such partnerships, our ability to compete in the marketplace or to grow our revenue could be impaired and our operating results may suffer. Even if we are successful, we cannot assure you that these relationships will result in increased customer usage of our services or increased revenue.

Our business is subject to the risks of natural disasters, pandemics and other catastrophic events that could disrupt our business operations and our business continuity and disaster recovery plans may not adequately protect us from a serious disaster.

The occurrence of any catastrophic event, including a pandemic (such as COVID-19), earthquake, fire, flood, tsunami, or other weather event, power loss, telecommunications failure, software or hardware malfunctions, cyber-attack, war, or terrorist attack, could result in lengthy interruptions in our service. Our corporate headquarters is located in the San Francisco Bay Area, a region known for seismic activity. Our insurance coverage may not compensate us for losses that may occur in the event of an earthquake or other significant natural disaster. In addition, pandemics, acts of terrorism or war could cause disruptions to the internet or the economy as a whole, which could have a significant impact on our business and operating results. If our or our partners' business continuity and disaster recovery arrangements prove to be inadequate, our services could be interrupted. Our partners, suppliers, and customers are also subject to the risk of catastrophic events. In those events, our ability to deliver our services in a timely manner, as well as the demand for our services, may be adversely impacted by factors outside our control. If our systems were to fail or be negatively impacted as a result of a natural disaster, pandemic or other catastrophic event, our ability to deliver our services to our customers would be impaired, we could lose critical data, our reputation could suffer and we could be subject to contractual penalties.

If we overestimate or underestimate our data center capacity requirements, our operating results could be adversely affected.

We continuously evaluate our short- and long-term data center capacity requirements to ensure adequate capacity for new and existing customers while minimizing unnecessary excess capacity costs. If we overestimate the demand for our cloud content management services and therefore secure excess data center capacity, or if we are unable to meet our contractual minimum commitments, our operating margins could be reduced. If we underestimate our data center capacity requirements, we may not be able to service the expanding needs of customers and may be required to limit new customer acquisition, which would impair our revenue growth. Furthermore, regardless of our ability to appropriately manage our data center capacity requirements, only a small percentage of our customers currently use Box to organize all of their internal files, and an increase in the number of organizations, in particular

large businesses and enterprises, that use our service as a larger component of their content storage requirements, could result in lower gross and operating margins or otherwise have an adverse impact on our financial condition and operating results.

Changes in laws and regulations related to the internet or changes in the internet infrastructure itself, or disruption in access to the internet or critical services on which the internet depends, may diminish the demand for our services, and could have a negative impact on our business.

The future success of our business depends upon the continued use and availability of the internet as a primary medium for commerce, communication and business services. Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the internet as a commercial medium. The adoption of any laws or regulations that adversely affect the growth, popularity or use of the internet, including laws or practices limiting internet neutrality, could decrease the demand for, or the usage of, our services, increase our cost of doing business, adversely affect our operating results, and require us to modify our services in order to comply with these changes. In addition, government agencies or private organizations may begin to impose taxes, fees or other charges for accessing the internet or commerce conducted via the internet. These laws or charges could limit the growth of internet-related commerce or communications generally, or result in reductions in the demand for internet-based services such as ours.

In addition, the use of the internet and, in particular, the cloud as a business tool could be adversely affected due to delays in the development or adoption of new standards and protocols to handle increased demands of internet activity, security, reliability, cost, ease of use, accessibility, and quality of service. The performance of the internet and its acceptance as a business tool have been adversely affected by “viruses,” “worms,” “denial of service attacks” and similar malicious activity. The internet has also experienced a variety of outages, disruptions and other delays as a result of this malicious activity targeted at critical internet infrastructure. These service disruptions could diminish the overall attractiveness to existing and potential customers of services that depend on the internet and could cause demand for our services to suffer.

Risks Related to Employees and Managing Our Growth

We depend on our key employees and other highly skilled personnel to grow and operate our business, and if we are unable to hire, retain and motivate our personnel, we may not be able to grow effectively.

Our future success depends upon our continued ability to identify, hire, develop, motivate and retain highly skilled personnel, representing diverse backgrounds, experiences, and skill sets, including senior management, engineers, designers, product managers, sales representatives, and customer support representatives. Identifying, recruiting, training and integrating qualified individuals will require significant time, expense and attention. In addition to hiring new employees, we must continue to focus on retaining our best employees, and fostering a diverse and inclusive work environment that enables all of our employees to prosper. Competition for highly skilled personnel is intense, particularly in the San Francisco Bay Area, where our headquarters is located. Moreover, our ability to attract and hire personnel may be materially adversely affected by changes to immigration laws or the availability of work visas. We may need to invest significant amounts of cash and equity to attract and retain new employees, and we may never realize returns on these investments. If we are not able to effectively add and retain employees, our ability to achieve our strategic objectives will be adversely impacted, and our business will be harmed.

Our success is also dependent upon contributions from our executive officers and other key employees and, in particular, Aaron Levie, our co-founder and Chief Executive Officer. There may be changes in our senior management team that could disrupt our business. The loss of one or more of our executive officers or key employees, or the failure of our senior management team to work together effectively and execute our plans and strategies, could harm our business.

Failure to adequately expand and optimize our direct sales force and successfully maintain our online sales experience could impede our growth.

We will need to continue to optimize our sales infrastructure in order to grow our customer base and business. As a result of the COVID-19 pandemic, we have temporarily curtailed most business-related travel, which may negatively impact our ability to recruit and train our sales force. Our business may be adversely affected if our efforts to expand and train our direct sales force do not generate a corresponding increase in revenue. If we are unable to hire, develop and retain talented sales personnel or if new direct sales personnel are unable to achieve desired productivity levels in a reasonable period of time, we may not realize the intended benefits of this investment or increase our revenue.

We maintain our Box website to efficiently service our high volume, low dollar customer transactions and certain customer inquiries. Our goal is to continue to evolve this online experience so it effectively serves the increasing and changing needs of our growing customer base. If we are unable to maintain an effective online solution to meet the future needs of our online customers and

to eliminate fraudulent transactions occurring in this channel, we could see reduced online sales volumes as well as a decrease in our sales efficiency, which could adversely affect our results of operations.

Any acquisitions and investments we make could disrupt our business and harm our financial condition and operating results.

We have acquired, and may in the future acquire, other companies, employee teams, or technologies to complement or expand our services and grow our business. For example, in February 2021 we acquired SignRequest. We may not be able to successfully complete or integrate identified acquisitions. Moreover, we may not successfully evaluate or utilize the acquired technology or personnel, or accurately forecast the financial impact of an acquisition. The risks we face in connection with acquisitions include:

- diversion of management time and focus from operating our business to addressing acquisition integration challenges;
- coordination of research and development and sales and marketing functions;
- retention of key employees from the acquired company;
- cultural challenges associated with integrating employees from the acquired company into our organization;
- integration of the acquired company's technology and products into our business, particularly if the acquired company's software and services are not easily adapted to work with our products;
- integration of the acquired company's accounting, management information, human resources and other administrative systems, as well as the acquired operations, and any unanticipated expenses related to such integration;
- the need to implement or improve controls, procedures, and policies at a business that prior to the acquisition may have lacked effective controls, procedures and policies;
- liability for activities of the acquired company before the acquisition, including intellectual property infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities;
- completing the transaction and achieving the anticipated benefits of the acquisition within the expected timeframe or at all;
- unanticipated write-offs, expenses, charges or risks associated with the transaction;
- litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former stockholders or other third parties, which may differ from or be more significant than the risks our business faces; and
- acquisitions could result in dilutive issuances of equity securities or the incurrence of debt.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of these acquisitions or investments, cause us to incur unanticipated liabilities, and harm our business generally. Future acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, amortization expenses, incremental operating expenses or the write-off of goodwill, any of which could harm our financial condition or operating results.

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

We believe that our culture has been and will continue to be a key contributor to our success. We expect to continue to hire additional employees as we expand our business. If we do not continue to develop our company culture or maintain our core values as we grow and evolve both in the United States and abroad, we may be unable to foster the innovation, creativity and teamwork we believe we need to support our growth.

Risks Related to Our Intellectual Property

We may be sued by third parties for alleged infringement of their proprietary rights.

There is considerable patent and other intellectual property development activity in our industry. Our success depends on developing or licensing our own intellectual property and not infringing upon the valid intellectual property rights of others. Our competitors, as well as a number of other entities, including non-practicing entities, and individuals, may own or claim to own intellectual property relating to our industry.

From time to time, third parties have claimed, and in the future may claim, that we are infringing upon their intellectual property rights, and we may be found to be infringing upon such rights. We may be unaware of the intellectual property rights that others may claim cover some or all of our technology or services. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our services, or require that we comply with other unfavorable terms. We may also be obligated to indemnify our customers or business partners or pay substantial settlement costs, including royalty payments, in connection with any such claim or litigation and to obtain licenses, modify services, or refund fees, which could be costly. Even if we were to prevail in such a dispute, any litigation regarding our intellectual property could be costly and time consuming and divert the attention of our management and key personnel from our business operations. During the course of any litigation, we may make announcements regarding the results of hearings and motions, and other interim developments. If securities analysts or investors regard these announcements as negative, the market price of our Class A common stock may decline.

Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and brand.

Our success and ability to compete depend in part on our intellectual property. We primarily rely on copyright, patent, trade secret and trademark laws, trade secret protection and confidentiality or license agreements with our employees, customers, partners and others to protect our intellectual property rights. However, the steps we take to protect our intellectual property rights may be inadequate. We may not be able to obtain any further patents, and our pending applications may not lead to the issuance of patents. We may also have to expend significant resources to obtain additional patents as we expand our international operations.

In order to protect our intellectual property rights, we may spend significant resources to monitor and protect these rights. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management and may result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Accordingly, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property. Our failure to secure, protect and enforce our intellectual property rights could materially adversely affect our brand and adversely impact our business.

Our services contain open source software, and we license some of our software through open source projects, which may pose particular risks to our proprietary software, products, and services in a manner that could have a negative impact on our business.

We use open source software in our services and will use open source software in the future. In addition, we regularly contribute software source code to open source projects under open source licenses or release internal software projects under open source licenses, and anticipate doing so in the future. The terms of many open source licenses to which we are subject have not been interpreted by U.S. or foreign courts, and there is a risk that open source software licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to provide or distribute our services. Additionally, from time to time third parties may claim ownership of, or demand release of, the open source software or derivative works that we developed using such software, which could include our proprietary source code, or otherwise seek to enforce the terms of the applicable open source license. These claims could result in litigation and could require us to make our software source code freely available, purchase a costly license or cease offering the implicated services unless and until we can re-engineer them to avoid infringement. This re-engineering process could require significant additional research and development resources, and we may not be able to complete it successfully. In addition to risks related to license requirements, use of certain open source software can lead to greater risks than use of third-party commercial software, as open source code may contain bugs or other defects and open source licensors generally do not provide warranties or controls on the functionality or origin of software. Additionally, because any software source code we contribute to open source projects is publicly available, our ability to protect our intellectual property rights with respect to such software source code may be limited or lost entirely, and we cannot prevent our competitors or others from using such contributed software source code. Any of these risks could be difficult to eliminate or manage and could have a negative effect on our business, financial condition and operating results.

Risks Related to Our Financial Position and Need for Additional Capital

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

On occasion, we may need additional financing for a variety of reasons, including operating or growing our business, responding to business opportunities, undertaking acquisitions, or repaying our convertible senior notes. For example, in May 2021, we issued and sold 500,000 shares of our Series A Convertible Preferred Stock for an aggregate purchase price of \$500 million. Our ability to obtain additional financing, if and when required, will depend on investor and lender demand, our operating performance, the condition of the capital markets and other factors. We cannot guarantee that additional financing will be available to us on

favorable terms when required, or at all. If we raise additional funds through the issuance of equity, equity-linked or debt securities, those securities may have rights, preferences or privileges senior to the rights of our Class A common stock, and our existing stockholders may experience dilution. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support the operation or growth of our business could be significantly impaired and our operating results may be harmed.

Financing agreements we are party to or may become party to may contain operating and financial covenants that restrict our business and financing activities.

Our senior credit facility contains certain operating and financial restrictions and covenants that may restrict our and our subsidiaries' ability to, among other things, incur indebtedness, grant liens on our assets, make loans or investments, consummate certain merger and consolidation transactions, dispose of assets, incur contractual obligations and commitments and enter into affiliate transactions, subject in each case to customary exceptions. We are also required to comply with a maximum senior secured leverage ratio, a maximum total leverage ratio and a minimum interest coverage ratio. These restrictions and covenants, as well as those contained in any future financing agreements that we may enter into, may restrict our ability to finance our operations, engage in, expand or otherwise pursue our business activities and strategies. Our ability to comply with these covenants may be affected by events beyond our control, and breaches of these covenants could result in a default under the senior credit facility and any future financial agreements that we may enter into and under other arrangements containing cross-default provisions. If not waived, defaults could cause our outstanding indebtedness under our senior credit facility and any future financing agreements that we may enter into to become immediately due and payable, and permit our lenders to terminate their lending commitments and to foreclose upon any collateral securing such indebtedness.

Risks Related to Financial, Accounting, Tax and Other Legal Matters

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

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

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures, and internal control over financial reporting. We are continuing to develop and refine our disclosure controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file with the SEC is properly recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. We are also continuing to improve our internal control over financial reporting. We have expended, and anticipate that we will continue to expend, significant resources in order to maintain and improve the effectiveness of our disclosure controls and procedures and internal control over financial reporting.

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business, including increased complexity resulting from our international expansion. Further, weaknesses in our disclosure controls or our internal control over financial reporting may be discovered in the future. Additionally, to the extent that we acquire other businesses, the acquired company may not have a sufficiently robust system of internal controls and we may uncover new deficiencies. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our operating results or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting could also adversely affect the results of management reports and independent registered public accounting firm audits of our internal control over financial reporting that we are required to include in our periodic reports that we file with the SEC. Ineffective disclosure controls and procedures, and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the market price of our Class A common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the NYSE.

Any failure to maintain effective disclosure controls and internal control over financial reporting could have a material and adverse effect on our business and operating results, and cause a decline in the market price of our Class A common stock.

Our reported financial results may be adversely affected by changes in accounting principles generally accepted in the United States.

Generally accepted accounting principles in the United States are subject to interpretation by the FASB, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change. These or other changes in accounting principles could adversely affect our financial results. Any difficulties in implementing these pronouncements could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm investors' confidence in us.

Tax laws or regulations could be enacted or changed and existing tax laws or regulations could be applied to us or to our customers in a manner that could increase the costs of our services and adversely impact our business.

The application of federal, state, local and international tax laws to services provided electronically is unclear and continuously evolving. Income, sales, use or other tax laws, statutes, rules, regulations or ordinances could be enacted or amended at any time, such as the Tax Cuts and Jobs Act in the United States, possibly with retroactive effect, and could be applied solely or disproportionately to services provided over the internet. These enactments or amendments could adversely affect our sales activity due to the inherent cost increase the taxes would represent and ultimately result in a negative impact on our operating results and cash flows.

In addition, existing tax laws, statutes, rules, regulations or ordinances could be interpreted or applied adversely to us, possibly with retroactive effect, which could require us or our customers to pay additional tax amounts, as well as require us or our customers to pay fines or penalties, as well as interest for past amounts. If we are unsuccessful in collecting such taxes due from our customers, we could be held liable for such costs, thereby adversely impacting our operating results and cash flows.

We may be subject to additional tax liabilities.

We are subject to income, sales, use, value added and other taxes in the United States and other countries in which we conduct business, and such laws and rates vary by jurisdiction. Our income tax obligations are based in part on our corporate structure and intercompany arrangements, including the manner in which we acquire, develop, value, and use our intellectual property and the valuations of our intercompany transactions. Certain jurisdictions in which we do not collect sales, use, value added or other taxes on our sales may assert that such taxes are applicable, which could result in tax assessments, penalties and interest, and we may be required to collect such taxes in the future. Judgment is required in determining our worldwide provision for income taxes. These determinations are highly complex and require detailed analysis of the available information and applicable statutes and regulatory materials. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our tax estimates are reasonable, the final determination of tax audits and any related litigation could be materially different from our historical tax practices, provisions and accruals. If we receive an adverse ruling as a result of an audit, or we unilaterally determine that we have misinterpreted provisions of the tax regulations to which we are subject, there could be a material effect on our tax provision, net loss or cash flows in the period or periods for which that determination is made. In addition, liabilities associated with taxes are often subject to an extended or indefinite statute of limitations period. Therefore, we may be subject to additional tax liability (including penalties and interest) for a particular year for extended periods of time.

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

As of January 31, 2022, we had U.S. federal net operating loss carryforwards of approximately \$700.2 million, state net operating loss carryforwards of approximately \$571.2 million, and foreign net operating loss carryforwards of approximately \$313.0 million. Under Sections 382 and 383 of Internal Revenue Code of 1986, as amended (the "Code"), if a corporation undergoes an "ownership change," the corporation's ability to use its pre-change net operating loss carryforwards and other pre-change tax attributes, such as research tax credits, to offset its post-change income and taxes may be limited. In general, an "ownership change" occurs if there is a cumulative change in our ownership by "5% shareholders" that exceeds 50 percentage points over a rolling three-year period. Similar rules may apply under state tax laws. If we experience ownership changes as a result of future transactions in our stock, then we may be further limited in our ability to use our net operating loss carryforwards and other tax assets to reduce taxes owed on the net taxable income that we earn. Any such limitations on the ability to use our net operating loss carryforwards and other tax assets could adversely impact our business, financial condition and operating results.

We are subject to governmental export controls that could impair our ability to compete in international markets due to licensing requirements and economic sanctions programs that subject us to liability if we are not in full compliance with applicable laws.

Certain of our services are subject to export controls, including the U.S. Department of Commerce's Export Administration Regulations and various economic and trade sanction regulations administered by the U.S. Treasury Department's Office of Foreign

Assets Controls. The provision of our products and services must comply with these laws. The U.S. export control laws and U.S. economic sanctions laws include prohibitions on the sale or supply of certain products and services to U.S. embargoed or sanctioned countries, governments, persons and entities and also require authorization for the export of encryption items. In addition, various countries regulate the import of certain encryption technology, including through import permitting and licensing requirements, and have enacted laws that could limit our ability to distribute our services or could limit our customers' ability to implement our services in those countries.

Although we take precautions to prevent our services from being provided in violation of such laws, our solutions may have been in the past, and could in the future be, provided inadvertently in violation of such laws, despite the precautions we take. If we fail to comply with these laws, we and our employees could be subject to civil or criminal penalties, including the possible loss of export privileges, monetary penalties, and, in extreme cases, imprisonment of responsible employees for knowing and willful violations of these laws. We may also be adversely affected through penalties, reputational harm, loss of access to certain markets, or otherwise.

Changes in tariffs, sanctions, international treaties, export/import laws and other trade restrictions or trade disputes may delay the introduction and sale of our services in international markets, prevent our customers with international operations from deploying our services or, in some cases, prevent the export or import of our services to certain countries, governments, persons or entities altogether. Any change in export or import regulations, economic sanctions or related laws, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our services, or in our decreased ability to export or sell our services to existing or potential customers with international operations. Any decrease in the use of our services or limitation on our ability to export or sell our services would likely adversely affect our business, financial condition and operating results.

Failure to comply with anti-bribery, anti-corruption, and anti-money laundering laws could subject us to penalties and other adverse consequences.

We are subject to the Foreign Corrupt Practices Act (FCPA), the U.K. Bribery Act and other anti-corruption, anti-bribery and anti-money laundering laws in various jurisdictions both domestic and abroad. In addition to our own sales force, we also leverage third parties to sell our products and services and conduct our business abroad. We and our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and may be held liable for the corrupt or other illegal activities of these third-party business partners and intermediaries, our employees, representatives, contractors, channel partners, and agents, even if we do not explicitly authorize such activities. While we have policies and procedures to address compliance with such laws, we cannot assure you that our employees and agents will not take actions in violation of our policies or applicable law, for which we may be ultimately held responsible. Any violation of the FCPA or other applicable anti-bribery, anti-corruption, and anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, severe criminal or civil sanctions, or suspension or debarment from U.S. government contracts, all of which may have an adverse effect on our reputation, business, operating results and prospects.

Risks Related to Ownership of Our Class A Common Stock

Anti-takeover provisions contained in our amended and restated certificate of incorporation and amended and restated bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

Our amended and restated certificate of incorporation, amended and restated bylaws and Delaware law contain provisions which could have the effect of rendering more difficult, delaying or preventing an acquisition deemed undesirable by our board of directors. Among other things, our amended and restated certificate of incorporation and amended and restated bylaws include provisions:

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

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

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents certain stockholders holding more than 15% of our outstanding capital stock from engaging in certain business combinations without approval of the holders of at least two-thirds of our outstanding Class A common stock not held by such stockholder.

Any provision of our amended and restated certificate of incorporation, amended and restated bylaws or Delaware law that has the effect of delaying, preventing or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our capital stock, and could also affect the price that some investors are willing to pay for our Class A common stock.

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

The market price of our Class A common stock has been and may continue to be subject to wide fluctuations in response to various factors, some of which are beyond our control and may not be related to our operating performance. In addition to the factors discussed in this “Risk Factors” section and elsewhere in this Quarterly Report on Form 10-Q, factors that could cause fluctuations in the market price of our Class A common stock include the following:

- price and volume fluctuations in the overall stock market from time to time;
- volatility in the market prices and trading volumes of technology stocks;
- changes in operating performance and stock market valuations of other technology companies generally or those in our industry in particular;
- purchases and sales of shares of our Class A common stock by us or our stockholders;
- whether our results of operations meet the expectations of securities analysts or investors and changes in actual or future expectations of investors or securities analysts;
- the financial projections we may provide to the public, any changes in those projections or our failure to meet those projections;
- announcements by us or our competitors of new products or services;
- the public’s reaction to our press releases, other public announcements and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our operating results or fluctuations in our operating results;
- actual or anticipated developments in our business, our competitors’ businesses or the competitive landscape generally;
- litigation involving us, our industry or both, or investigations by regulators into our operations or those of our competitors;
- developments or disputes concerning our intellectual property or other proprietary rights;
- announced or completed acquisitions of businesses or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- network or service outages, internet disruptions, the availability of our service, security breaches or perceived security breaches and vulnerabilities;
- changes in accounting standards, policies, guidelines, interpretations or principles;
- actions instituted by activist shareholders or others;
- any significant change in our management; and
- general economic conditions and slow or negative growth of our markets.

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

Servicing our future debt may require a significant amount of cash, and we may not have sufficient cash flow from our business to settle conversions of our convertible senior notes in cash, repay the convertible senior notes at maturity, or repurchase the convertible senior notes as required following a fundamental change.

In January 2021, we issued \$345.0 million aggregate principal amount of convertible senior notes (the “Notes”). Prior to October 15, 2025, the Notes are convertible at the option of the holders only under certain conditions or upon occurrence of certain events. We have made an irrevocable election to settle the principal of the Notes in cash upon any conversion of the Notes. As a result, if holders of the Notes elect to convert their Notes, we will be required to make cash payments in respect of the Notes being converted. Holders of the Notes also have the right to require us to repurchase all or a portion of their Notes upon the occurrence of a fundamental change (as defined in the indenture governing the Notes) at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest. If the Notes have not previously been converted or repurchased, we will be required to repay the Notes in cash at maturity.

Our ability to make required cash payments in connection with conversions of the Notes, repurchase the Notes in the event of a fundamental change, or to repay or refinance the Notes at maturity will depend on market conditions and our past and expected future performance, which is subject to economic, financial, competitive, and other factors beyond our control. We also may not use the cash proceeds we raised through the issuance of the Notes in an optimally productive and profitable manner. Since inception, our business has generated net losses, and we may continue to incur significant losses. As a result, we may not have enough available cash or be able to obtain financing, or financing at acceptable terms, at the time we are required to repurchase or repay the Notes or pay cash with respect to Notes being converted.

In addition, our ability to repurchase or pay cash upon conversion or at maturity of the Notes may be limited by law or regulatory authority. Our failure to repurchase Notes following a fundamental change or to pay cash upon conversion or at maturity of the Notes as required by the indenture would constitute a default under such indenture. A default under the indenture or the fundamental change itself could also lead to a default under our senior credit facility, our other outstanding indebtedness, or agreements governing our future indebtedness and could have a material adverse effect on our business, results of operations, and financial condition. If the payment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or to pay cash upon conversion or at maturity of the Notes.

The capped call transactions we entered into in connection with the issuance of the Notes may affect the value of our Class A common stock.

In connection with the issuance of the Notes, we entered into capped call transactions with various counterparties. The capped call transactions cover, subject to customary adjustments, the number of shares of our Class A common stock initially underlying the Notes. The capped call transactions are expected generally to reduce or offset the potential dilution to our Class A common stock upon any conversion of the Notes with such reduction or offset, as the case may be, subject to a cap based on the cap price.

From time to time, the counterparties to the capped call transactions or their respective affiliates may modify their hedge positions by entering into or unwinding various derivatives with respect to our Class A common stock and/or purchasing or selling our Class A common stock or other securities of ours in secondary market transactions prior to the maturity of the Notes. This activity could also cause or prevent an increase or a decrease in the market price of our Class A common stock or the Notes.

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

The counterparties to the capped call transactions that we entered into are financial institutions, and we will be subject to the risk that one or more of the counterparties may default or otherwise fail to perform, or may exercise certain rights to terminate, their obligations under the capped call transactions. Our exposure to the credit risk of the counterparties will not be secured by any collateral.

Global economic conditions have in the past resulted in the actual or perceived failure or financial difficulties of many financial institutions. If a counterparty to one or more capped call transactions becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at the time under such transaction. Our exposure will depend on many factors but, generally, our exposure will increase if the market price or the volatility of our Class A common stock increases. In addition, upon a default or other failure to perform, or a termination of obligations, by a counterparty, the counterparty may fail to deliver the consideration required to be delivered to us under the capped call transactions and we may experience more dilution than we currently anticipate with respect to our Class A common stock. We can provide no assurances as to the financial stability or viability of the counterparties.

Our business could be negatively affected as a result of actions of activist shareholders.

We value constructive input from investors and regularly engage in dialogue with our shareholders regarding strategy and performance. Our board of directors and management team are committed to acting in the best interests of all of our shareholders.

Responding to actions by activist shareholders could be costly and time-consuming, disrupt our operations and divert the attention of management and our employees. For example, we were recently engaged in a proxy contest with an activist shareholder that was very costly and diverted a significant amount of time from our board of directors and management. Additionally, perceived uncertainties as to our future direction as a result of shareholder activism or changes to the composition of our board of directors may lead to the perception of a change in the direction of our business or other instability, which may be exploited by our competitors and/or other activist shareholders and cause concern to our current or potential customers, employees, investors, strategic partners and other constituencies, which could result in lost sales and the loss of business opportunities and make it more difficult to attract and retain qualified personnel and business partners. If customers choose to delay, defer or reduce transactions with us or do business with our competitors instead of us, then our business, financial condition and operating results would be adversely affected. In addition, our share price could experience periods of increased volatility as a result of shareholder activism.

The holders of Series A Convertible Preferred Stock are entitled to vote on an as-converted to Class A common stock basis and have rights to approve certain actions. Additionally, KKR may exercise influence over us through their ability to designate a member of our board of directors.

In May 2021, we issued 500,000 shares of our Series A Convertible Preferred Stock to a group of investors led by KKR & Co. Inc. (“KKR,” and such group of investors, the “Investors”). The holders of our Series A Convertible Preferred Stock are generally entitled to vote with the holders of our Class A common stock on all matters submitted for a vote of holders of shares of Class A common stock (voting together with the holders of shares of Class A common stock as one class) on an as-converted basis.

Pursuant to that certain Investment Agreement dated April 7, 2021, by and among Box, Inc. and Powell Investors III L.P., KKR-Milton Credit Holdings L.P., KKR-NYC Credit C L.P., Tailored Opportunistic Credit Fund, and CPS Holdings (US) L.P. (the “Investment Agreement”), KKR has the right to designate one candidate for nomination for election to our board of directors for so long as KKR and its permitted transferees maintain minimum aggregate holdings of our stock as described in further detail in the Investment Agreement. Notwithstanding the fact that all directors are subject to fiduciary duties to us and to applicable law, the interests of the KKR director designee may differ from the interests of our security holders as a whole or of our other directors.

Additionally, the consent of the holders of a majority of the outstanding shares of Series A Convertible Preferred Stock is required in order for us to take certain actions, including issuances of securities that are senior to, or equal in priority with, the Series A Convertible Preferred Stock, and payments of special dividends in excess of an agreed upon amount.

As a result, the holders of Series A Convertible Preferred Stock may in the future have the ability to influence the outcome of certain matters affecting our governance and capitalization.

The issuance of shares of our Series A Convertible Preferred Stock reduces the relative voting power of holders of our Class A common stock, and the conversion of those shares into shares of our Class A common stock would dilute the ownership of Class A common stockholders and may adversely affect the market price of our Class A common stock.

The holders of our Series A Convertible Preferred Stock are entitled to vote, on an as-converted basis, together with holders of our Class A common stock on all matters submitted to a vote of the holders of our Class A common stock, which reduces the relative voting power of the holders of our Class A common stock. In addition, the conversion of our Series A Convertible Preferred Stock into Class A common stock would dilute the ownership interest of existing holders of our Class A common stock, and any conversion of the Series A Convertible Preferred Stock would increase the number of shares of our Class A common stock available for public trading, which could adversely affect prevailing market prices of our Class A common stock.

Our Series A Convertible Preferred Stock has rights, preferences and privileges that are not held by, and are preferential to the rights of, our Class A common stockholders, which could adversely affect our liquidity and financial condition.

The holders of our Series A Convertible Preferred Stock have the right to receive a payment on account of the distribution of assets on any voluntary or involuntary liquidation, dissolution or winding up of our business before any payment may be made to holders of any other class or series of capital stock. In addition, dividends on the Series A Convertible Preferred Stock accrue and are cumulative at the rate of 3.0% per annum, compounding quarterly, and paid-in-kind or paid in cash, at our election.

The holders of our Series A Convertible Preferred Stock also have certain redemption rights, including the right to require us to repurchase all or any portion of the Series A Convertible Preferred Stock at any time following the seventh anniversary of the original issuance date, at 100% of the liquidation preference thereof plus all accrued but unpaid dividends. In addition, upon prior written

notice of certain change of control events, the shares of the Series A Convertible Preferred Stock will automatically be redeemed by us for a repurchase price equal to the greater of (i) the value of the shares of Series A Convertible Preferred Stock as converted into Class A common stock at the then-current conversion price and (ii) an amount in cash equal to 100% of the then-current liquidation preference thereof plus all accrued but unpaid dividends. In the case of clause (ii) above, we will also be required to pay the holders of our Series A Convertible Preferred Stock a “make-whole” premium consisting of dividends that would have otherwise accrued from the effective date of such change of control through the fifth anniversary of the original issuance date.

These dividend and share repurchase obligations could impact our liquidity and reduce the amount of cash flows available for working capital, capital expenditures, growth opportunities, acquisitions, and other general corporate purposes. Our obligations to the holders of our Series A Convertible Preferred Stock could also limit our ability to obtain additional financing, which could have an adverse effect on our financial condition. The preferential rights could also result in divergent interests between the holders of our Series A Convertible Preferred Stock and holders of our Class A common stock.

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

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

We do not expect to declare any dividends to holders of our Class A common stock in the foreseeable future.

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

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Share repurchase activity during the three months ended April 30, 2022 was as follows (in thousands, except per share data):

	Total Number of Shares Purchased	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 ⁽¹⁾
February 1, 2022 to February 28, 2022	2,220	\$ 25.91	2,220	\$ 50,112
March 1, 2022 to March 31, 2022	1,901	\$ 26.37	1,901	\$ 150,000
April 1, 2022 to April 30, 2022	80	\$ 28.71	80	\$ 147,702
Total	4,201		4,201	

- (1) Between July 2021 and April 30, 2022, our board of directors authorized the repurchase of up to an aggregate of \$610 million of shares of our Class A common stock. We entered into a pre-set trading plan adopted in accordance with Rule 10b5-1 to effect such repurchases. As of April 30, 2022, approximately \$147.7 million remained available for additional share repurchases, which will expire on March 14, 2023.

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

Item 6. EXHIBITS

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

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
3.1	<u>Amended and Restated Certificate of Incorporation of Box, Inc., as amended.</u>	8-K	001-36805	3.1	June 23, 2017
3.2	<u>Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Box, Inc., effective September 14, 2021.</u>	8-K/A	001-36805	3.1	September 14, 2021
10.2	<u>Box, Inc. Outside Director Compensation Policy.</u>				
31.1	<u>Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>				
31.2	<u>Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>				
32.1*	<u>Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>				
101.INS	Inline XBRL Instance Document.				
101.SCH	Inline XBRL Taxonomy Schema Linkbase Document.				
101.DEF	Inline XBRL Taxonomy Definition Linkbase Document.				
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document.				
101.LAB	Inline XBRL Taxonomy Labels Linkbase Document.				
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document.				
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)				

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

SIGNATURES

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

Date: June 2, 2022

BOX, INC.

By: /s/ Aaron Levie
Aaron Levie
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Dylan Smith
Dylan Smith
Chief Financial Officer
(Principal Financial Officer)

BOX, INC.

OUTSIDE DIRECTOR COMPENSATION POLICY

Box, Inc. (the “**Company**”) believes that the granting of equity and cash compensation to members of its Board of Directors (the “**Board**,” and members of the Board, the “**Directors**”) represents an effective tool to attract, retain and reward Directors who are not employees of the Company (the “**Outside Directors**”). This Outside Director Compensation Policy (the “**Policy**”) is intended to formalize the Company’s policy regarding cash compensation and grants of equity to its Outside Directors. Unless otherwise defined herein, capitalized terms used in this Policy will have the meaning given such term in the Company’s 2015 Equity Incentive Plan (the “**Plan**”). Each Outside Director will be solely responsible for any tax obligations incurred by such Outside Director as a result of the equity and cash payments such Outside Director receives under this Policy.

This Policy became effective on January 22, 2015 (the effective date of the registration statement in connection with the initial public offering of the Company’s securities, and was most recently amended and restated on May 1, 2021 (the “**Amendment Date**”).

1. CASH RETAINERS

Annual Cash Retainer for Board Service

Each Outside Director will be paid an annual cash retainer of \$40,000.

Annual Cash Retainers for Chairperson, Lead Independent Director and Committee Service

Each Outside Director will be paid additional annual cash retainers for applicable service as follows:

Chairperson \$50,000

Lead Independent Director \$ 20,000

Committee Service: Chair Member

Audit \$ 20,000 \$ 10,000

Compensation \$ 20,000 \$ 8,000

Nominating and Corporate Governance \$ 10,000 \$ 5,000

Operating \$ 20,000 \$ 8,000

All cash compensation will be paid quarterly in arrears on a prorated basis.

No Outside Director will receive per meeting attendance fees for attending Board or meetings of committees of the Board.

2. EQUITY COMPENSATION

Outside Directors will be entitled to receive all types of Awards (except Incentive Stock Options) under the Plan (or the applicable equity plan in place at the time of grant), including discretionary Awards not covered under this Policy. All grants of Awards to Outside Directors pursuant to Section 2 of this Policy will be automatic and nondiscretionary, except as otherwise provided herein, and will be made in accordance with the following provisions:

(a) No Discretion. No person will have any discretion to select which Outside Directors will be granted any Awards under this Policy or to determine the number of shares of Company common stock (“**Shares**”) to be covered by such Awards.

(b) Initial Awards. Subject to Section 11 of the Plan, effective on the date the person first becomes an Outside Director, whether through election by the stockholders of the Company or appointment by the Board to fill a vacancy, such Outside Director automatically will be granted Restricted Stock Units (“**RSUs**”) with a Value (as defined below) equal to \$400,000 (collectively, the “**Initial Award**”).

The Initial Award will vest in 3 annual installments beginning with the first anniversary after the grant date, in each case, provided that the Outside Director continues to serve as a Service Provider through the applicable vesting date.

For clarity, a Director who is an Employee who ceases to be an Employee, but who remains a Director, will not receive an Initial Award.

(c) Annual Awards. Subject to Section 11 of the Plan, on the date of each annual meeting of the Company’s stockholders (the “**Annual Meeting**”) beginning with the 2020 Annual Meeting, each Outside Director automatically will be granted RSUs with a Value equal to \$200,000 (collectively, the “**Annual Award**”).

The Annual Award will fully vest upon the earlier of: (i) the 12-month anniversary of the grant date; or (ii) the next Annual Meeting, in each case, provided that the Outside Director continues to serve as a Service Provider through the vesting date.

For clarity, an Outside Director will not be eligible for an Annual Award unless the Outside Director has been a Director either (i) for at least 1 full calendar year; or (ii) at the previous year’s Annual Meeting.

(a) Change in Control. In the event of a Change in Control, each Outside Director will fully vest in his or her Awards.

(b) Termination of Service Due to Death or Disability. In the event an Outside Director ceases to be a Service Provider due to the Outside Director’s death or Disability (as defined in the Plan), the Outside Director will fully vest in his or her Awards. In addition, the vesting acceleration provided under the previous sentence will apply to any equity awards granted to the Outside Director prior to the Amendment Date.

(c) Value. To determine the number of Shares subject to an Initial Award or Annual Award, the specified Value for RSUs will be divided by the average of the closing trading price of a Share for the 30-trading day period ending on the trading day prior to the grant date, or such other methodology the Board or the Compensation Committee of the Board (the “**Compensation Committee**”) may determine prior to the grant of the RSUs becoming effective.

3. TRAVEL EXPENSES

Each Outside Director's reasonable, customary and documented travel expenses to Board meetings will be reimbursed by the Company.

4. ADDITIONAL PROVISIONS

All provisions of the Plan not inconsistent with this Policy will apply to Awards granted to Outside Directors.

5. REVISIONS

The Board in its discretion may change and otherwise revise the terms of Awards granted under this Policy, including, without limitation, the number of Shares subject thereto, for Awards of the same or different type granted on or after the date the Board determines to make any such change or revision.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Aaron Levie, certify that:

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

Date: June 2, 2022

By: /s/ Aaron Levie
 Name: Aaron Levie
 Title: Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Dylan Smith, certify that:

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

Date: June 2, 2022

By: /s/ Dylan Smith
Name: Dylan Smith
Title: Chief Financial Officer

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Aaron Levie, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Box, Inc. for the fiscal quarter ended April 30, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Box, Inc.

Date: June 2, 2022

By: /s/ Aaron Levie
Name: Aaron Levie
Title: Chief Executive Officer

I, Dylan Smith, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Box, Inc. for the fiscal quarter ended April 30, 2022 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Box, Inc.

Date: June 2, 2022

By: /s/ Dylan Smith
Name: Dylan Smith
Title: Chief Financial Officer
