

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2023

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 001-38434

Dropbox, Inc.

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

26-0138832

(I.R.S. Employer Identification Number)

Dropbox, Inc.

1800 Owens Street

San Francisco, California 94158

(415) 857-6800

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

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

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of exchange on which registered</u>
Class A Common Stock, par value \$0.00001 per share	DBX	The NASDAQ Stock Market LLC (Nasdaq Global Select Market)

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

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

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

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

As of May 3, 2023, there were 268,167,245 shares of the registrants' Class A common stock outstanding (which includes 8,266,666 shares of Class A common stock subject to restricted stock awards that were granted pursuant to the Co-Founder Grant, and vest upon the satisfaction of a service condition and achievement of certain stock price goals and 887,427 shares of Class A common stock subject to restricted stock awards that were granted to other Dropbox executives and vest upon the satisfaction of a service condition and as applicable, achievement of certain stock price goals), 81,500,186 shares of the registrant's Class B common stock outstanding, and no shares of the registrant's Class C common stock outstanding.

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

- Our ability to retain and upgrade paying users;
- Our ability to attract new users or convert registered users to paying users;
- Our future financial performance, including trends in revenue, costs of revenue, gross profit or gross margin, operating expenses, paying users, annual recurring revenue, average revenue per user, free cash flow, and the assumptions underlying such trends;
- Our expectations regarding general economic, political, and market trends and their respective impacts on our business;
- Our ability to compete successfully in competitive markets;
- Our expectations regarding the potential impacts of a more permanent global shift to remote or distributed work, on our business, the business of our customers, suppliers and partners, and the economy;
- The demand for our platform or for content collaboration solutions in general;
- Our ability to effectively integrate our platform with others;
- Our ability to respond to rapid technological changes, including our ability to take advantage of potential market opportunities arising from what we believe to be a more permanent shift towards remote or distributed work;
- Our ability to achieve or maintain profitability;
- Our expectations around future growth;
- Our ability to successfully introduce new products and features;
- Our ability to effectively invest in the development of new products and technologies;
- Our ability to attract, retain, integrate, and manage key and other highly qualified personnel, including in light of our workforce reduction in April 2023 and as a result of our Virtual First model with an increasingly distributed workforce;
- Our ability to prevent security breaches and unauthorized access to customer data;
- Our capital allocation plans, including expected allocations of cash and timing for our share repurchases and other investments;
- Our expectations regarding the challenges and anticipated benefits to our business from our Virtual First work model as well as the impact to our financial results and business operations as a result of this model;
- The effects of new or modified laws, policies, taxes, and regulations on our business;
- Our ability to maintain, protect, and enhance our intellectual property;

- The sufficiency of our cash and cash equivalents to meet our liquidity needs; and
- Acquisitions of companies and assets.

We caution you that the foregoing list may not contain all of the forward-looking statements made in this Quarterly Report on Form 10-Q.

You should not rely upon forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, and prospects. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, and other factors described in the section titled “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. We cannot assure you that the results, events, and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events, or circumstances could differ materially from those described in the forward-looking statements.

The forward-looking statements made in this Quarterly Report on Form 10-Q relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements made in this Quarterly Report on Form 10-Q to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q or to reflect new information or the occurrence of unanticipated events, except as required by law. We may not actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements, and you should not place undue reliance on our forward-looking statements. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make.

SUMMARY OF RISK FACTORS

Below is a summary of the principal factors that could materially harm our business, operating results and/or financial condition, impair our future prospects or cause the price of our Class A common stock to decline. This summary does not address all of the risks that we face. Additional discussion of the risks summarized in this risk factor summary, and other risks that we face, can be found below under the heading “Risk Factors” and should be carefully considered, together with other information in this Form 10-Q and our other filings with the Securities and Exchange Commission (“SEC”) before making an investment decision regarding our Class A common stock.

- Our business depends on our ability to retain and upgrade paying users, and any decline in renewals or upgrades could adversely affect our future results of operations.
- Our future growth could be harmed if we fail to attract new users or convert registered users to paying users.
- Our business could be damaged, and we could be subject to liability if there is any unauthorized access to our data or our users' content, including through privacy and data security breaches or incidents.
- Our business may be significantly impacted by a change in general economic, political, and market conditions, including any resulting effect on consumer or business spending.
- We operate in competitive markets, and we must continue to compete effectively.
- Our business depends upon the interoperability of our platform across devices, operating systems, and third-party applications that we do not control.
- Our business could be harmed by any significant disruption of service on our platform or loss of content.
- We generate revenue from sales of subscriptions to our platform, and any decline in demand for our platform, or for content collaboration solutions in general, could negatively impact our business.
- Failure to respond to rapid technological changes, extend our platform, or develop new features or products may harm our ability to compete effectively, which would adversely affect our business.
- We may not successfully manage our growth or successfully execute our plan for future growth.
- We depend on our key personnel and other highly qualified personnel, and if we fail to attract, integrate, and retain our personnel, and maintain our unique corporate culture, our business could be harmed.
- We have a limited history of operating with a Virtual First workforce and the long-term impact on our financial results and business operations remains uncertain.
- Our lack of a significant outbound sales force may limit the potential growth of our business.
- Our revenue growth rate has declined in recent periods and may continue to slow in the future.
- We have a history of net losses, we may increase expenses in the future, and we may not be able to achieve or maintain profitability.
- Servicing our 2026 Notes and 2028 Notes (as defined below) may require a significant amount of cash, and we may not have sufficient cash flow or the ability to raise the funds necessary to satisfy our obligations under the 2026 Notes or 2028 Notes.

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PART I. FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**

DROPBOX, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions)
(Unaudited)

	As of	
	March 31, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 332.7	\$ 232.8
Short-term investments	920.4	1,110.6
Trade and other receivables, net	57.6	53.8
Prepaid expenses and other current assets	89.0	92.6
Total current assets	1,399.7	1,489.8
Property and equipment, net	307.2	308.4
Operating lease right-of-use asset	248.2	260.6
Intangible assets, net	80.8	88.3
Goodwill	402.5	403.3
Deferred tax assets	495.4	498.7
Other assets	59.9	61.0
Total assets	\$ 2,993.7	\$ 3,110.1
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable	\$ 38.6	\$ 38.6
Accrued and other current liabilities	167.1	139.9
Accrued compensation and benefits	40.1	131.7
Operating lease liability	64.8	68.9
Finance lease obligation	114.2	114.8
Deferred revenue	727.7	702.6
Total current liabilities	1,152.5	1,196.5
Operating lease liability, non-current	569.6	585.2
Finance lease obligation, non-current	154.8	151.7
Convertible senior notes, net, non-current	1,375.0	1,374.0
Other non-current liabilities	107.0	112.1
Total liabilities	3,358.9	3,419.5
Commitments and contingencies (Note 10)		
Stockholders' deficit:		
Additional paid-in-capital	2,501.6	2,511.6
Accumulated deficit	(2,827.5)	(2,772.1)
Accumulated other comprehensive loss	(39.3)	(48.9)
Total stockholders' deficit	(365.2)	(309.4)
Total liabilities and stockholders' deficit	\$ 2,993.7	\$ 3,110.1

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2023	2022
Revenue	\$ 611.1	\$ 562.4
Cost of revenue ⁽¹⁾	116.8	112.9
Gross profit	494.3	449.5
Operating expenses ⁽¹⁾		
Research and development	235.2	210.8
Sales and marketing	119.2	95.7
General and administrative	55.8	53.5
Total operating expenses	410.2	360.0
Income from operations	84.1	89.5
Interest income (expense), net	3.9	(1.4)
Other (loss) income, net	(0.4)	5.7
Income before income taxes	87.6	93.8
Provision for income taxes	(18.6)	(14.1)
Net income	\$ 69.0	\$ 79.7
Net income per share-basic and diluted:		
Basic net income per share	\$ 0.20	\$ 0.22
Diluted net income per share	\$ 0.20	\$ 0.21
Weighted-average shares used in computing net income per share attributable to common stockholders, basic	347.1	370.7
Weighted-average shares used in computing net income per share attributable to common stockholders, diluted	348.8	372.9

⁽¹⁾ Includes stock-based compensation as follows:

	Three Months Ended March 31,	
	2023	2022
Cost of revenue	\$ 5.4	\$ 5.7
Research and development ⁽²⁾	52.9	50.5
Sales and marketing	5.5	4.5
General and administrative	12.2	11.6

⁽²⁾ On March 15, 2023, the Company's President resigned, resulting in the reversal of \$6.7 million in stock-based compensation expense. Of the total amount reversed, \$4.4 million related to expense recognized prior to January 1, 2023.

See accompanying Notes to Condensed Consolidated Financial Statements.

DROPBOX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three Months Ended March 31,	
	2023	2022
Net income	\$ 69.0	\$ 79.7
Other comprehensive income (loss):		
Change in foreign currency translation adjustments	(0.7)	(1.2)
Change in net unrealized gains and losses on short-term investments	10.3	(24.3)
Total other comprehensive income (loss)	\$ 9.6	\$ (25.5)
Comprehensive income	\$ 78.6	\$ 54.2

See accompanying Notes to Condensed Consolidated Financial Statements.

DROPBOX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
(In millions)
(Unaudited)

	Three Months Ended March 31, 2023						Three Months Ended March 31, 2022					
	Class A and Class B Common Stock		Additional paid in capital	Accumulated deficit	Accumulated other comprehensive loss	Total stockholders' deficit	Class A and Class B common stock		Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income	Total stockholders' deficit
	Shares	Amount					Shares	Amount				
Balances at beginning of period	349.4	\$ —	\$ 2,511.6	\$ (2,772.1)	\$ (48.9)	\$ (309.4)	375.5	\$ —	\$ 2,448.1	\$ (2,739.4)	\$ (2.6)	\$ (293.9)
Release of restricted stock units and awards	3.7	—	—	—	—	—	3.9	—	—	—	—	—
Shares withheld related to net share settlement of restricted stock units and awards	(1.4)	—	(12.9)	(21.2)	—	(34.1)	(1.5)	—	(12.2)	(24.5)	—	(36.7)
Repurchases of common stock	(8.1)	—	(73.3)	(103.2)	—	(176.5)	(11.0)	—	(89.2)	(170.7)	—	(259.9)
Exercise of stock options and awards	0.1	—	0.2	—	—	0.2	0.1	—	0.2	—	—	0.2
Tax benefit attributable to bond hedges purchased in connection with issuance of convertible senior notes	—	—	—	—	—	—	—	—	0.5	—	—	0.5
Stock-based compensation	—	—	76.0	—	—	76.0	—	—	72.3	—	—	72.3
Other comprehensive income (loss)	—	—	—	—	9.6	9.6	—	—	—	—	(25.5)	(25.5)
Net income	—	—	—	69.0	—	69.0	—	—	—	79.7	—	79.7
Balances at end of period	<u>343.7</u>	<u>\$ —</u>	<u>\$ 2,501.6</u>	<u>\$ (2,827.5)</u>	<u>\$ (39.3)</u>	<u>\$ (365.2)</u>	<u>367.0</u>	<u>\$ —</u>	<u>\$ 2,419.7</u>	<u>\$ (2,854.9)</u>	<u>\$ (28.1)</u>	<u>\$ (463.3)</u>

See accompanying Notes to Condensed Consolidated Financial Statement

DROPBOX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Three Months Ended March 31,	
	2023	2022
Cash flow from operating activities		
Net income	\$ 69.0	\$ 79.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42.5	39.4
Stock-based compensation	76.0	72.3
Amortization of debt issuance costs	1.0	1.0
Amortization of deferred commissions	10.7	9.0
Non-cash operating lease expense	12.7	17.2
Deferred taxes	3.4	6.4
Other	0.7	1.8
Changes in operating assets and liabilities:		
Trade and other receivables, net	(3.8)	4.8
Prepaid expenses and other current assets	(7.2)	(9.7)
Other assets	1.1	2.5
Accounts payable	(0.3)	(1.0)
Accrued and other current liabilities	25.6	14.7
Accrued compensation and benefits	(91.6)	(94.5)
Deferred revenue	24.7	19.5
Other non-current liabilities	(4.7)	(2.3)
Operating lease liabilities	(19.9)	(20.3)
Tenant improvement allowance reimbursement	—	0.9
Net cash provided by operating activities	<u>139.9</u>	<u>141.4</u>
Cash flow from investing activities		
Capital expenditures	(1.9)	(10.7)
Purchases of short-term investments	(30.9)	(81.6)
Proceeds from sales of short-term investments	152.7	51.8
Proceeds from maturities of short-term investments	77.6	137.5
Other	3.3	4.0
Net cash provided by investing activities	<u>200.8</u>	<u>101.0</u>
Cash flow from financing activities		
Payments for taxes related to net share settlement of restricted stock units and awards	(34.1)	(36.7)
Proceeds from issuance of common stock, net of taxes withheld	0.2	0.2
Principal payments on finance lease obligations	(32.0)	(32.4)
Common stock repurchases	(175.4)	(259.9)
Net cash used in financing activities	<u>(241.3)</u>	<u>(328.8)</u>
Effect of exchange rate changes on cash and cash equivalents	0.5	(1.1)
Change in cash and cash equivalents	99.9	(87.5)
Cash and cash equivalents - beginning of period	232.8	533.0
Cash and cash equivalents - end of period	<u>\$ 332.7</u>	<u>\$ 445.5</u>
Supplemental cash flow data:		
Property and equipment acquired under finance leases	<u>\$ 34.5</u>	<u>\$ 19.7</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

DROPBOX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in tables are in millions except per share data, or as otherwise noted)

Note 1. Description of the Business and Summary of Significant Accounting Policies

Business

Dropbox, Inc. (the “Company” or “Dropbox”) helps keep life organized and work moving. The Company was incorporated in May 2007 as Evenflow, Inc., a Delaware corporation, and changed its name to Dropbox, Inc. in October 2009. The Company is headquartered in San Francisco, California.

Basis of presentation and consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the United States of America generally accepted accounting principles (“GAAP”) and applicable rules and regulations of the SEC regarding interim financial reporting. The accompanying unaudited condensed consolidated financial statements include the accounts of Dropbox and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated balance sheet as of December 31, 2022 included herein was derived from the audited financial statements as of that date. The unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the balance sheets, statements of operations, statements of comprehensive income, statements of stockholders' deficit and the statements of cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year ended December 31, 2023 or any future period.

The unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the related notes thereto as of and for the year ended December 31, 2022, included in the Company's Annual Report on Form 10-K on file with the SEC (“Annual Report”).

Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported and disclosed in the Company's condensed consolidated financial statements and accompanying notes. These estimates are based on information available as of the date of the condensed consolidated financial statements. Management evaluates these estimates and assumptions on a regular basis. Actual results may differ materially from these estimates.

The Company's most significant estimates and judgments involve the valuation of right-of-use and other lease related assets and income taxes.

Financial information about segments and geographic areas

The Company manages its operations and allocates resources as a single operating segment. Further, the Company manages, monitors, and reports its financials as a single reporting segment. The Company's chief operating decision-maker is its Chief Executive Officer, who reviews financial information presented on a consolidated basis for purposes of making operating decisions, assessing financial performance, and allocating resources. See Note 15 “Geographic Areas” to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for information regarding the Company's long-lived assets and revenue by geography.

Foreign currency transactions

The assets and liabilities of the Company's foreign subsidiaries are translated from their respective functional currencies into U.S. dollars at the exchange rates in effect at the balance sheet date. Revenue and expense amounts are translated at the average exchange rate for the period. Foreign currency translation gains and losses are recorded in other comprehensive income (loss), net of tax.

Gains and losses realized from foreign currency transactions (those transactions denominated in currencies other than the foreign subsidiaries' functional currency) are included in other income, net. Monetary assets and liabilities are remeasured using foreign currency exchange rates at the end of the period, and non-monetary assets are remeasured based on historical

DROPBOX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in tables are in millions except per share data, or as otherwise noted)

exchange rates. The Company recorded net foreign currency transaction gains of \$0.8 million and \$2.8 million during the three months ended March 31, 2023 and 2022, respectively.

Revenue recognition

The Company derives its revenue from subscription fees from customers for access to its platform. The Company's policy is to exclude sales and other indirect taxes when measuring the transaction price of its subscription agreements. The Company accounts for revenue contracts with customers through the following steps:

- Identification of the contract, or contracts, with a customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, the Company satisfies a performance obligation

The Company's subscription agreements generally have monthly or annual contractual terms and a small percentage have multi-year contractual terms. Revenue is recognized ratably over the related contractual term beginning on the date that the platform is made available to a customer. Access to the platform represents a series of distinct services as the Company continually provides access to, and fulfills its obligation to the end customer over the subscription term. The series of distinct services represents a single performance obligation that is satisfied over time. The Company recognizes revenue ratably because the customer receives and consumes the benefits of the platform throughout the contract period. The Company's contracts are generally non-cancelable.

The Company bills in advance for monthly contracts and typically bills annually in advance for contracts with terms of one year or longer. The Company also recognizes an immaterial amount of contract assets, or unbilled receivables, primarily relating to consideration for services completed but not billed at the reporting date. Unbilled receivables are classified as receivables when the Company has the right to invoice the customer.

The Company records contract liabilities when cash payments are received or due in advance of performance to deferred revenue. Deferred revenue primarily relates to the advance consideration received from the customer.

The price of subscriptions is generally fixed at contract inception and therefore, the Company's contracts do not contain a significant amount of variable consideration. As a result, the amount of revenue recognized in the periods presented from performance obligations satisfied (or partially satisfied) in previous periods was not material.

The Company recognized \$331.5 million and \$313.7 million of revenue during the three months ended March 31, 2023 and 2022, respectively, that was included in the deferred revenue balances at the beginning of their respective periods.

As of March 31, 2023, future estimated revenue related to performance obligations that were unsatisfied or partially unsatisfied was \$797.1 million. The substantial majority of the unsatisfied performance obligations will be satisfied over the next twelve months.

Stock-based compensation

The Company has primarily granted restricted stock units ("RSUs") to its employees and members of the Board of Directors under the 2008 Equity Incentive Plan ("2008 Plan"), the 2017 Equity Incentive Plan ("2017 Plan"), and the 2018 Equity Incentive Plan ("2018 Plan" and together with the 2008 Plan and 2017 Plan, the "Dropbox Equity Incentive Plans"). Since August 2015, the Company has granted RSUs, which have a service based vesting condition over a four-year period vesting quarterly, as the only stock-based payment awards to its employees, with the exception of awards granted to its co-founder and certain executives, and has not granted any stock options to employees under the Dropbox Equity Incentive Plans. The Company recognizes compensation expense associated with RSUs on a straight-line basis over the requisite service period and accounts for forfeitures in the period in which they occur.

The Board of Directors determines the fair value of each share of underlying common stock based on the closing price of the Company's Class A common stock as reported on the Nasdaq Global Select Market on the date of the grant.

DROPBOX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in tables are in millions except per share data, or as otherwise noted)

In December 2017, the Board of Directors approved the Company's Co-Founder Grant, consisting of 10.3 million shares of Class A Common Stock in the form of restricted stock awards ("RSAs") which were granted to Drew Houston, the Company's co-founder and Chief Executive Officer. This Co-Founder Grant has service-based, market-based, and performance-based vesting conditions. The Co-Founder Grant is excluded from Class A common stock issued and outstanding until the satisfaction of these vesting conditions. The Company estimated the grant date fair value of the Co-Founder Grant using a model based on multiple stock price paths developed through the use of a Monte Carlo simulation that incorporates into the valuation the possibility that the certain stock price targets may not be satisfied. The first tranche of the Co-Founder Grant vested in the fourth quarter of 2021. The stock-based compensation expense for the Co-Founder Grant is recognized utilizing the accelerated attribution method over the requisite service period identified as the derived service period over which the market conditions are expected to be achieved, and is not reversed if the market conditions are not satisfied. Therefore no incremental stock-based compensation was recognized upon vesting of these RSAs. See Note 12, "Stockholders' Deficit" to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further information.

Cost of revenue

Cost of revenue consists primarily of expenses associated with the storage, delivery, and distribution of the Company's platform for both paying users and free users. These costs, which are referred to as infrastructure costs, include depreciation of servers located in co-location facilities that the Company leases and operates, rent and facilities expense for those datacenters, network and bandwidth costs, support and maintenance costs for infrastructure equipment, and payments to third-party datacenter service providers. Cost of revenue also includes costs, such as salaries, bonuses, benefits, travel-related expenses, and stock-based compensation, which are referred to as employee-related costs, for employees whose primary responsibilities relate to supporting the Company's infrastructure and delivering user support. Other non-employee costs included in cost of revenue include credit card fees related to processing customer transactions and allocated overhead, such as facilities, including rent, utilities, depreciation on leasehold improvements and other equipment shared by all departments, and shared information technology costs. In addition, cost of revenue includes amortization of developed technologies, professional fees related to user support initiatives, and property taxes related to the datacenters.

Cash and cash equivalents

Cash consists primarily of cash on deposit with banks and includes amounts in transit from payment processors for credit and debit card transactions, which typically settle within five business days. Cash equivalents include highly liquid investments purchased with an original maturity date of 90 days or less from the date of purchase.

The Company monitors its credit risk by considering factors such as historical experience, credit ratings, current economic conditions, and reasonable and supportable forecasts.

Short-term investments

The Company's short-term investments are primarily comprised of corporate notes and obligations, U.S. Treasury securities, certificates of deposit, asset-backed securities, commercial paper, U.S. agency obligations, foreign government securities, supranational securities, and municipal securities. The Company determines the appropriate classification of its short-term investments at the time of purchase and reevaluates such designation at each balance sheet date. The Company has classified and accounted for its short-term investments as available-for-sale securities as the Company may sell these securities at any time for use in its current operations or for other purposes, even prior to maturity. As a result, the Company classifies its short-term investments, including securities with stated maturities beyond twelve months, within current assets in the condensed consolidated balance sheets.

The Company's short-term investments are recorded at fair value each reporting period. Unrealized gains and losses on these short-term investments are reported as a separate component of accumulated other comprehensive loss in the condensed consolidated balance sheets until realized. Unrealized gains and losses for any short-term investments that management intends to sell or it is more likely than not that management will be required to sell prior to their anticipated recovery are recorded in other income, net. The Company segments its portfolio based on the underlying risk profiles of the securities and has a zero-loss expectation for U.S. treasury and U.S. government agency securities. The Company regularly reviews the securities in an unrealized loss position and evaluates the current expected credit loss by considering factors such as credit ratings, issuer-specific factors, current economic conditions, and reasonable and supportable forecasts. The Company did not record any material credit losses during the three months ended March 31, 2023. As of March 31, 2023 and December 31, 2022, no allowance for credit losses in short-term investments was recorded.

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Concentrations of credit risk

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash, cash equivalents, accounts receivable, and short-term investments. Although the Company deposits its cash and short-term investments with multiple well-established financial institutions, the deposits, at times, may exceed federally insured limits. The Company has not experienced any losses on its deposits of cash and cash equivalents and management believes that the institutions where the Company has deposits are financially stable and, accordingly, minimal credit risk exists.

Trade accounts receivable are typically unsecured and are derived from revenue earned from customers located around the world. Two distribution partners accounted for 11% and 49% of total trade and other receivables, net as of March 31, 2023. Two distribution partners accounted for 12% and 30% of total trade and other receivables, net as of December 31, 2022. No customer accounted for more than 10% of the Company's revenue in the periods presented.

Deferred commissions, net

Deferred commissions, net is stated as gross deferred commissions less accumulated amortization. Deferred commissions are considered to be incremental and recoverable costs of obtaining a contract with a customer such as sales commissions earned by the Company's sales force including related payroll taxes, and revenue share earned by strategic partners. These amounts have been capitalized as deferred commissions within prepaid and other current assets and other assets on the condensed consolidated balance sheets. The Company deferred incremental costs of obtaining a contract of \$6.1 million and \$7.6 million during the three months ended March 31, 2023 and 2022, respectively.

Deferred commissions, net included in prepaid and other current assets were \$30.1 million and \$33.6 million as of March 31, 2023 and December 31, 2022, respectively. Deferred commissions, net included in other assets were \$24.6 million and \$25.7 million as of March 31, 2023 and December 31, 2022, respectively.

Commissions related to new contracts are typically deferred and amortized over a period of benefit of five years. The period of benefit was estimated by considering factors such as historical customer attrition rates, the useful life of the Company's technology, and the impact of competition in its industry. Commissions that are commensurate with renewal contracts are typically amortized over one year. Amortization of deferred commissions was \$10.7 million and \$9.0 million for the three months ended March 31, 2023 and 2022, respectively. Amortization of deferred commissions costs are included in sales and marketing expense in the accompanying condensed consolidated statements of operations. There was no impairment loss in relation to the deferred costs for any period presented.

Property and equipment, net

Equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of the related asset, which is generally three to seven years. Leasehold improvements are amortized on a straight-line basis over the shorter of their estimated useful lives or the term of the related lease.

The following table presents the estimated useful lives of property and equipment:

Property and equipment	Useful life
Buildings	20 to 30 years
Datacenter and other computer equipment	3 to 5 years
Office equipment and other	3 to 7 years
Leasehold improvements	Lesser of estimated useful life or remaining lease term

Lease obligations

The Company leases office space, datacenters, and equipment under non-cancelable finance and operating leases with various expiration dates through 2036. The Company determines if an arrangement contains a lease at inception.

Operating lease right-of-use assets and lease liabilities are recognized at the present value of the future lease payments at commencement date. The interest rate implicit in the Company's operating leases is not readily determinable, and therefore an incremental borrowing rate is estimated to determine the present value of future payments. The estimated incremental

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borrowing rate factors in a hypothetical interest rate on a collateralized basis with similar terms, payments, and economic environments. Operating lease right-of-use assets also include any prepaid lease payments and lease incentives.

Certain of the operating lease agreements contain rent concession, rent escalation, and option to renew provisions. Rent concession and rent escalation provisions are considered in determining the single lease cost to be recorded over the lease term. Single lease cost is recognized on a straight-line basis over the lease term commencing on the date the Company has the right to use the leased property. The lease terms may include options to extend or terminate the lease. The Company generally uses the base, non-cancelable, lease term when recognizing the lease assets and liabilities, unless it is reasonably certain that the option will be exercised.

In addition, certain operating lease agreements contain tenant improvement allowances from its landlords. These allowances are accounted for as lease incentives and decrease the Company's right-of-use asset and reduce single lease cost over the lease term.

As part of the Company's Virtual First strategy, Dropbox has retained a portion of its office space for in-person collaboration while the remainder will be subleased. Subsequently, the Company has recorded impairment charges in prior quarters as a result of adverse changes in the corporate real estate market in the San Francisco Bay area which has impacted our subleasing strategy in conjunction with the Company's shift to Virtual First. During the three months ended March 31, 2023 and 2022, the Company did not recognize any impairment charge related to right-of-use assets and other lease related property and equipment assets. See Note 9 "Leases" to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for further information.

The Company leases certain equipment from various third parties, through equipment finance leases. These leases either include a bargain purchase option, a full transfer of ownership at the completion of the lease term, or the terms of the leases are at least 75 percent of the useful lives of the assets and are therefore classified as finance leases. These leases are capitalized in property and equipment, net and the related amortization of assets under finance leases is included in depreciation and amortization expense in the Company's condensed consolidated statements of operations. Initial asset values and finance lease obligations are based on the present value of future minimum lease payments.

The Company's finance lease agreements may contain lease and non-lease components. The non-lease components include payments for support on infrastructure equipment obtained via finance leases, which when not significant in relation to the overall agreement, are combined with the lease components and accounted for together as a single lease component.

Business combinations

The Company uses best estimates and assumptions, including but not limited to, future expected cash flows, expected asset lives, and discount rates, to assign a fair value to the tangible and intangible assets acquired and liabilities assumed in business combinations as of the acquisition date. These estimates are inherently uncertain and subject to refinement. During the measurement period, which may be up to one year from the acquisition date, adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed may be recorded, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company's condensed consolidated statements of operations.

Long-lived assets, including goodwill and other acquired intangible assets, net

The Company evaluates the recoverability of its property and equipment and finite-lived intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. The evaluation is performed at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review determines that the carrying amount of specific property and equipment or intangible assets is not recoverable, the carrying amount of such assets is reduced to its fair value.

The Company reviews goodwill for impairment at least annually in the fourth quarter, or more frequently if events or changes in circumstances would more likely than not reduce the fair value of its single reporting unit below its carrying value.

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The Company has not recorded impairment charges on goodwill or intangible assets for the periods presented in these condensed consolidated financial statements.

Acquired property and equipment and finite-lived intangible assets are amortized over their useful lives. The Company evaluates the estimated remaining useful life of these assets when events or changes in circumstances warrant a revision to the remaining period of amortization. If the Company revises the estimated useful life assumption for any asset, the remaining unamortized balance is amortized or depreciated over the revised estimated useful life on a prospective basis.

Income taxes

Deferred income tax balances reflect the effects of temporary differences between the financial reporting and tax bases of the Company's assets and liabilities using enacted tax rates expected to apply when taxes are actually paid or recovered. In addition, deferred tax assets are recorded for net operating loss and credit carryforwards.

A valuation allowance is provided against deferred tax assets unless it is more likely than not that they will be realized based on all available positive and negative evidence. Such evidence includes, but is not limited to, recent cumulative earnings or losses, expectations of future taxable income by taxing jurisdiction, and the carry-forward periods available for the utilization of deferred tax assets.

The Company uses a two-step approach to recognizing and measuring uncertain income tax positions. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit. The second step is to measure the tax benefit as the largest amount, which is more than 50% likely of being realized upon ultimate settlement. The Company recognizes interest and penalties related to unrecognized tax benefits as income tax expense.

Although the Company believes that it has adequately reserved for its uncertain tax positions, it can provide no assurance that the final tax outcome of these matters will not be materially different. The Company evaluates its uncertain tax positions on a regular basis and evaluations are based on a number of factors, including changes in facts and circumstances, changes in tax law, correspondence with tax authorities during the course of an audit, and effective settlement of audit issues.

To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will affect the provision for income taxes in the period in which such determination is made and could have a material impact on the Company's financial condition and results of operations.

The Tax Cuts and Jobs Act of 2017 ("TCJA") subjects a U.S. shareholder to current tax global intangible low-taxed income ("GILTI") earned by foreign subsidiaries. The Company accounts for GILTI as a period cost as incurred.

Fair value measurement

The Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining fair value measurements for assets and liabilities, the Company considers the principal or most advantageous market in which it would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions, and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

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Recently adopted accounting pronouncements

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, which eliminates the accounting guidance on troubled debt restructurings for creditors in ASC 310-40 and amends the guidance on "vintage disclosures" to require disclosure of current-period gross write-offs by year of origination. The ASU also updates the requirements related to accounting for credit losses under ASC 326 and adds enhanced disclosures for creditors with respect to loan refinancings and restructurings for borrowers experiencing financial difficulty. The Company adopted ASU 2022-02 on January 1, 2023. The adoption of the standard did not have a material impact on the Company's condensed consolidated financial statements.

Note 2. Cash, Cash Equivalents and Short-Term Investments

The amortized cost, unrealized gains and losses and estimated fair value of the Company's cash, cash equivalents and short-term investments as of March 31, 2023 and December 31, 2022 consisted of the following:

	As of March 31, 2023			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Cash	\$ 88.8	\$ —	\$ —	\$ 88.8
Cash equivalents				
Money market funds	243.9	—	—	243.9
Total cash & cash equivalents	<u>\$ 332.7</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 332.7</u>
Short-term investments				
Corporate notes and obligations	435.7	0.1	(18.8)	417.0
U.S. Treasury securities	284.3	0.6	(10.3)	274.6
Asset backed securities	106.1	0.1	(4.7)	101.5
Municipal securities	65.2	—	(3.4)	61.8
Commercial paper	17.7	—	—	17.7
Certificates of deposit	21.7	—	—	21.7
U.S. agency obligations	18.4	—	(0.6)	17.8
Foreign government obligations	6.0	—	(0.3)	5.7
Supranational securities	2.8	—	(0.2)	2.6
Total short-term investments	<u>957.9</u>	<u>0.8</u>	<u>(38.3)</u>	<u>920.4</u>
Total	<u>\$ 1,290.6</u>	<u>\$ 0.8</u>	<u>\$ (38.3)</u>	<u>\$ 1,253.1</u>

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	As of December 31, 2022			
	Amortized Cost	Unrealized Gain	Unrealized Loss	Estimated Fair Value
Cash	\$ 90.1	\$ —	\$ —	\$ 90.1
Cash equivalents				
Money market funds	139.5	—	—	139.5
Commercial paper	3.2	—	—	3.2
Total cash & cash equivalents	\$ 232.8	\$ —	\$ —	\$ 232.8
Short-term investments				
Corporate notes and obligations	512.1	0.1	(22.7)	489.5
U.S. Treasury securities	360.2	0.2	(14.0)	346.4
Asset backed securities	117.6	—	(6.0)	111.6
Municipal securities	65.3	—	(4.1)	61.2
Commercial paper	46.4	—	—	46.4
Certificates of deposit	29.1	—	—	29.1
U.S. agency obligations	18.4	—	(0.8)	17.6
Foreign government obligations	6.0	—	(0.4)	5.6
Supranational securities	3.4	—	(0.2)	3.2
Total short-term investments	1,158.5	0.3	(48.2)	1,110.6
Total	\$ 1,391.3	\$ 0.3	\$ (48.2)	\$ 1,343.4

Included in cash and cash equivalents is cash in transit from payment processors for credit and debit card transactions of \$9.7 million and \$12.4 million as of March 31, 2023 and December 31, 2022, respectively.

All short-term investments were designated as available-for-sale securities as of March 31, 2023 and December 31, 2022.

The following table presents the contractual maturities of the Company's short-term investments as of March 31, 2023:

	As of March 31, 2023	
	Amortized cost	Estimated fair value
Due within one year	\$ 309.9	\$ 303.9
Due between one to three years	515.6	493.8
Due after three years	132.4	122.7
Total	\$ 957.9	\$ 920.4

The Company had 615 short-term investments in unrealized loss positions as of March 31, 2023. There were no material gains or losses from short-term investments that were reclassified out of accumulated other comprehensive loss for the three months ended March 31, 2023 and 2022, respectively.

As of March 31, 2023, the Company's short-term investments portfolio consisted of nine security types, seven of which were in an unrealized loss position. The Company's short-term investments had unrealized losses of approximately \$38.3 million as of March 31, 2023. The following tables present the breakdown of the short-term investments that have been in a continuous unrealized loss position aggregated by investment category, as of March 31, 2023 and December 31, 2022:

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	As of March 31, 2023					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate notes and obligations	\$ 97.8	\$ (1.4)	\$ 296.4	\$ (17.4)	\$ 394.2	\$ (18.8)
U.S. Treasury securities	57.3	(1.0)	148.7	(9.3)	206.0	(10.3)
Asset backed securities	9.0	(0.1)	89.6	(4.7)	98.6	(4.8)
Municipal securities	9.4	(0.3)	52.4	(3.1)	61.8	(3.4)
U.S. agency obligations	3.8	—	14.0	(0.6)	17.8	(0.6)
Foreign government obligations	—	—	5.6	(0.2)	5.6	(0.2)
Supranational securities	—	—	2.6	(0.2)	2.6	(0.2)
Total	\$ 177.3	\$ (2.8)	\$ 609.3	\$ (35.5)	\$ 786.6	\$ (38.3)

	As of December 31, 2022					
	Less than 12 months		More than 12 months		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Corporate notes and obligations	\$ 176.5	\$ (3.5)	\$ 292.3	\$ (19.2)	\$ 468.8	\$ (22.7)
U.S. Treasury securities	110.9	(1.8)	176.9	(12.2)	287.8	(14.0)
Asset backed securities	13.7	(0.4)	90.4	(5.6)	104.1	(6.0)
Municipal securities	9.3	(0.3)	51.6	(3.8)	60.9	(4.1)
U.S. agency obligations	3.9	—	13.8	(0.8)	17.7	(0.8)
Foreign government obligations	—	—	5.5	(0.4)	5.5	(0.4)
Supranational securities	—	—	3.2	(0.2)	3.2	(0.2)
Total	\$ 314.3	\$ (6.0)	\$ 633.7	\$ (42.2)	\$ 948.0	\$ (48.2)

Unrealized losses on short-term investments have not been recorded into income because management does not intend to sell nor will be required to sell these securities prior to their anticipated recovery, and for which the decline in fair value is largely due to changes in interest rates. The credit ratings associated with the corporate notes and obligations are mostly unchanged, are highly rated and the issuers continue to make timely principal and interest payments.

The Company recorded interest income from its cash, cash equivalents, and short-term investments of \$7.2 million and \$1.8 million during the three months ended March 31, 2023 and 2022, respectively.

Note 3. Fair Value Measurements

The Company measures its financial instruments at fair value each reporting period using a fair value hierarchy that prioritizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. 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.

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The following table presents information about the Company's financial instruments that are measured at fair value on a recurring basis using the input categories discussed in Note 1:

	As of March 31, 2023			
	Level 1	Level 2	Level 3	Total
Cash equivalents				
Money market funds	\$ 243.9	\$ —	\$ —	\$ 243.9
Total cash equivalents	<u>\$ 243.9</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 243.9</u>
Short-term investments				
Corporate notes and obligations	—	417.0	—	417.0
U.S. Treasury securities	—	274.6	—	274.6
Asset backed securities	—	101.5	—	101.5
Municipal securities	—	61.8	—	61.8
Commercial paper	—	17.7	—	17.7
Certificates of deposit	—	21.7	—	21.7
U.S. agency obligations	—	17.8	—	17.8
Foreign government obligations	—	5.7	—	5.7
Supranational securities	—	2.6	—	2.6
Total short-term investments	<u>—</u>	<u>920.4</u>	<u>—</u>	<u>920.4</u>
Total	<u>\$ 243.9</u>	<u>\$ 920.4</u>	<u>\$ —</u>	<u>\$ 1,164.3</u>

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	As of December 31, 2022			
	Level 1	Level 2	Level 3	Total
Cash equivalents				
Money market funds	\$ 139.5	\$ —	\$ —	\$ 139.5
Commercial paper	—	3.2	—	3.2
Total cash equivalents	\$ 139.5	\$ 3.2	\$ —	\$ 142.7
Short-term investments				
Corporate notes and obligations	—	489.5	—	489.5
U.S. Treasury securities	—	346.4	—	346.4
Asset backed securities	—	111.6	—	111.6
Municipal securities	—	61.2	—	61.2
Commercial paper	—	46.4	—	46.4
Certificates of deposit	—	29.1	—	29.1
Foreign government obligations	—	5.6	—	5.6
U.S. agency obligations	—	17.6	—	17.6
Supranational securities	—	3.2	—	3.2
Total short-term investments	—	1,110.6	—	1,110.6
Total	\$ 139.5	\$ 1,113.8	\$ —	\$ 1,253.3

The Company had no transfers between levels of the fair value hierarchy.

The carrying amounts of certain financial instruments, including cash held in banks, accounts receivable and accounts payable approximate fair value due to their short-term maturities and are excluded from the fair value table above.

The Company had \$695.8 million in aggregate principal amount of 0% convertible senior notes due in 2026 (the "2026 Notes"), and \$693.3 million in aggregate principal amount of 0% convertible senior notes due in 2028 (the "2028 Notes" and together with the 2026 Notes, the "Notes"), outstanding as of March 31, 2023. Refer to Note 8 "Debt" for further details on the 2026 Notes and 2028 Notes.

The estimated fair value of the 2026 Notes and the 2028 Notes, based on a market approach as of March 31, 2023 was approximately \$619.4 million and \$600.3 million, respectively. The Notes were categorized as Level 2 instruments as the estimated fair value was determined based on the estimated or actual bids and offers of the Notes in an over-the-counter market on the last business day of the period.

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Note 4. Property and Equipment, Net

Property and equipment, net consisted of the following:

	As of	
	March 31, 2023	December 31, 2022
Datacenter and other computer equipment	\$ 699.8	\$ 671.3
Furniture and fixtures	12.3	19.8
Leasehold improvements	98.5	118.0
Construction in progress	3.1	2.8
Total property and equipment	813.7	811.9
Accumulated depreciation and amortization	(506.5)	(503.5)
Property and equipment, net	\$ 307.2	\$ 308.4

The Company leases certain infrastructure, computer equipment, and furniture from various third parties, through equipment finance leases. Infrastructure assets as of March 31, 2023 and December 31, 2022 included a total of \$487.4 million and \$456.4 million, respectively, acquired under finance lease agreements. These leases are capitalized in property and equipment, and the related amortization of assets under finance leases is included in depreciation and amortization expense. The accumulated depreciation of the equipment under finance leases totaled \$269.1 million and \$240.9 million as of March 31, 2023 and December 31, 2022, respectively.

Depreciation expense related to property and equipment was \$35.0 million and \$35.4 million for the three months ended March 31, 2023 and 2022, respectively.

Note 5. Business Combinations

2022 Business Combination

On December 15, 2022, the Company acquired 100% ownership of FormSwift, a cloud-based service that gives individuals and businesses a simple solution to create, complete, edit, and save critical business forms and agreements. The Company believes the combination of Dropbox, Dropbox Sign, DocSend, and FormSwift will help customers across industries manage end-to-end document workflows—from content collaboration to sharing and e-signature—giving them more control over their most important agreements. The results of FormSwift's operations have been included in the Company's consolidated results of operations since the date of acquisition.

The purchase consideration transferred consisted of the following:

	Purchase consideration	
Cash paid to stockholders	\$	50.0
Cash paid for extinguishing shadow stock units		3.2
Transaction costs paid by Dropbox on behalf of FormSwift		2.0
Cash purchase consideration	\$	55.2
Indemnification holdback ⁽¹⁾		14.3
Total purchase consideration	\$	69.5

⁽¹⁾ Approximately \$14.3 million of the total purchase consideration was withheld as an indemnification holdback to be used for the purpose of satisfying any indemnification claims made by the Company for a period of 18 months following the transaction close date. Any remaining indemnity will be released to the seller's representative following the 18 month period.

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In addition to the total purchase consideration above, the Company has compensation agreements with key FormSwift personnel consisting of \$25.7 million in cash payments subject to ongoing employee service. The related expenses are recognized within research and development expenses over the required service period of three years. The cash payment was transferred to a paying agent escrow account immediately upon the acquisition close date. The related payments will be paid out by the escrow agent as they vest.

The purchase consideration was allocated to the tangible and intangible assets and liabilities acquired as of the acquisition date, with the excess recorded to goodwill as shown below. The fair value of assets and liabilities acquired may change as additional information is received during the measurement period. The measurement period will end no later than one-year from the acquisition date.

Assets acquired:		
Cash and cash equivalents	\$	0.4
Acquisition-related intangible assets		41.2
Accounts receivable, prepaid and other assets		3.4
Total assets acquired	\$	45.0
Liabilities assumed:		
Accounts payable, accrued and other liabilities	\$	4.6
Deferred revenue		6.6
Total liabilities assumed		11.2
Net assets acquired, excluding goodwill		33.8
Total purchase consideration		69.5
Goodwill ⁽²⁾	\$	35.7

⁽²⁾ The goodwill recognized was primarily attributable to the opportunity to expand the user base of the Company's platform. A portion of the goodwill is deductible for U.S. federal income tax purposes.

The fair value of the separately identifiable finite-lived intangible assets acquired and estimated weighted average useful lives as of the acquisition date are as follows:

	Estimated fair values	Estimated weighted average useful lives (In years)
Developed technology	\$ 24.2	5.0
Customer relationships	16.4	2.0
Trade name	0.6	1.0
Total acquisition-related intangible assets	\$ 41.2	

The fair values of the acquisition-related intangible assets were determined using the following methodologies: the multi-period excess earnings method for developed technology, the with and without method for customer relationships, and the relief from royalty method for the trade name, respectively. The valuation model inputs required the application of significant judgment by management. The acquired intangible assets have a total weighted average amortization period of 3.7 years as of the acquisition date.

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Note 6. Intangible Assets

Intangible assets consisted of the following:

	As of March 31, 2023	As of December 31, 2022	Weighted- average remaining useful life (In years) As of March 31, 2023
Developed technology	\$ 74.3	\$ 74.3	4.0
Customer relationships	43.2	43.2	2.0
Patents	19.4	19.4	4.1
Software	8.9	8.9	0.4
Trademarks and trade names	5.8	5.8	1.5
Licenses	4.6	4.6	0.0
Assembled workforce in asset acquisitions	3.4	3.4	3.1
Other	1.1	1.1	2.5
Total intangibles	160.7	160.7	
Accumulated amortization	(79.9)	(72.4)	
Intangible assets, net	<u>\$ 80.8</u>	<u>\$ 88.3</u>	

Amortization expense was \$7.5 million and \$4.0 million for the three months ended March 31, 2023 and 2022, respectively.

Expected future amortization expense for intangible assets as of March 31, 2023 is as follows:

	Intangible assets
Remainder of 2023	\$ 22.9
2024	25.1
2025	14.8
2026	10.4
2027	7.0
Thereafter	0.6
Total	<u>\$ 80.8</u>

Note 7. Goodwill

Goodwill represents the excess of the purchase price in a business combination over the fair value of net tangible and intangible assets acquired. The changes in the carrying amounts of goodwill were as follows:

Balance at December 31, 2022	\$ 403.3
Effect of foreign currency translation	(0.8)
Balance at March 31, 2023	<u>\$ 402.5</u>

Goodwill amounts are not amortized, but tested for impairment on an annual basis. There was no impairment of goodwill as of March 31, 2023 and December 31, 2022.

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Note 8. Debt***Revolving credit facility***

In February 2018, the Company entered into an amendment to the revolving credit facility to, among other things, permit the Company to make certain investments, enter into an unsecured standby letter of credit facility and increase its standby letter of credit sublimit to \$187.5 million. The Company increased its borrowing capacity under the revolving credit facility from \$600.0 million to \$725.0 million. In February 2021, the Company amended the revolving credit facility to decrease its borrowing capacity under the revolving credit facility from \$725.0 million to \$500.0 million and extended the term of the agreement through February 2026. The Company may from time to time request increases in its borrowing capacity under the revolving credit facility of up to \$250.0 million, provided no event of default has occurred or is continuing or would result from such increase. In conjunction with the February 2021 amendment, the Company paid upfront issuance fees of \$1.7 million, which are being amortized over the remaining term of the agreement, and wrote-off \$0.2 million in unamortized deferred debt issuance costs. In March 2023, the Company amended the revolving credit facility to update its borrowing benchmark from LIBOR to SOFR, with a fixed credit spread adjustment of 0.10%. In conjunction with the March 2023 amendment, the Company incurred upfront issuance fees of \$0.1 million, which are being amortized over the remaining term of the agreement.

Pursuant to the terms of the revolving credit facility, the Company may issue letters of credit under the revolving credit facility, which reduce the total amount available for borrowing. Pursuant to the terms of the revolving credit facility, the Company is required to pay an annual commitment fee that accrues at a rate of 0.20% per annum on the unused portion of the borrowing commitments under the revolving credit facility. In addition, the Company is required to pay a fee in connection with letters of credit issued under the revolving credit facility, which accrues at a rate of 1.375% per annum on the amount of such letters of credit outstanding. There is an additional fronting fee of 0.125% per annum multiplied by the average aggregate daily maximum amount available under all letters of credit. Borrowings under the revolving credit facility bear interest, at the Company's option, at an annual rate based on credit spread adjusted SOFR plus a spread of 1.375% or at an alternative base rate plus a spread of 0.375%.

The revolving credit facility contains customary conditions to borrowing, events of default and covenants, including covenants that restrict the Company's ability to incur indebtedness, grant liens, make distributions to holders of the Company or its subsidiaries' equity interests, make investments, or engage in transactions with its affiliates. In addition, the revolving credit facility contains financial covenants, including a consolidated leverage ratio incurrence covenant and a minimum liquidity balance of \$100.0 million, which includes any available borrowing capacity. The Company was in compliance with the covenants of the revolving credit facility as of March 31, 2023 and December 31, 2022, respectively.

The Company had an aggregate of \$38.8 million of letters of credit outstanding under the revolving credit facility as of March 31, 2023, and the Company's total available borrowing capacity under the revolving credit facility was \$461.2 million as of March 31, 2023. The Company's letters of credit have final expiration dates through 2036.

Convertible senior notes

During the first quarter of 2021, the Company issued \$695.8 million aggregate principal amount of the 2026 Notes. Additionally, during the first quarter of 2021, the Company issued \$693.3 million aggregate principal amount of the 2028 Notes. The Notes were issued in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933. The net proceeds from the sale of the Notes were approximately \$1.4 billion after deducting offering and issuance costs related to the Notes.

The Notes of each series do not bear regular interest. The Notes of each series may bear special interest as the remedy relating to the Company's failure to comply with certain of its reporting obligations. The Company has complied with these reporting obligations from the issuance date through March 31, 2023. The 2026 Notes will mature on March 1, 2026, and the 2028 Notes will mature on March 1, 2028, in each case, unless earlier converted, redeemed or repurchased.

The initial conversion rate for the 2026 Notes is 26.1458 shares of the Company's Class A common stock per \$1,000 principal amount of such Note, which is equivalent to an initial conversion price of approximately \$38.25 per share. The initial conversion rate for the 2028 Notes is 28.2889 shares of Class A common stock per \$1,000 principal amount of such Notes, which is equivalent to an initial conversion price of approximately \$35.35 per share. The conversion rate for each series of Notes will be subject to adjustment upon the occurrence of certain specified events but will not be adjusted for accrued and

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unpaid special interest. In addition, upon the occurrence of a make-whole fundamental change (as defined in the relevant indentures governing the Notes) or a notice of redemption, the Company will, in certain circumstances, increase the conversion rate of the relevant series of Notes by a number of additional shares for a holder that elects to convert all or a portion of its Notes of such series in connection with such make-whole fundamental change or who elects to convert such Notes that are subject to such notice of redemption. The conversion rate for the 2026 Notes and the 2028 Notes shall not exceed 43.1406 shares per \$1,000 principal amount of such Notes, subject to certain customary anti-dilution adjustments (as defined in the relevant indentures governing the Notes). There have been no changes to the initial conversion price of the Notes since issuance as of March 31, 2023.

Upon conversion, the principal portion of the Notes of the applicable series being converted will be settled in cash, and any amount in excess of the principal portion of such Notes will be settled in cash or shares of the Company's Class A common stock or any combination thereof at the Company's option. The if-converted value of the 2026 Notes and the 2028 Notes was below the principal value of the respective Notes as of March 31, 2023. In addition, during the three months ended March 31, 2023 and 2022 the conditions allowing holders of the Notes to convert were not met. As a result, the Notes are not convertible during the three months ended March 31, 2023 and 2022.

Prior to the close of business on the business day immediately preceding December 1, 2025, in the case of the 2026 Notes, and prior to the close of business on the business day immediately preceding December 1, 2027, in the case of the 2028 Notes, the Notes of the applicable series will be convertible only under the following circumstances: (1) during any calendar quarter commencing after June 30, 2021 (and only during such calendar quarter), if the last reported sale price of the Class A common stock for at least 20 trading days (whether or not consecutive) during the 30 consecutive trading day period ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price for the relevant series of Notes on each applicable trading day; (2) during the five business day period after any five consecutive trading day period in which, for each trading day of that period, the trading price per \$1,000 principal amount of 2026 Notes or 2028 Notes, as applicable, for such trading day was less than 98% of the product of the last reported sale price of the Class A common stock and the conversion rate for such series of Notes on each such trading day; (3) if the Company calls any or all of the Notes for redemption, such Notes of the applicable series called for redemption may be converted at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate transactions.

On or after December 1, 2025, in the case of the 2026 Notes, and on or after December 1, 2027, in the case of the 2028 Notes, until the close of business on the second scheduled trading day immediately preceding the relevant maturity date, holders of the relevant series of Notes may convert all or a portion of their Notes of such series regardless of the foregoing conditions.

The Company may redeem for cash all or any part of the Notes, at its option, on or after March 6, 2024, in the case of the 2026 Notes, and on or after March 6, 2025, in the case of the 2028 Notes, if the last reported sale price of its Class A common stock has been at least 130% of the conversion price for the relevant series of Notes then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption at a redemption price equal to 100% of the principal amount of the series of Notes to be redeemed, plus any accrued and unpaid special interest to, but excluding, the redemption date. No sinking fund is provided for the Notes.

Upon the occurrence of a fundamental change (as defined in the relevant indentures governing the Notes) prior to the relevant maturity date, holders of the relevant series of Notes may require the Company to repurchase all or a portion of the Notes of such series for cash at a price equal to 100% of the principal amount of the series of Notes to be repurchased, plus any accrued and unpaid special interest to, but excluding, the fundamental change repurchase date. Additionally, and upon events of default (as defined in the relevant indentures governing the Notes), the maturity of the Notes may be accelerated.

The Notes are the Company's general unsecured obligations and will rank senior in right of payment to any existing and future indebtedness that is contractually subordinated to the Notes; rank equal in right of payment with the Company's existing and future senior unsecured indebtedness that is not so subordinated; effectively rank junior in right of payment to any of the Company's existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness; and be structurally subordinated to all indebtedness and other liabilities (including trade payables) of subsidiaries of the Company.

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In accounting for the Notes, issuance costs of \$11.0 million and \$11.0 million for the 2026 Notes and the 2028 Notes were deducted from the carrying value of the Notes in the consolidated balance sheet. Issuance costs will be recognized as interest expense over the five-year term and seven-year term for the 2026 Notes and the 2028 Notes, respectively.

The following is a summary of the Company's convertible senior notes as of March 31, 2023 and December 31, 2022.

	2026 Notes		2028 Notes		Total
March 31, 2023					
Principal balance	\$ 695.8	\$	693.3	\$	1,389.1
Unamortized issuance costs	(6.4)		(7.7)		(14.1)
Carrying value, net	<u>\$ 689.4</u>	<u>\$</u>	<u>685.6</u>	<u>\$</u>	<u>1,375.0</u>
December 31, 2022					
Principal balance	\$ 695.8	\$	693.3	\$	1,389.1
Unamortized issuance costs	(7.0)		(8.1)		(15.1)
Carrying value, net	<u>\$ 688.8</u>	<u>\$</u>	<u>685.2</u>	<u>\$</u>	<u>1,374.0</u>

During the three months ended March 31, 2023 and 2022, the Company recognized \$0.6 million and \$0.5 million in interest expense for the 2026 Notes and \$0.4 million and \$0.4 million in interest expense for the 2028 Notes, respectively, with such interest expense solely consisting of amortization of issuance costs. The effective interest rate for the 2026 Notes and the 2028 Notes was 0.32% and 0.22%, respectively, as of March 31, 2023.

Maturities on the Company's long-term convertible debt are as follows:

	Convertible Debt
Remainder of 2023	\$ —
2024	—
2025	—
2026	695.8
2027	—
2028	693.3
Thereafter	—
Total	<u>\$ 1,389.1</u>

Convertible Note Hedges and Warrants

Concurrent with the offering of the Notes, the Company entered into convertible note hedge transactions with certain counterparties whereby the Company had the option to purchase a total of approximately 18.2 million shares for note hedges expiring in March 2026 (the "2026 Note Hedges") and 19.6 million shares for note hedges expiring in March 2028 (the "2028 Note Hedges", together with the 2026 Note Hedges, the "Note Hedges"), respectively, of its common stock at a price of approximately \$38.25 and \$35.35 per share, respectively. The aggregate cost of the convertible note hedge transactions was \$265.3 million.

The Note Hedges, or a portion thereof, are exercisable upon conversion of the Notes and the satisfaction of certain conditions set forth in the Note Hedges. Additionally, the Note Hedges may be terminated and early settled upon the occurrence of certain events, including certain merger events, events of default, and upon a fundamental change (as defined in the relevant indentures for the Notes). The Note Hedges are settleable in cash, shares or a combination of cash and shares, at the option of the Company, and the settlement alternative will be the same as the settlement alternative of the conversion spread for the respective Notes.

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The convertible note hedge transactions are expected generally to reduce the potential dilution to the Class A common stock upon conversion of the relevant series of Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of such converted Notes, as the case may be, in the event that the market price per share of the Class A common stock, as measured under the terms of the convertible note hedge transactions, is greater than the applicable strike price of those convertible note hedge transactions. As of March 31, 2023, the Company's stock price was below the exercise price of the respective Note Hedges.

In addition, the Company sold warrants to certain counterparties whereby the holders of the warrants had the option to purchase a total of approximately 18.1 million shares underlying warrants expiring in 2026 (the "2026 Warrants") and 20.1 million shares underlying warrants expiring in 2028 (the "2028 Warrants", together with the 2026 Warrants, the "Warrants"), respectively, of the Company's Class A common stock at an initial strike price of \$46.36 and \$46.36 per share, respectively. The Company received aggregate cash proceeds of \$202.9 million from the sale of these Warrants.

If the market price per share of the Company's Class A common stock, as measured under the terms of the Warrants, exceeds the strike price of the Warrants, the Warrants could have a dilutive effect, unless the Company elects, subject to certain conditions, to settle the Warrants in cash. The Warrants are only exercisable on the applicable expiration dates in accordance with the terms of the Warrants. Subject to the other terms of the Warrants, the first expiration date applicable to the 2026 Warrants and to the 2028 Warrants is June 1, 2026, and June 1, 2028, respectively, and the final expiration date applicable to the 2026 Warrants and 2028 Warrants is August 10, 2026 and August 10, 2028, respectively. As of March 31, 2023, the Company's Class A common stock price was below the exercise price of the Warrants.

Taken together, the purchase of the Note Hedges and the sale of the Warrants are intended to reduce potential dilution from the conversion of the 2026 Notes and the 2028 Notes, and to effectively increase the overall conversion price from \$38.25 per share to \$46.36 per share and from \$35.35 per share to \$46.36 for the 2026 Notes and the 2028 Notes, respectively.

The Note Hedges and the Warrants are equity-classified instruments as a result of being indexed to the Company's Class A common stock and meeting certain equity classification criteria, and the instruments will not be remeasured in subsequent periods as long as the instruments continue to meet these accounting criteria. The premium paid for the Note Hedges has been included as a net reduction to additional paid-in capital within stockholders' deficit, and the premium received for the Warrants has been included as a net increase to additional paid-in capital within stockholders' deficit.

Note 9. Leases

The Company has operating leases for corporate offices and datacenters, and finance leases for infrastructure and office equipment. The Company's leases have remaining lease terms of under 1 year to 13 years, some of which include options to extend the leases for up to 5 years.

The Company also has subleases for several floors of its former corporate offices. The Company classifies its subleases as operating leases. The subleases have remaining lease terms of 1 year to 10 years, some of which include options to extend the sublease for up to approximately 4 years. Sublease income, which is recorded as a reduction of rental expense, was \$4.5 million during each of the three months ended March 31, 2023 and 2022, respectively.

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Future minimum lease payments under non-cancellable leases as of March 31, 2023 were as follows:

	Operating leases⁽¹⁾	Finance leases
Remainder of 2023	\$ 68.7	\$ 95.2
2024	90.0	97.0
2025	84.6	59.1
2026	65.0	31.0
2027	65.2	2.5
2028	65.2	—
Thereafter	347.3	—
Total future minimum lease payments	\$ 786.0	\$ 284.8
Less imputed interest	(150.4)	(15.8)
Less tenant improvement receivables	(1.2)	—
Total liability	\$ 634.4	\$ 269.0

⁽¹⁾ Consists of future non-cancelable minimum rental payments under operating leases for the Company's corporate offices and datacenters where the Company has possession, excluding rent payments for short-term lease obligations, payments from the Company's subtenants and variable operating expenses.

Future non-cancelable rent payments from the Company's subtenants as of March 31, 2023 were as follows:

	Operating leases
Remainder of 2023	\$ 12.8
2024	17.3
2025	15.7
2026	12.0
2027	8.2
2028	7.7
Thereafter	18.7
Total future sublease rent payments	92.4
Less sub-tenant incentive	(1.1)
Total future sublease rent payments, net	91.3

In 2017, the Company signed a 15 year lease agreement for office space in San Francisco, California, to serve as its corporate headquarters which commenced in 2018. The Company's obligations under the lease are supported by a \$26.1 million letter of credit, which reduced the borrowing capacity under the revolving credit facility. As of March 31, 2023, the Company's remaining minimum obligation for its headquarters was \$542.3 million.

In the fourth quarter of 2020, the Company announced a Virtual First work model pursuant to which remote work has become the primary experience for all of its employees. As part of the Virtual First strategy, Dropbox retained a portion of its office space to be used for the Company's team collaboration use and a portion will be marketed for sublease.

Accordingly, the Company periodically evaluates the recoverability of its real estate assets and makes adjustments to market participant assumptions as conditions evolve. In the fourth quarter of 2022, the Company determined that there were adverse changes in the corporate real estate markets where it plans to sublease office space. These changes have reduced demand for corporate office real estate, which the Company expects will result in increased real estate vacancy periods and reduced sublease rent rates. Accordingly, the Company assessed the recoverability of its real estate assets in the markets that have been impacted.

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As a result of this analysis, the Company reassessed its real estate asset groups and estimated the fair value of the office space to be subleased using current market conditions. Where the carrying value of the individual asset groups exceeded their fair value, an impairment charge was recognized for the difference.

The Company recorded no impairment charges during the three months ended March 31, 2023 and 2022, respectively.

Note 10. Commitments and Contingencies***Legal matters***

From time to time, the Company is a party to a variety of claims, lawsuits, investigations, inquires, and proceedings which arise in the ordinary course of business, including claims of alleged infringement of intellectual property rights, regulatory matters, and commercial disputes. The Company records a liability when it believes that it is probable that a loss will be incurred and the amount of loss or range of loss can be reasonably estimated. In its opinion, resolution of pending matters is not likely to have a material adverse impact on its consolidated results of operations, cash flows, or its financial position. Given the unpredictable nature of legal proceedings, the Company bases its estimate on the information available at the time of the assessment. As additional information becomes available, the Company reassesses the potential liability and may revise the estimate.

Indemnification

The Company's arrangements generally include certain provisions for indemnifying customers against liabilities if its products or services infringe a third party's intellectual property rights. It is not possible to determine the maximum potential amount under these indemnification obligations due to the limited history of prior indemnification claims.

Other commitments

Other commitments include payments to third-party vendors for services related to the Company's infrastructure, infrastructure warranty contracts, and asset retirement obligations for office modifications. There have been no material changes in the Company's other commitments, as disclosed in the Annual Report.

Note 11. Accrued and Other Current Liabilities

Accrued and other current liabilities consisted of the following:

	As of	
	March 31, 2023	December 31, 2022
Non-income taxes payable	\$ 77.0	\$ 76.4
Accrued legal and other external fees	34.5	25.5
Other accrued and current liabilities	55.6	38.0
Total accrued and other current liabilities	<u>\$ 167.1</u>	<u>\$ 139.9</u>

Note 12. Stockholders' Deficit***Common stock***

The Company's amended and restated certificate of incorporation authorizes the issuance of Class A common stock, Class B common stock, and Class C common stock. Holders of Class A common stock, Class B common stock, and Class C common stock are entitled to dividends on a pro rata basis, when, as, and if declared by the Company's Board of Directors, subject to the rights of the holders of the Company's preferred stock. Holders of Class A common stock are entitled to one vote per share, holders of Class B common stock are entitled to 10 votes per share, and holders of Class C common stock are entitled to zero votes per share.

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As of March 31, 2023, the Company had authorized 2,400.0 million shares of Class A common stock, 475.0 million shares of Class B common stock, and 800.0 million shares of Class C common stock, each at par value of \$0.00001. Holders of Class B common stock voluntarily converted 0.5 million and 0.2 million shares into an equivalent number of shares of Class A common stock during the three months ended March 31, 2023 and 2022, respectively. As of March 31, 2023, 262.0 million shares of Class A common stock, 81.7 million shares of Class B common stock, and no shares of Class C common stock were issued and outstanding. As of December 31, 2022, 267.2 million shares of Class A common stock, 82.2 million shares of Class B common stock, and no shares of Class C common stock were issued and outstanding. Class A shares issued and outstanding as of March 31, 2023 and December 31, 2022 exclude unvested restricted stock awards granted to certain executives. Class A shares issued and outstanding also excludes 8.3 million unvested restricted stock awards granted to one of the Company's co-founders as of March 31, 2023 and December 31, 2022, respectively. See "Co-Founder Grant" section below for further details.

Preferred stock

The Company's Board of Directors will have the authority, without further action by the Company's stockholders, to issue up to 240.0 million shares of undesignated preferred stock with rights and preferences, including voting rights, designated from time to time by the Board of Directors.

Stock repurchase program

In February 2022, the Board of Directors authorized the Company to repurchase up to \$1.2 billion of the Company's outstanding shares of Class A common stock. Share repurchases will be made from time to time in private transactions or open market purchases, as permitted by securities laws and other legal requirements and will be subject to a review of the circumstances in place at that time, including prevailing market prices. The program does not obligate the Company to repurchase any specific number of shares and may be discontinued at any time.

During the three months ended March 31, 2023 and 2022, the Company repurchased and subsequently retired 8.1 million and 11.0 million shares of its Class A common stock, respectively, for an aggregate amount of \$176.5 million and \$259.9 million, respectively. Included in the cost of treasury stock acquired pursuant to common share repurchases is the 1% excise tax imposed as part of the Inflation Reduction Act.

Equity incentive plans

Under the 2018 Plan, the Company may grant stock-based awards to purchase or directly issue shares of common stock to employees, directors, and consultants. Options are granted at a price per share equal to the fair market value of the Company's common stock at the date of grant. Options granted are exercisable over a maximum term of 10 years from the date of grant and generally vest over a period of four years. RSUs and RSAs are also granted under the 2018 Plan. The 2018 Plan will terminate 10 years after the later of (i) its adoption or (ii) the most recent stockholder-approved increase in the number of shares reserved under the 2018 Plan, unless terminated earlier by the Company's Board of Directors. The 2018 Plan was adopted on March 22, 2018.

In connection with the acquisition of DocSend, the Company assumed unvested stock options and an immaterial number of unvested RSUs that had been granted under DocSend's 2013 Stock Plan and DocSend's 2015 Stock Option and Grant Plan.

As of March 31, 2023, there were 32.4 million stock-based awards issued and outstanding and 115.8 million shares available for issuance under the Dropbox Equity Incentive Plans, Dropbox Sign's 2011 Equity Incentive Plan, DocSend's 2013 Stock Plan and DocSend's 2015 Stock Option and Grant Plan (collectively, the "Plans").

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Stock option and restricted stock activity for the Plans was as follows for the three months ended March 31, 2023:

	Number of shares available for issuance under the Plans	Options outstanding				Restricted stock outstanding	
		Number of shares outstanding under the Plans	Weighted-average exercise price per share	Weighted-average remaining contractual term (In years)	Aggregate intrinsic value	Number of shares outstanding under the Plans	Weighted-average grant date fair value per share
Balance at December 31, 2022	97.9	0.4	\$ 11.30	4.5	\$ 4.5	34.8	\$ 23.40
Additional shares authorized	17.5	—	—	—	—	—	—
Options exercised and restricted stock units and awards released	—	(0.1)	3.12	—	—	(3.7)	23.33
Options and restricted stock units and awards canceled	1.7	—	15.31	—	—	(1.7)	27.14
Shares withheld related to net share settlement of restricted stock units and awards	1.4	—	—	—	—	—	—
Options and restricted stock units and awards granted	(2.7)	—	—	—	—	2.7	22.43
Balance as of March 31, 2023	115.8	0.3	\$ 12.53	4.3	\$ 3.3	32.1	\$ 23.15
Vested at March 31, 2023		0.3	\$ 12.53	4.3	\$ 3.3	—	\$ —
Unvested at March 31, 2023		—	\$ —	—	\$ —	32.1	\$ 23.15

The following table summarizes information about the pre-tax intrinsic value of options exercised during the three months ended March 31, 2023 and 2022:

	Three Months Ended March 31,	
	2023	2022
Intrinsic value of options exercised	\$ 0.9	\$ 1.4

As of March 31, 2023, unamortized stock-based compensation related to unvested stock options, restricted stock awards (excluding the Co-Founder Grant), and RSUs was \$724.6 million. The weighted-average period over which such compensation expense will be recognized if the requisite service is provided is approximately 2.7 years as of March 31, 2023.

Co-Founder Grant

In December 2017, the Board of Directors approved the Company's Co-Founder Grant, consisting of 10.3 million shares of Class A common stock in the form of RSAs which were granted to Drew Houston, the Company's co-founder and Chief Executive Officer. This Co-Founder Grant has service-based, market-based, and performance-based vesting conditions. The Co-Founder Grant is excluded from Class A common stock issued and outstanding until the satisfaction of these vesting conditions. The Co-Founder Grant also provides the holder with certain stockholder rights, such as the right to vote the shares with the other holders of Class A common stock and a right to cumulative declared dividends.

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The Co-Founder Grant is eligible to vest over the ten-year period following the date the Company's shares of Class A common stock commenced trading on the Nasdaq Global Select Market in connection with the Company's IPO. The Co-Founder Grant is comprised of nine tranches that are eligible to vest based on the achievement of stock price goals, each of which are referred to as a Stock Price Target, measured over a consecutive thirty-day trading period during the Performance Period. The Performance Period began on January 1, 2019.

During the first four years of the Performance Period, no more than 20% of the shares subject to the Co-Founder Grant would be eligible to vest in any calendar year. After the first four years, all shares are eligible to vest based on the achievement of the Stock Price Targets.

The first tranche of the Co-Founder Grant, or 2.1 million shares of Class A common stock, vested in the fourth quarter of 2021. The stock-based compensation expense for Mr. Houston's Co-Founder Grant is recognized utilizing the accelerated attribution method over the requisite service period identified as the derived service period over which the market conditions are expected to be achieved, and is not reversed if the market conditions are not satisfied. Therefore no incremental stock-based compensation was recognized upon vesting of these RSAs.

The Company recognized stock-based compensation expense related to the Co-Founder Grant of \$2.2 million and \$3.6 million during the three months ended March 31, 2023 and 2022, respectively. As of March 31, 2023, unamortized stock-based compensation expense related to the Co-Founder Grant was \$7.2 million.

Note 13. Net Income Per Share

The Company computes net income per share using the two-class method required for multiple classes of common stock and participating securities. The rights, including the liquidation and dividend rights, of the Class A common stock and Class B common stock are substantially identical, other than voting rights. Accordingly, the Class A common stock and Class B common stock share equally in the Company's net income and losses.

Basic net income per share is computed by dividing net income attributable to common stockholders by the weighted-average number of shares of the Class A and Class B common stock outstanding.

Diluted net income per share is computed by dividing net income attributable to common stockholders by the weighted-average number of diluted common shares outstanding. The computation of the diluted net income per share of Class A common stock assumes the conversion of the Company's Class B common stock to Class A common stock, while the diluted net income per share of Class B common stock does not assume the conversion of those shares to Class A common stock. The dilutive effect of potentially dilutive common shares is reflected in diluted earnings per share by application of the if-converted method for the 2026 Notes and the 2028 Notes, and by application of the treasury stock method for the Company's other potentially dilutive securities.

DROPBOX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in tables are in millions except per share data, or as otherwise noted)

The numerators and denominators of the basic and diluted EPS computations for the Company's common stock are calculated as follows (in millions, except for per share amounts):

	Three Months Ended March 31,		Three Months Ended March 31,	
	2023		2022	
	Class A	Class B	Class A	Class B
Basic net income per share:				
Numerator				
Net income attributable to common stockholders	\$ 52.7	\$ 16.3	\$ 61.9	\$ 17.8
Denominator				
Weighted-average number of common shares outstanding used in computing basic net income per share	265.2	81.9	288.0	82.7
Net income per common share, basic	\$ 0.20	\$ 0.20	\$ 0.22	\$ 0.22
Diluted net income per share:				
Numerator				
Net income attributable to common stockholders	\$ 52.7	\$ 16.3	\$ 61.9	\$ 17.8
Reallocation of net income as a result of conversion of Class B to Class A common stock	16.3	—	17.8	—
Reallocation of net income to Class B common stock	—	(0.1)	—	(0.1)
Net income attributable to common stockholders for diluted EPS	\$ 69.0	\$ 16.2	\$ 79.7	\$ 17.7
Denominator				
Weighted-average number of common shares outstanding used in computing basic net income per share	265.2	81.9	288.0	82.7
Weighted-average effect of dilutive restricted stock units and awards and employee stock options	1.7	—	2.2	0.1
Conversion of Class B to Class A common stock	81.9	—	82.7	—
Weighted-average number of common shares outstanding used in computing diluted net income per share	348.8	81.9	372.9	82.8
Net income per common share, diluted	\$ 0.20	\$ 0.20	\$ 0.21	\$ 0.21

The weighted-average impact of potentially dilutive securities that were not included in the diluted per share calculations because they would be anti-dilutive was as follows:

	Three Months Ended March 31,	
	2023	2022
Restricted stock units and awards	21.4	13.3
Options to purchase shares of common stock	0.1	0.3
Co-Founder Grant	8.3	8.3
Convertible Senior Notes	37.8	37.8
Warrants	37.8	37.8
Total	105.4	97.5

Note 14. Income Taxes

The Company computed the year-to-date income tax provision by applying the estimated annual effective tax rate to the year-to-date pre-tax income and adjusted for discrete tax items in the period. The Company's provision for income taxes was \$18.6 million and \$14.1 million for the three months ended March 31, 2023 and 2022, respectively.

DROPBOX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in tables are in millions except per share data, or as otherwise noted)

The provision for income taxes for the three months ended March 31, 2023 was primarily attributable to federal, state and foreign income taxes.

For the three months ended March 31, 2023, the difference between the U.S. statutory rate and the Company's effective tax rate was primarily due to jurisdictional mix of earnings and state income taxes.

For the three months ended March 31, 2022, the difference between the U.S. statutory rate and the Company's effective tax rate was primarily due to the requirement to capitalize research expenditures in accordance with Tax Cuts and Jobs Act of 2017 (TCJA), which was partially offset by the utilization of U.S. deferred tax assets which had a full valuation allowance.

The Company periodically evaluates the realizability of its net deferred tax assets based on all available evidence, both positive and negative. The realization of net deferred tax assets is dependent on the Company's ability to generate sufficient future taxable income during periods prior to the expiration of tax attributes to fully utilize these assets. As of March 31, 2023, the Company continues to maintain valuation allowances against its California deferred tax assets.

The Company is subject to income tax audits in the U.S. and foreign jurisdictions. The Company records liabilities related to uncertain tax positions and believes that it has provided adequate reserves for income tax uncertainties in all open tax years.

Unrecognized tax benefits increased by approximately \$4.2 million for the three months ended March 31, 2023, of which \$3.0 million, if recognized, would affect the Company's effective tax rate and \$1.2 million would result in adjustment to deferred tax assets with corresponding adjustments to the valuation allowance. Additionally, unrecognized tax benefits decreased by approximately \$1.2 million for the three months ended March 31, 2023, due to a statute of limitations lapse related to prior period tax positions. This resulted in a net increase in unrecognized tax benefits of \$3.0 million for the three months ended March 31, 2023.

It is reasonably possible that there could be changes to the amount of uncertain tax positions due to activities of the taxing authorities, settlement of audit issues, reassessment of existing uncertain tax positions, or the expiration of applicable statutes of limitations; however, the Company is not able to estimate the impact of these items at this time.

Note 15. Geographic Areas

Long-lived assets

The following table sets forth long-lived assets by geographic area:

	As of	
	March 31, 2023	December 31, 2022
United States	\$ 299.1	\$ 300.2
International ⁽¹⁾	8.1	8.2
Total property and equipment, net	\$ 307.2	\$ 308.4

⁽¹⁾ No single country other than the United States had a property and equipment balance greater than 10% of total property and equipment, net, as of March 31, 2023 and December 31, 2022.

DROPBOX, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in tables are in millions except per share data, or as otherwise noted)

Revenue

Revenue by geography is generally based on the address of the customer as defined in the Company's subscription agreement. The following table sets forth revenue by geographic area for the three months ended March 31, 2023 and 2022.

	Three Months Ended March 31,	
	2023	2022
United States	\$ 345.9	\$ 299.2
International ⁽¹⁾	265.2	263.2
Total revenue	\$ 611.1	\$ 562.4

⁽¹⁾ No single country outside of the United States accounted for more than 10% of total revenue during the three months ended March 31, 2023 and 2022, respectively.

Note 16. Subsequent Events

On April 27, 2023, the Company announced that the Board of Directors approved a reduction of its global workforce by approximately 16% to streamline the Company's team structure to support its long-term growth and profitability objectives. The Company intends to strategically reinvest some savings from this reduction in force into future growth initiatives, and will continue to hire for roles critical to those initiatives. The Company estimates that it will incur charges of approximately \$37 million to \$42 million, primarily consisting of cash expenditures for severance payments, employee benefits and related costs. The Company expects that the majority of these charges will be incurred in the second quarter of 2023 and substantially all of these charges will have been incurred by the end of 2023. The estimated charges are based on certain assumptions, including local law requirements in various jurisdictions, and actual amounts may differ materially from such estimates.

The Company may incur other charges or cash expenditures not currently contemplated due to unanticipated events that may occur as a result of or in connection with the implementation of the reduction in force.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K. As discussed in the section titled "Note About Forward-Looking Statements," the following discussion and analysis contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" under Part II, Item 1A in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K. Our fiscal year ends December 31.

Overview

Our modern economy runs on knowledge. Today, knowledge lives in the cloud as digital content, and Dropbox is where businesses and individuals can create, access, and share this content globally. We serve more than 700 million registered users across approximately 180 countries.

Since our founding in 2007, our market opportunity grew as we've expanded from keeping files in sync to keeping teams in sync. In a world where using technology at work can be fragmented and distracting, Dropbox makes it easy to focus on the work that matters.

By solving these universal problems, we've become invaluable to our users. The popularity of our platform allows us to scale efficiently. We've built a thriving global business with 17.90 million paying users.

Our Subscription Plans

We generate revenue from individuals, families, teams, and organizations by selling subscriptions to our platform, which serve the varying needs of our diverse customer base. Subscribers can purchase individual licenses through our Plus and Professional plans, or purchase multiple licenses through our Family plan or our Standard, Advanced, and Enterprise team plans. Each team or family represents a separately billed deployment that is managed through a single administrative dashboard. Teams must have a minimum of three users, but can also have more than tens of thousands of users. Families can have up to six users. Customers can choose between an annual or monthly plan, with a small number of large organizations on multi-year plans. A majority of our customers opt for our annual plans, although we have seen and may continue to see an increase in customers opting for our monthly plans. We typically bill our customers at the beginning of their respective terms and recognize revenue ratably over the term of the subscription period. International customers can pay in U.S. dollars or a select number of foreign currencies.

Our premium subscription plans, such as Professional and Advanced, provide more functionality than other subscription plans and have higher per user prices. Our Standard and Advanced subscription plans offer robust capabilities for businesses, and the vast majority of Dropbox Business teams purchase our Standard or Advanced subscription plans. While our Enterprise subscription plan offers more opportunities for customization, companies can subscribe to any of these team plans for their business needs.

We offer FormSwift, our cloud-based service that gives individuals and businesses a simple solution to create, complete, edit, and save critical business forms and agreements. Customers can choose between annual or monthly subscriptions based on their individual or business needs. We typically bill FormSwift customers at the beginning of their respective terms and recognize revenue ratably over the subscription period. FormSwift primarily sells within the United States, and the majority of its sales are in U.S. dollars.

We also offer DocSend as our secure document sharing and analytics solution. DocSend offers paid subscription plans, including a personal plan designed for individuals and Standard, Advanced, and Enterprise plans designed for business users and teams. Similar to Dropbox plans, pricing of DocSend's plans is based on the number of licenses purchased. Customers can choose between an annual or monthly plan, with a small number of large organizations on multi-year plans. We typically bill DocSend customers at the beginning of their respective terms and recognize revenue ratably over the subscription period. DocSend primarily sells within the United States, and the majority of sales are in U.S. dollars.

We also offer Dropbox Sign, as our e-signature solution. Dropbox Sign has several product lines, and the pricing and revenue generated from each product line varies, with some product lines priced based on the number of licenses purchased (similar to Dropbox plans), while others are priced based on a customer's transaction volume. Depending on the product

purchased, teams must have a minimum number of licenses, but can also have hundreds of users. Customers can choose between an annual or monthly plan, with a small number of large organizations on multi-year plans. We typically bill Dropbox Sign customers at the beginning of their respective terms and recognize revenue ratably over the subscription period. We sell Dropbox Sign products globally and sell primarily in U.S. dollars.

Our Customers

Our customer base is highly diversified, and in the period presented, no customer accounted for more than 1% of our revenue. Our customers include individuals, families, teams, and organizations of all sizes, from freelancers and small businesses to Fortune 100 companies. They work across a wide range of industries, including professional services, technology, media, education, industrials, consumer and retail, and financial services. Within companies, our platform is used by all types of teams and functions, including sales, marketing, product, design, engineering, finance, legal, and human resources.

Our Business Model

Drive new signups

We acquire users efficiently and at relatively low costs through word-of-mouth referrals, direct in-product referrals, and sharing of content. Anyone can create a Dropbox account for free through our website or app and be up and running in minutes. These users often share and collaborate with other non-registered users, attracting new signups into our network.

Increase conversion of registered users to our paid subscription plans

We generate over 90% of our revenue from self-serve channels—users who purchase a subscription through our app or website. To grow our recurring revenue base, we actively encourage our registered users to convert to one of our paid plans based on the functionality that best suits their needs. We do this via in-product prompts and notifications, time-limited free trials of paid subscription plans, email campaigns, and lifecycle marketing. Together, these enable us to generate increased recurring revenues from our existing user base.

Upgrade and expand existing customers

We offer a range of paid subscription plans, from Plus, Professional, and Family for individuals to Standard, Advanced, and Enterprise for teams. We analyze usage patterns within our network and run hundreds of targeted marketing campaigns to encourage paying users to upgrade their plans. We prompt individual subscribers who collaborate with others on Dropbox to purchase our Standard or Advanced plans for a better team experience, and we also encourage existing Dropbox Business teams to purchase additional licenses or to upgrade to premium subscription plans. We also aim to offer additional products that expand our content collaboration capabilities, such as through our acquisitions of Dropbox Sign, DocSend and FormSwift.

Recent Developments

Impact of Macroeconomic Factors on our Business

Our overall performance depends in part on worldwide economic and geopolitical conditions and their impact on customer behavior. Worsening economic conditions, including rising inflation, the U.S. Federal Reserve raising interest rates, volatility and uncertainty in the banking and financial services sector, tightening of credit markets, changes in the corporate real estate market, supply chain disruptions, and fluctuations in currency exchange rates have impacted our results of operations during the three months ended March 31, 2023.

During the three months ended March 31, 2023, we continued to see macro headwinds weighing on our Teams plans, as our customers face pressure in their own businesses, as well as both DocSend and Sign, due to ongoing softness in their respective markets. While we are not immune to macroeconomic conditions, we remain optimistic about our strategy as we improve our execution while continuing to invest towards our future in this new AI era.

Our results of operations and cash flows are also subject to fluctuations due to changes in foreign currency exchange rates relative to U.S. dollars, our reporting currency, as well as changes in interest rates. Volatile market conditions, directly or indirectly related to macroeconomic or geopolitical events, have, at times, and may in the future negatively impact our results of operations and cash flows. Conversely, we have seen and may continue to see cost savings from the shift to remote and distributed work for all of our employees in areas including events, travel, utilities, and other benefits. Due to our subscription-based business model, and impact of the current macroeconomic environment on our business, particularly as a result of changes in our customer behavior, may not be fully reflected in our results of operations until future periods, if at all. For a

further discussion of the potential impacts of the macroeconomic environment on our business, see “Risk Factors” included in Part II, Item 1A. of this report.

Virtual First

The effects of the COVID-19 pandemic led us to reimagine the way we work, resulting in our announcement in October 2020 of our shift to a Virtual First work model pursuant to which remote work has become the primary experience for all of our employees. As a result, we expect that our workforce will continue to become more distributed over time, although we are continuing to offer our employees opportunities for in-person collaboration in all locations we currently have offices, either through our existing real-estate, or new on-demand, flexible spaces, which are known as “Dropbox Studios”. Consistent with this strategy, we have retained a portion of our office space while the remainder will be subleased. We have recorded impairment charges in prior quarters as a result of adverse changes in the corporate real estate market in the San Francisco Bay area which has impacted our subleasing strategy in conjunction with our shift to Virtual First. See Note 9, “Leases” for additional information. We may incur additional charges depending on the continued recovery of the corporate real estate market or shifts in our Virtual First strategy. In addition to generating sublease income, we expect that as a result of our shift to Virtual First, we will continue to see savings in certain areas, including reductions in facilities related costs and depreciation expense due to these impairment charges.

Reduction in Force

On April 27, 2023, we announced a reduction of our global workforce by approximately 16% to streamline our team structure in support of our long-term growth and profitability objectives.

Key Business Metrics

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

Total annual recurring revenue

We primarily focus on total annual recurring revenue (“Total ARR”) as the key indicator of the trajectory of our business performance. Total ARR represents the amount of revenue that we expect to recur annually, enables measurement of the progress of our business initiatives, and serves as an indicator of future growth. In addition, Total ARR is less subject to variations in short-term trends that may not appropriately reflect the health of our business, however the changes in ARR throughout the year could be subject to seasonality. Total ARR is a performance metric and should be viewed independently of revenue and deferred revenue, and is not intended to be a substitute for, or combined with, any of these items.

Total ARR consists of contributions from all of our revenue streams, including subscriptions and add-ons. We calculate Total ARR as the number of users who have active paid licenses for access to our platform as of the end of the period, multiplied by their annualized subscription price to our platform. We include ARR related to acquired companies in our total ARR in the period of the acquisition. We adjust the exchange rates used to calculate Total ARR on an annual basis at the beginning of each fiscal year.

In the second quarter of 2022, we repackaged our existing Dropbox Standard and Dropbox Advanced plans to include additional features. As a result, we increased the price for new and existing users on these plans, with new users starting in the second quarter of 2022 and existing users as their billing cycles occur. For a majority of existing users, the increase in price is effective on their next renewal date. As a result of the price increase, combined with an increase in paying users across our product portfolio and an increased mix of sales from our higher-priced subscription plans, we experienced an increase in Total ARR for the period ended March 31, 2023, compared to the period ended March 31, 2022. We also acquired FormSwift in the fourth quarter of 2022, resulting in a benefit to Total ARR beginning in the period of the acquisition. In the first quarter of 2023, sequential ARR was negatively impacted by the foreign currency exchange rates used to calculate ARR, which we update annually at the beginning of the year. On a constant currency basis, Total ARR increased for the periods presented.

The below tables set forth our Total ARR using the exchange rates set at the beginning of each year, as well as on a constant currency basis relative to the exchange rates used in 2023.

	As of		
	March 31, 2023	December 31, 2022	March 31, 2022
	<i>(In millions)</i>		
Total ARR	\$2,468	\$2,514	\$2,290

Constant Currency	As of		
	March 31, 2023	December 31, 2022	March 31, 2022
	<i>(In millions)</i>		
Total ARR	\$2,468	\$2,430	\$2,212

Paying users

We define paying users as the number of users who have active paid licenses for access to our platform as of the end of the period. One person would count as multiple paying users if the person had more than one active license. For example, a 50-person Dropbox Business team would count as 50 paying users, and an individual Dropbox Plus user would count as one paying user. If that individual Dropbox Plus user was also part of the 50-person Dropbox Business team, we would count the individual as two paying users. We first include paying users related to acquired companies among our paying users in the period of the acquisition.

For FormSwift and DocSend, we define paying users as the number of users who have active paid licenses for access to our platform as of the end of the period. FormSwift and DocSend users have been included as paying users since our acquisition of FormSwift in the fourth quarter of 2022 and our acquisition of DocSend in the first quarter of 2021, respectively.

Dropbox Sign has several product lines and the pricing and revenue generated from each product line varies, with some product lines priced based on the number of licenses purchased (similar to Dropbox plans), while others are priced based on a customer's transaction volume. For purposes of Dropbox Sign results, we include as paying users either (i) the number of users who have active paid licenses for access to the Dropbox Sign platform as of the period end for those products that are priced based on the number of licenses purchased (which is the same method we use to evaluate existing Dropbox plans) or (ii) the number of customers for those products that are priced based on transaction volumes.

We experienced growth in the number of paying users for the periods presented largely from our self-serve channels as well as our acquisition of FormSwift in the fourth quarter of 2022. However, our overall paying user growth rate has declined and may decline in the future. We expect growth in paying users to fluctuate from period to period in the future.

The below table sets forth the number of paying users as of March 31, 2023, December 31, 2022, and March 31, 2022.

	As of		
	March 31, 2023	December 31, 2022	March 31, 2022
	<i>(In millions)</i>		
Paying users	17.90	17.77	17.09

Average revenue per paying user

We define average revenue per paying user, or ARPU, as our revenue for the period presented divided by the average paying users during the same period. For interim periods, we use annualized revenue, which is calculated by dividing the revenue for the particular period by the number of days in that period and multiplying this value by 365 days. Average paying users are calculated based on adding the number of paying users as of the beginning of the period to the number of paying users as of the end of the period, and then dividing by two.

As a result of the repackaging and repricing of our existing Dropbox Standard and Dropbox Advanced plans, an increased mix of sales towards our higher-priced subscription plans, and our acquisition of FormSwift in the fourth quarter of 2022, offset by the impact of unfavorable foreign exchange rates across multiple currencies, we experienced an increase in our average revenue per paying user for the three months ended March 31, 2023, compared to the three months ended March 31, 2022.

The below table sets forth our ARPU for the three months ended March 31, 2023 and 2022.

	Three Months Ended March 31,	
	2023	2022
ARPU	\$ 138.97	\$ 134.63

Non-GAAP Financial Measure

In addition to our results determined in accordance with U.S. generally accepted accounting principles, or GAAP, we believe that free cash flow, or FCF, a non-GAAP financial measure, is useful in evaluating our liquidity.

Free cash flow

We define FCF as GAAP net cash provided by operating activities less capital expenditures. We believe that FCF is a liquidity measure and that it provides useful information regarding cash provided by operating activities and cash used for investments in property and equipment required to maintain and grow our business. FCF is presented for supplemental informational purposes only and should not be considered a substitute for financial information presented in accordance with GAAP. FCF has limitations as an analytical tool, and it should not be considered in isolation or as a substitute for analysis of other GAAP financial measures, such as net cash provided by operating activities. Some of the limitations of FCF are that FCF does not reflect our future contractual commitments, excludes investments made to acquire assets under finance leases, includes capital expenditures, and may be calculated differently by other companies in our industry, limiting its usefulness as a comparative measure.

Our FCF increased for the three months ended March 31, 2023, compared to the three months ended March 31, 2022, primarily due to a decrease in capital expenditures.

We expect our FCF to generally increase in future periods as we increase subscription sales and drive operating efficiencies. We expect to continue to purchase infrastructure equipment to support our user base and anticipate that our capital expenditures will remain approximately consistent in future periods as we continue to invest in our internal infrastructure, network and security. The timing of our operating expenses as described below, may result in FCF to vary from period to period as a percentage of revenue.

The following is a reconciliation of FCF to the most comparable GAAP measure, net cash provided by operating activities:

	Three Months Ended March 31,	
	2023	2022
	<i>(In millions)</i>	
Net cash provided by operating activities	139.9	141.4
Capital expenditures	(1.9)	(10.7)
Free cash flow	<u>\$ 138.0</u>	<u>\$ 130.7</u>

Components of Our Results of Operations

Revenue

We generate revenue from sales of subscriptions to our platform.

Revenue is recognized ratably over the related contractual term generally beginning on the date that our platform is made available to a customer. Our subscription agreements typically have monthly or annual contractual terms, although a small percentage have multi-year contractual terms. Our agreements are generally non-cancelable. We typically bill in advance for monthly contracts and annually in advance for contracts with terms of one year or longer. Amounts that have been billed are initially recorded as deferred revenue until the revenue is recognized.

Our revenue is driven primarily by conversions and upsells to our paid plans. We also generate revenue from transaction-based products and fees from the referral of users to our partners. We generate over 90% of our revenue from self-serve channels. No customer represented more than 1% of our revenue in the periods presented.

Our revenue growth is impacted by our number of paying users, as well as our ability to increase the average revenue per paying user. Our overall paying user growth rate has declined and we expect growth in paying users to fluctuate from period to period in the future. Accordingly, if we do not increase the average revenue per paying user, for example through pricing and packaging changes or increased sales of our higher priced subscription plans, to offset slower growth or decline in paying users, our revenue and revenue growth rate will decline.

Cost of revenue and gross margin

Cost of revenue. Our cost of revenue consists primarily of expenses associated with the storage, delivery, and distribution of our platform for both paying users and free users. These costs, which we refer to as infrastructure costs, include depreciation of our servers located in co-location facilities that we lease and operate, rent and facilities expense for those datacenters, network and bandwidth costs, support and maintenance costs for our infrastructure equipment, and payments to third-party datacenter service providers. Cost of revenue also includes costs, such as salaries, bonuses, employer payroll taxes and benefits, travel-related expenses, and stock-based compensation, which we refer to as employee-related costs, for employees whose primary responsibilities relate to supporting our infrastructure and delivering user support. Other non-employee costs included in cost of revenue include credit card fees related to processing customer transactions, and allocated overhead, such as facilities, including rent, utilities, depreciation on leasehold improvements and other equipment shared by all departments, and shared information technology costs. In addition, cost of revenue includes amortization of developed technologies, professional fees related to user support initiatives, and property taxes related to the datacenters.

We plan to continue increasing the capacity and enhancing the capability and reliability of our infrastructure to support user growth and increased use of our platform. We expect that cost of revenue will increase in absolute dollars in future periods.

Gross margin. Gross margin is gross profit expressed as a percentage of revenue. Our gross margin may fluctuate from period to period based on the timing of additional capital expenditures and the related depreciation expense, or other increases in our infrastructure costs, as well as revenue fluctuations. We generally expect our gross margin to remain relatively constant in both the near term and the long term.

Operating expenses

Research and development. Our research and development expenses consist primarily of employee-related costs for our engineering, product, and design teams, compensation expenses related to key personnel from acquisitions and allocated overhead. These groups are responsible for the design, development, testing, delivery of new technologies and features, and support of our self-serve platform. We continue to focus our product development efforts on adding new features and enhancing the functionality and ease of use of our offerings. Additionally, research and development expenses include internal development-related third-party hosting fees. We have expensed almost all of our research and development costs as they were incurred.

We expect that research and development costs will decrease in absolute dollars and as a percentage of revenue in the near term and increase in absolute dollars and fluctuate as a percentage of revenue in the long term as we reinvest some savings from our reduction in force into future growth initiatives. We plan to continue to hire employees for our engineering, product, and design teams in roles critical to those initiatives.

Sales and marketing. Our sales and marketing expenses relate to both self-serve and outbound sales activities, and consist primarily of employee-related costs, advertising costs, brand marketing costs, lead generation costs, sponsorships and allocated overhead. Sales commissions earned by our outbound sales team and the related payroll taxes, as well as commissions earned by third-party resellers that we consider to be incremental and recoverable costs of obtaining a contract with a customer, are deferred and are typically amortized over an estimated period of benefit of five years. Additionally, sales and marketing expenses include non-employee costs related to app store fees, fees payable to third-party sales representatives and amortization of acquired customer relationships.

We expect that sales and marketing expenses will generally decrease in absolute dollars and as a percentage of revenue in the near term, due to our reduction in force and increase in absolute dollars and as a percentage of revenue in the long term. We plan to continue to invest in sales and marketing, long term, to grow our user base and increase our brand awareness. The trend and timing of sales and marketing expenses will depend in part on the timing of marketing campaigns.

General and administrative. Our general and administrative expenses consist primarily of employee-related costs for our legal, finance, human resources, and other administrative teams, as well as certain executives. In addition, general and administrative expenses include allocated overhead, outside legal, accounting and other professional fees, and non income-based taxes.

We expect to incur additional general and administrative expenses to support the growth of the Company. General and administrative expenses include the recognition of stock-based compensation expense related to the grant of restricted stock made to our co-founder. We expect that general and administrative expenses will fluctuate in absolute dollars in future periods and remain relatively constant in both the near term and the long term as a percentage of revenue.

Interest income (expense), net

Interest income (expense), net consists primarily of interest income earned on our money market funds classified as cash and cash equivalents and short-term investments as well as interest expense related to our finance lease obligations for infrastructure and amortization of debt issuance costs.

Other income (loss), net

Other income (loss), net consists of other non-operating gains or losses, including those related to gains or losses on sale of assets, foreign currency transaction gains and losses, lease arrangements, which include sublease income, and realized gains and losses related to our short-term investments.

Provision for income taxes

Provision for income taxes consists primarily of U.S. federal, state and foreign jurisdiction income taxes. For 2023, the difference between the U.S. statutory rate and our effective tax rate is primarily due to jurisdictional mix of earnings and state income taxes. For 2022, the difference between the U.S. statutory rate and our effective tax rate is primarily due to changes to the valuation allowance on deferred tax assets, research credits and the impact of capitalization of research and experimental expenditures.

Results of Operations

The following tables set forth our results of operations for the periods presented:

	Three Months Ended March 31,	
	2023	2022
	<i>(In millions)</i>	
Revenue	\$ 611.1	\$ 562.4
Cost of revenue ⁽¹⁾	116.8	112.9
Gross profit	494.3	449.5
Operating expenses ⁽¹⁾ :		
Research and development	235.2	210.8
Sales and marketing	119.2	95.7
General and administrative	55.8	53.5
Total operating expenses	410.2	360.0
Income from operations	84.1	89.5
Interest income (expense), net	3.9	(1.4)
Other (loss) income, net	(0.4)	5.7
Income before income taxes	87.6	93.8
Provision for income taxes	(18.6)	(14.1)
Net income	\$ 69.0	\$ 79.7

⁽¹⁾ Includes stock-based compensation as follows:

	Three Months Ended March 31,	
	2023	2022
	<i>(In millions)</i>	
Cost of revenue	\$ 5.4	\$ 5.7
Research and development ⁽²⁾	52.9	50.5
Sales and marketing	5.5	4.5
General and administrative	12.2	11.6
Total stock-based compensation	\$ 76.0	\$ 72.3

⁽²⁾ On March 15, 2023, our President resigned, resulting in the reversal of \$6.7 million in stock-based compensation expense. Of the total amount reversed, \$4.4 million related to expense recognized prior to January 1, 2023.

The following table sets forth our results of operations for each of the periods presented as a percentage of revenue:

	Three Months Ended March 31,	
	2023	2022
	<i>(As a % of revenue)*</i>	
Revenue	100 %	100 %
Cost of revenue ⁽¹⁾	19	20
Gross profit	81	80
Operating expenses ⁽¹⁾ :		
Research and development	38	37
Sales and marketing	20	17
General and administrative	9	10
Total operating expenses	67	64
Income from operations	14	16
Interest income (expense), net	1	—
Other (loss) income, net	—	1
Income before income taxes	14	17
Provision for from income taxes	(3)	(3)
Net income	11 %	14 %

⁽¹⁾ Includes stock-based compensation as a percentage of revenue as follows:

	Three Months Ended March 31,	
	2023	2022
	<i>(As a % of revenue)*</i>	
Cost of revenue	1 %	1 %
Research and development ⁽²⁾	9	9
Sales and marketing	1	1
General and administrative	2	2
Total stock-based compensation	12 %	13 %

⁽²⁾ On March 15, 2023, our President resigned, resulting in the reversal of \$6.7 million in stock-based compensation expense. Of the total amount reversed, \$4.4 million related to expense recognized prior to January 1, 2023.

* Percentages may not foot due to rounding.

Comparison of the three months ended March 31, 2023 and 2022

Revenue

	Three Months Ended March 31,		\$ Change	% Change
	2023	2022		
	<i>(In millions)</i>			
Revenue	\$ 611.1	\$ 562.4	\$ 48.7	8.7 %

Revenue increased \$48.7 million or 8.7% during the three months ended March 31, 2023, as compared to the three months ended March 31, 2022 primarily due to an increase of \$65.2 million from additional paying users, the acquisition of FormSwift in the fourth quarter of 2022 and the repricing and repackaging of the Dropbox Standard and Dropbox Advanced plans in the second quarter of 2022. These increases were offset by a \$16.5 million unfavorable impact from changes in foreign exchange rates across multiple currencies.

Cost of revenue, gross profit, and gross margin

	Three Months Ended March 31,		\$ Change	% Change
	2023	2022		
	<i>(In millions)</i>			
Cost of revenue	\$ 116.8	\$ 112.9	\$ 3.9	3.5 %
Gross profit	494.3	449.5	44.8	10.0 %
Gross margin	81 %	80 %		

Cost of revenue increased \$3.9 million or 3.5% during the three months ended March 31, 2023, as compared to the three months ended March 31, 2022, primarily due to increases of \$1.8 million in credit card fees, \$1.5 million in employee-related costs and \$1.4 million in amortization of intangible assets. These increases were offset by a decrease of \$0.9 million in infrastructure cost due to lower facilities costs.

Our gross margin increased during the three months ended March 31, 2023 compared to the three months ended March 31, 2022, primarily due to an 8.7% increase in revenue during the period, which was offset by the lower percentage increase in our cost of revenue described above.

Research and development

	Three Months Ended March 31,		\$ Change	% Change
	2023	2022		
	<i>(In millions)</i>			
Research and development	\$ 235.2	\$ 210.8	\$ 24.4	11.6 %

Research and development expenses increased \$24.4 million or 11.6% during the three months ended March 31, 2023, as compared to the three months ended March 31, 2022, primarily due to increases of \$16.0 million in employee-related costs driven by an increase in headcount offset by a \$6.7 million reversal of previously recognized stock-based compensation expense from the resignation of our President and the resulting forfeiture of his unvested awards, \$5.4 million in software subscription licenses and \$3.0 million in allocated overhead.

Sales and marketing

	Three Months Ended March 31,		\$ Change	% Change
	2023	2022		
	<i>(In millions)</i>			
Sales and marketing	\$ 119.2	\$ 95.7	\$ 23.5	24.6 %

Sales and marketing expenses increased \$23.5 million or 24.6% during the three months ended March 31, 2023, as compared to the three months ended March 31, 2022, primarily due to increases of \$15.3 million related to advertising and other marketing related expenses, \$4.8 million in employee-related costs, \$2.2 million in amortization of intangible assets and \$1.0 million in app store fees due to increased sales.

General and administrative

	Three Months Ended March 31,		\$ Change	% Change
	2023	2022		
	<i>(In millions)</i>			
General and administrative	\$ 55.8	\$ 53.5	\$ 2.3	4.3 %

General and administrative expenses increased \$2.3 million or 4.3% during the three months ended March 31, 2023, as compared to the three months ended March 31, 2022, primarily due to increases of \$4.8 million in employee-related costs, \$0.5 million in allocated overhead, and \$0.4 million in outside services. This increase was offset by a decrease of \$3.9 million in non-income based taxes.

Interest income (expense), net

Interest income (expense), net increased by \$5.3 million during the three months ended March 31, 2023, as compared to the three months ended March 31, 2022, primarily due to higher interest income as a result of interest rate increases.

Other (loss) income, net

Other (loss) income, net decreased \$6.1 million during the three months ended March 31, 2023, as compared to the three months ended March 31, 2022, primarily due to a \$2.6 million reduction in sales of retired infrastructure asset, \$2.0 million in foreign currency transaction losses, and \$1.1 million in losses from the sale of short-term investments.

Provision for income taxes

Provision for income taxes increased \$4.5 million during the three months ended March 31, 2023, as compared to the three months ended March 31, 2022, primarily due to the impact of the full U.S. valuation allowance on the prior year provision for income taxes.

Liquidity and Capital Resources

As of March 31, 2023, we had cash and cash equivalents of \$332.7 million and short-term investments of \$920.4 million, which were held for working capital purposes. Our cash, cash equivalents, and short-term investments consist primarily of cash, money market funds, corporate notes and obligations, U.S. Treasury securities, certificates of deposit, asset-backed securities, commercial paper, foreign government securities, U.S. agency obligations, supranational securities, and municipal securities. As of March 31, 2023, we had \$228.2 million of our cash and cash equivalents held by our foreign subsidiaries. We do not expect to incur material taxes in the event we repatriate any of these amounts. Our cash is held at several large financial institutions and our investments are focused on the preservation of capital, fulfillment of our liquidity needs, and maximization of investment performance within the parameters set forth in our investment policy and subject to market conditions. The investment policy sets forth credit rating minimums, permissible allocations, and limits our exposure to specific investment times. We believe these policies mitigate our exposure to any risk concentrations.

We have historically financed our operations primarily through cash generated from our operations, the issuance of the Notes, equity issuances, and finance leases to finance infrastructure-related assets in co-location facilities that we directly lease and operate. We enter into finance leases in part to better match the timing of payments for infrastructure-related assets with that of cash received from our paying users. In our business model, some of our registered users convert to paying users over time, and consequently there is a lag between initial investment in infrastructure assets and cash received from some of our users.

In February 2021, we issued approximately \$1.4 billion in aggregate principal amount of convertible senior notes, comprised of \$695.8 million in aggregate principal amount of 2026 Notes and \$693.3 million in aggregate principal amount of 2028 Notes. The net proceeds from the issuance of the 2026 Notes and 2028 Notes were \$684.8 million, net of debt issuance costs, and \$682.3 million, net of debt issuance costs, respectively. The 2026 Notes mature on March 1, 2026 and the 2028 Notes mature on March 1, 2028. The Notes of each series will not bear regular interest and the principal will not accrete. The Notes of each series may bear special interest as the remedy relating to our failure to comply with certain of our reporting obligations. These Notes can be converted or repurchased prior to maturity if certain conditions are met.

Our principal uses of cash in recent periods have been funding our operations, repurchases of our Class A common stock, purchases of short-term investments, the satisfaction of tax withholding obligations in connection with the settlement of restricted stock units and awards, making principal payments on our finance lease obligations, and capital expenditures. In February 2022, our Board of Directors authorized the repurchase of up to \$1.2 billion of the outstanding shares of our Class A common stock. Share repurchases will be made from time to time in private transactions or open market purchases as permitted by securities laws and other legal requirements and will be subject to a review of the circumstances in place at that time, including prevailing market prices. The program does not obligate us to repurchase any specific number of shares and has no specified time limit; it may be discontinued at any time. During the three months ended March 31, 2023, we repurchased and subsequently retired 8.1 million shares of our Class A common stock for an aggregate amount of \$176.5 million. Included in the cost of treasury stock acquired pursuant to common share repurchases is the 1% excise tax imposed as part of the Inflation Reduction Act. The pace of our share repurchases may fluctuate due to various circumstances, including market conditions and our stock price.

In April 2017, we entered into a \$600.0 million credit facility with a syndicate of financial institutions, which we subsequently amended in February 2018, February 2021, and March 2023. Pursuant to the terms of the revolving credit facility, we may issue letters of credit under the revolving credit facility, which reduce the total amount available for borrowing under such facility. In February 2018, we amended our revolving credit facility to, among other things, permit us to make certain investments, enter into an unsecured standby letter of credit facility, and increase our standby letter of credit sublimit to \$187.5 million. We also increased our borrowing capacity under the revolving credit facility from \$600.0 million to \$725.0 million. In February 2021, we amended our revolving credit facility to decrease our borrowing capacity from \$725.0 million to \$500.0 million. We may from time to time request increases in the borrowing capacity under the revolving credit facility of up to \$250.0 million, provided no event of default has occurred or is continuing or would result from such increase. In March 2023, we amended the revolving credit facility to update our borrowing benchmark from LIBOR to SOFR. The revolving credit facility terminates on February 23, 2026.

Interest on borrowings under the revolving credit facility accrues at a variable rate tied to SOFR or an alternative base rate, at our election. Interest is payable quarterly in arrears. Pursuant to the terms of the revolving credit facility, we are required to pay an annual commitment fee that accrues at a rate of 0.20% per annum on the unused portion of the borrowing commitments under the revolving credit facility. In addition, we are required to pay a fee in connection with letters of credit issued under the revolving credit facility that accrues at a rate of 1.375% per annum on the amount of such letters of credit outstanding. There is an additional fronting fee of 0.125% per annum multiplied by the average aggregate daily maximum amount available under all letters of credit.

The revolving credit facility contains customary conditions to borrowing, events of default, and covenants, including covenants that restrict our ability to incur indebtedness, grant liens, make distributions to our holders or our subsidiaries' equity interests, make investments, or engage in transactions with our affiliates. In addition, the revolving credit facility contains financial covenants, including a consolidated leverage ratio incurrence covenant and a minimum liquidity balance. We were in compliance with all covenants under the revolving credit facility as of March 31, 2023.

As of March 31, 2023, we had no amounts outstanding under the revolving credit facility and an aggregate of \$38.8 million in letters of credit issued under the revolving credit facility. Our total available borrowing capacity under the revolving credit facility was \$461.2 million as of March 31, 2023.

As of March 31, 2023, we utilized a significant portion of our U.S. federal, state and foreign net operating losses. Future utilization of remaining net operating loss and research credit carryforwards are subject to statutory limits. Accordingly, we expect our cash tax obligations will increase in the foreseeable future.

We believe our existing cash and cash equivalents, together with our short-term investments, cash provided by operations and amounts available under the revolving credit facility, will be sufficient to meet our needs for the foreseeable future. As of March 31, 2023, our principal commitments consist of obligations under the Notes, and cash commitments due to additional known contractual obligations.

Our future capital requirements will depend on many factors including our revenue growth rate, subscription renewal activity, billing frequency, the timing and extent of spending to support further infrastructure development and research and development efforts, the timing and extent of additional capital expenditures to invest in collaboration spaces, our ability to sublease space at office locations where we have unused spaces, the satisfaction of tax withholding obligations for the release of restricted stock units and awards, the expansion of sales and marketing and international operation activities, the introduction of new product capabilities and enhancement of our platform, the continuing market acceptance of our platform, and the volume and timing of our share repurchases. We have and 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. If we are unable to raise additional capital when desired, our business, results of operations, and financial condition could be materially and adversely affected.

Our cash flow activities were as follows for the periods presented:

	Three Months Ended March 31,	
	2023	2022
	<i>(In millions)</i>	
Net cash provided by operating activities	\$ 139.9	\$ 141.4
Net cash provided by investing activities	200.8	101.0
Net cash used in financing activities	(241.3)	(328.8)
Effect of exchange rate changes on cash and cash equivalents	0.5	(1.1)
Net increase (decrease) in cash and cash equivalents	<u>\$ 99.9</u>	<u>\$ (87.5)</u>

Operating activities

Our largest source of operating cash is cash collections from our paying users for subscriptions to our platform. Our primary uses of cash from operating activities are for employee-related expenditures, infrastructure-related costs, and marketing expenses. Net cash provided by operating activities is impacted by our net income adjusted for certain non-cash items, including stock-based compensation, depreciation and amortization expenses, and impairment related to real estate assets, as well as the effect of changes in operating assets and liabilities.

For the three months ended March 31, 2023, net cash provided by operating activities was \$139.9 million, which primarily consisted of our net income of \$69.0 million, adjusted for stock-based compensation expense of \$76.0 million, depreciation and amortization expenses of \$42.5 million, and net cash outflow of \$76.1 million from operating assets and liabilities. The outflow from operating assets and liabilities was primarily due to the payment of our corporate bonus and key employee holdback payments related to acquisitions, offset by an increase in deferred revenue from increased subscription sales, as a majority of our paying users are invoiced in advance.

Investing activities

Net cash provided by investing activities is primarily impacted by net investment activity, which includes sales, maturities, and purchases of short-term investments, cash paid for acquisitions, purchases of property and equipment to make improvements or modifications to existing and new office spaces, and for purchasing infrastructure equipment in co-location facilities that we directly lease and operate.

For the three months ended March 31, 2023, net cash provided by investing activities was \$200.8 million, which primarily related to \$199.4 million in net investment activity inflows, driven by the sales and maturities of short-term investments, net of purchases. The increase was partially offset by cash paid for capital expenditures of \$1.9 million related to purchases of infrastructure assets at our datacenters.

Financing activities

Net cash used in financing activities is primarily impacted by cash used for repurchases of common stock, tax withholding obligations for the release of RSUs and RSAs, and principal payments on finance lease obligations for our infrastructure equipment.

For the three months ended March 31, 2023, net cash used in financing activities was \$241.3 million, which primarily consisted of \$175.4 million for the repurchase of our common stock, \$34.1 million for the satisfaction of tax withholding obligations for the release of restricted stock units and awards, and \$32.0 million in principal payments on finance lease obligations.

Critical Accounting Estimates

See Part II, Item 7, “Critical Accounting Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2022. There have been no material changes to our critical accounting policies and estimates since our Annual Report on Form 10-K for the year ended December 31, 2022.

Recent Accounting Pronouncements

See Note 1 “Description of the Business and Summary of Significant Accounting Policies” to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for recently adopted accounting pronouncements as of the date of this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest rate risk

We had cash and cash equivalents of \$332.7 million and short-term investments of \$920.4 million as of March 31, 2023. We hold our cash and cash equivalents and short-term investments for working capital purposes. Our cash, cash equivalents, and short-term investments consist primarily of cash, money market funds, corporate notes and obligations, U.S. Treasury securities, certificates of deposit, asset-backed securities, commercial paper, foreign government securities, U.S. agency obligations, supranational securities, and municipal securities. The primary objectives of our investment activities are the preservation of capital, the fulfillment of liquidity needs, and the control of cash and investments. We do not enter into investments for trading or speculative purposes. Our cash equivalents and our portfolio of debt securities are subject to market risk due to changes in interest rates.

Any borrowings under the revolving credit facility bear interest at a variable rate tied to SOFR or an alternative base rate. As of March 31, 2023, we had no amounts outstanding under the revolving credit facility. We do not have any other long-term debt or financial liabilities with floating interest rates that would subject us to interest rate fluctuations.

As of March 31, 2023, a hypothetical increase in interest rates by 100 basis points would have resulted in a \$13.0 million reduction in the market value of our investment portfolio. This estimate is based on a sensitivity model that measures market value changes when changes in interest rates occur.

Foreign currency exchange risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates relative to U.S. dollars, our reporting currency.

Most of our revenue is generated in U.S. dollars, with the remainder generated in Euros, British pounds sterling, Australian dollars, Canadian dollars, and Japanese yen.

Our expenses are generally denominated in the currencies in which our operations are located, which are primarily the United States and, to a lesser extent, Europe and Asia. The functional currency of Dropbox International Unlimited, our international headquarters and largest international entity, is denominated in U.S. dollars. Our results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates in ways that are unrelated to our operating performance.

As exchange rates may fluctuate significantly between periods, revenue and operating expenses, when converted into U.S. dollars, may also experience significant fluctuations between periods. Volatile market conditions, including those arising from macroeconomic events, such as the volatility and uncertainty in the banking and financial services sector, inflation and increased interest rates, tightening of credit markets, as well as geopolitical events have and may in the future result in significant changes in exchange rates, and in particular a weakening of foreign currencies relative to the U.S. dollar has and may in the future negatively affect our revenue expressed in U.S. dollars. Historically, a majority of our revenue and operating expenses have been denominated in U.S. dollars, Euros, and British pounds sterling. Although we are impacted by the exchange rate movements from a number of currencies relative to the U.S. dollar, our results of operations are particularly impacted by fluctuations in the U.S. dollar-Euro and U.S. dollar-British pounds sterling exchange rates. During the three months ended March 31, 2023, 27% of our sales were denominated in currencies other than U.S. dollars. Our expenses, by contrast, are primarily denominated in U.S. dollars. As a result, any increase in the value of the U.S. dollar against these foreign currencies could cause our revenue to decline relative to our costs, thereby decreasing our margins.

We recorded net foreign currency transaction gains of \$0.8 million and \$2.8 million during the three months ended March 31, 2023 and 2022, respectively. A hypothetical 10% change in foreign currency rates would not have resulted in material gains or losses for the three months ended March 31, 2023 and 2022, respectively.

To date, we have not engaged in any hedging activities. As our international operations grow, we will continue to reassess our approach to managing risks relating to fluctuations in currency rates.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(d) and 15d-15(d) under 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.

Inherent Limitations on Effectiveness of Disclosure Controls and Procedures

Our management, including our principal executive officer and principal financial officer, do not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Due to inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Legal Proceedings

We are currently involved in, and may in the future be involved in, legal proceedings, claims, inquiries, and government investigations in the ordinary course of business, including legal proceedings with third parties asserting infringement of their intellectual property rights, regulatory matters and commercial disputes.

One such matter, described below, is scheduled for the first trial phase in May 2023. While we are confident in the Company's defenses to the asserted allegations, it is not possible to determine the outcome of this matter, and we cannot reasonably estimate the maximum potential exposure or the range of possible loss.

On July 12, 2019, Motion Offense, LLC ("Motion Offense") filed a patent infringement suit in the Western District of Texas (Waco Division) against Dropbox's customer Sprouts Farmers Market ("Sprouts"), based on Sprouts' use of Dropbox Business. The suit claims that Sprouts' use of Dropbox Business infringes U.S. Patent Nos. 10,013,158 and 10,021,052. On August 14, 2019, in the District of Delaware, Dropbox filed a complaint for declaratory judgment of no infringement of the patents asserted against Sprouts by Motion Offense ("Delaware Action"), and subsequently amended the complaint to add claims for declaratory judgment that the asserted patents are invalid. Motion Offense's motion to transfer the Delaware Action to the Western District of Texas was granted. The Western District of Texas stayed the Sprouts case pending resolution of the Dropbox case. On June 15, 2020, Motion Offense filed an amended answer to Dropbox's declaratory judgment complaint, including counterclaims asserting that Dropbox infringes the '158 and '052 patents, as well as U.S. Patent Nos. 10,303,353, 10,613,737, and 10,587,548. On July 23, 2021, Motion Offense filed a related patent infringement suit against Dropbox in the Western District of Texas asserting that Dropbox also infringes U.S. Patent No. 11,044,215. The two cases have been consolidated.

We believe that Motion Offense's allegations are without merit both because the asserted patents are invalid and because Dropbox does not infringe. The Western District of Texas has set the case for a jury trial in May 2023, and certain issues and defenses will be decided by the court outside of the jury trial. A final judgment in the district court may be appealed by either party to the Federal Circuit.

Future litigation may be necessary, among other things, to defend ourselves or our users by determining the scope, enforceability, and validity of third-party proprietary rights or to establish our proprietary rights. The results of any current or future litigation cannot be predicted with certainty, and regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources, and other factors.

ITEM 1A. RISK FACTORS

Investing in our Class A common stock involves a high degree of risk. In addition to the other information set forth in this Quarterly Report, you should carefully consider the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q, including the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes, before making a decision to invest in our Class A common stock. Our business, results of operations, financial condition, or prospects could also be harmed by risks and uncertainties that are not presently known to us or that we currently believe are not material. If any of the risks actually occur, our business, results of operations, financial condition, 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 all or part of your investment. In addition, any worsening of the economic environment may exacerbate the risks described below, any of which could have a material impact on us. This situation continues to evolve, and additional impacts may arise that we are not currently aware of.

Risks Related to Our Business and Operations

Our business depends on our ability to retain and upgrade paying users, and any decline in renewals or upgrades could adversely affect our future results of operations.

Our business depends upon our ability to maintain and expand our relationships with our users. Our business is subscription-based, and paying users are not obligated to and may not renew their subscriptions after their existing subscriptions expire. As a result, we cannot provide assurance that paying users will renew their subscriptions utilizing the same tier of our products or upgrade to premium offerings. Renewals and upgrades of subscriptions to our platform have fluctuated, and may decline in any period or over time, or paying users may downgrade or not renew their subscriptions because of several factors, such as dissatisfaction with our products, support, pricing, or mix of features, a user no longer having a need for our products, the availability of competitive products that are, or are perceived to be, less expensive, shifts in the mix of monthly and annual subscriptions or the impact of macroeconomic trends or catastrophic events on our paying users and their willingness or ability to pay for subscriptions. Any decrease in renewals or downgrade of subscriptions to our platform could harm our ability to grow revenue.

We encourage both basic and paying users to upgrade to our premium offerings by recommending additional features and through in-product prompts and notifications. We are focused on increasing recurring revenue and we believe that users that subscribe to our premium paid offerings demonstrate a propensity to retain and expand their deployments over time. We seek to expand within organizations through viral means by adding new users, having workplaces purchase additional products, or expanding the use of Dropbox into other departments within a workplace. We often see enterprise IT decision-makers deciding to adopt Dropbox after noticing substantial organic adoption by individuals and teams within the organization. However, if our paying users cancel their subscriptions or fail to renew, or if we fail to upgrade our paying users to premium offerings or expand within organizations, our business, results of operations, and financial condition may be harmed. In addition, certain of our enterprise licenses have a large number of seat licenses. Accordingly, an enterprise decision not to renew its license may have a large impact on our number of paying users and therefore, our business, results of operations, and financial condition. Additionally, although we believe our multiple product strategy represents strong opportunities for future growth, at present, a significant majority of our paying customers purchase only one of our products. Furthermore, we have and may continue to see an increase in customers opting for our monthly plans rather than our annual plans, including from users who upgrade to paid plans using mobile devices. As a result, to the extent more of our users subscribe to our paid plans through mobile devices or otherwise opt for monthly plans, subscription renewals may fluctuate or decline.

Although it is important to our business that our users renew their subscriptions after their existing subscriptions expire and that we expand our commercial relationships with our users, given the volume of our users, we may be unable to address any retention issues with specific users in a timely manner, which could harm our business.

Our future growth could be harmed if we fail to attract new users or convert registered users to paying users.

We must continually add new users to grow our business beyond our current user base and to replace users who choose not to continue to use our platform. In particular, in order to grow our revenue, we must attract paying users and convert registered users to paying users. Historically, our revenue has been driven by our self-serve model, and we generate more than 90% of our revenue from self-serve channels. Any decrease in user satisfaction with our products or support could harm our brand, word-of-mouth referrals, and ability to grow.

Additionally, many of our users initially access our platform free of charge. We strive to demonstrate the value of our platform to our registered users, thereby encouraging them to convert to paying users through in-product prompts and notifications, and time-limited trials of paid subscription plans. As of March 31, 2023, we served over 700 million registered users but only 17.90 million paying users. The actual number of unique users is lower than we report as one person may register more than once for our platform. As a result, we have fewer unique registered users that we may be able to convert to paying users. A majority of our registered users may never convert to a paid subscription to our platform, and failure to convert users to a paid subscription will restrict our ability to grow our revenue.

Our paying and registered user growth rates have declined and may continue to decline in the future as our pricing strategy changes, our market penetration rates increase and we turn our focus to converting registered users to paying users rather than growing the total number of registered users. The availability of less expensive and bundled competitive products also has slowed and may continue to slow our user growth rate and negatively impact our ability to convert registered users to paying users. If we are not able to continue to expand our user base or fail to convert our registered users to paying users, demand for our paid services and our revenue may grow more slowly than expected or decline. Furthermore, events that financially impact our registered users and other prospective paying users, such as macroeconomic factors, layoffs, inflation, increased interest rates, or catastrophic events, may cause these users to delay or reduce technology spending, which may impact our ability to convert registered users or otherwise attract new paying users, restricting our ability to grow our revenue. If we are unable to increase our paying user growth rates or to offset declines in the number of new paying users with increased revenue per paying user, our revenue growth rate will decline and operating results will be adversely affected.

Our business could be damaged, and we could be subject to liability, if there is any unauthorized access to our data or our users' content, including through privacy and data security breaches or incidents.

Unauthorized parties have in the past gained access, and may in the future gain access, to systems, networks, or facilities used in our business through various means, including gaining unauthorized access to our systems, networks, or facilities, attempting to fraudulently induce our employees, users, or others into disclosing user names, passwords, or other sensitive information. Any unauthorized or inadvertent access to, or an actual or perceived security breach of or incident impacting, our systems, or networks, or facilities, or those of third parties on which we rely, or those of any businesses or technologies we have acquired, could result in an actual or perceived loss of, or unauthorized access to or disclosure, modification, misuse, loss, corruption, unavailability, or destruction of, our data or our users' content, regulatory investigations, proceedings, and orders, claims, demands, and litigation, indemnity obligations, damages, penalties, fines, and other costs in connection with actual and alleged contractual breaches, violations of applicable laws and regulations or other actual or asserted obligations, and other liabilities. Any such incident could also materially damage our reputation and market position and harm our business, results of operations, and financial condition, including reducing our revenue, causing us to issue credits to users, negatively impacting our ability to accept and process user payment information, eroding our users' trust in our services and payment solutions, subjecting us to costly user notification or remediation, harming our ability to retain users, harming our brand, or increasing our cost of acquiring new users. We maintain errors, omissions, and cyber liability insurance policies covering certain security and privacy damages. However, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. Further, if a high-profile security breach or incident occurs with respect to another content collaboration solutions provider, our users and potential users could lose trust in the security of content collaboration solutions providers generally, which could adversely impact our ability to retain users or attract new ones.

The use of our platform involves the transmission, storage, and processing of user content, some of which may be considered personal, confidential, or sensitive information of users or their organizations. We also process, store and transmit our own data as part of our business and operations. This data may include personal, confidential, or sensitive information. We have previously faced and will continue to face security threats from malicious third parties that could obtain unauthorized access to our systems, infrastructure, and networks. We anticipate that these threats will continue to grow in scope and complexity over time. Although we have taken corrective actions in response to past incidents, and have developed systems and processes that are designed to protect the personal data of users and their organizations, protect our systems, prevent data loss, and prevent other security breaches and security incidents, these security measures have not fully protected our systems in the past and cannot guarantee security in the future.

Emerging and evolving cybersecurity threats such as the attack on SolarWinds and the Log4j vulnerability reported in December 2021 pose unique challenges and involve sophisticated threat actors. Computer malware, ransomware, cyber viruses, social engineering (phishing attacks), denial of service or other attacks, employee theft or misuse and increasingly sophisticated network attacks have become more prevalent, particularly against cloud services. In this fast-changing threat environment, we are continuously assessing our security posture, including through the use of penetration testing and red team exercises, to

identify gaps, threats, and vulnerabilities and, where we believe appropriate, we actively take additional and ongoing steps that are intended to strengthen our cybersecurity capabilities and mitigate the risk of a breach or incident. If we fail to respond appropriately to any identified gaps, threats or vulnerabilities, including by providing adequate funding and prioritizing strategic initiatives, or if we fail to adequately identify the gaps, threats or vulnerabilities, we face greater risk that an unauthorized party will obtain access to, or disrupt, our systems or networks or obtain access to data or content that we or third parties on which we rely store or otherwise process. Notwithstanding our efforts, we may fail to detect the existence of security breaches or incidents, including breaches or compromises of user content, and may be unable to prevent unauthorized access to user content. Malicious third parties might use techniques that we are unable to defend against to compromise and infiltrate our systems, infrastructure, and networks. The techniques used to obtain unauthorized access to, and to disable or degrade service, or sabotage systems change frequently and are often not recognized until launched against a target. They may originate from less regulated or remote areas around the world, or from state-sponsored actors, and the risks could also be elevated in connection with the conflict between Russia and Ukraine. If our security measures are breached or compromised or we, our systems, facilities or networks, or those of third parties on which we rely otherwise are subject to a security breach or incident, or our users' content or other data is otherwise accessed, misused, modified, rendered unavailable, destroyed, or otherwise processed through unauthorized means, or if any such actions are believed to occur, our platform may be perceived as insecure, and we may lose existing users or fail to attract and retain new users. Moreover, public announcements concerning any cybersecurity-related incidents and steps we may take to respond to or remediate any such incidents could be perceived by securities analysts or investors to be negative, and such perception could, among other things, have an adverse effect on the price of our Class A common stock.

We may rely on third parties when deploying our infrastructure, and in doing so, expose it to security risks outside of our direct control. We rely on outside vendors and contractors to perform services necessary for the operation of the business, and they may fail to adequately secure our user and company content data. This risk may increase when vendors and contractors work remotely, including as part of our Virtual First model.

In addition, certain developers or other partners who create applications that integrate with our platform, may receive or store information provided by us or by our users through these applications. If these third parties or developers fail to adopt or adhere to adequate data security practices, or in the event of a breach or other compromise of their networks or systems, our data or our users' data may be improperly accessed, used, or disclosed.

Third parties may attempt to compromise our employees and their privileged access into internal systems to gain access to accounts, our information, our networks, or our systems or those of third parties on which we rely. Employee error, malfeasance, errors in our systems and processes, or other errors in the storage, use, transmission, or other processing of personal information has in the past and could in the future result in an actual or perceived breach of user privacy or inadvertent disclosure of information, and such errors could adversely affect our business, brand, and reputation. For example, in the recent past an error in our use of a trusted third party to provide anti-malware and phishing services resulted in URLs embedded within content shared on Dropbox or uploaded to DocSend being made available to other paid subscribers and partners of that third party. However, only the URLs were sent - neither the document itself, nor any information within it, was shared. To address this, we asked the service provider to delete the affected URLs from its databases, and they have done so. While we are not aware of any URLs that were exploited by malicious actors, we cannot rule this out. As a standard practice, we complied with our notification obligations to applicable regulatory authorities. While we believe we have adequate systems in place to detect and prevent integration of software and services that may compromise personal information, we can provide no assurances those systems will be effective in every case.

Our business may be significantly impacted by a change in general economic, political, and market conditions, including any resulting effect on consumer or business spending.

Our business may be affected by general economic, political, and market conditions, including any resulting negative impact on spending by our business and consumer users. Some of our users may view a subscription to our platform as a discretionary purchase, and our paying users may reduce their discretionary spending on our platform during an economic downturn, especially in the event of a prolonged recessionary period. Concerns about inflation, rising interest rates, unemployment trends, geopolitical issues, such as the conflict between Russia and Ukraine, lasting adverse effects of the COVID-19 pandemic, bank insolvency and related uncertainty and volatility in the financial services industry, or a widespread economic slowdown or recession (in the United States or internationally) have led to, and could continue to lead to, increased market volatility and economic uncertainty, which could cause current and prospective paying users to delay, decrease, or cancel purchases of our products and services, or delay or default on their payment obligations. In response to economic uncertainty, we have been more disciplined in our hiring and operating expenses, either of which could negatively impact our

ability to grow and invest in our business. As a result, our business, results of operations, and financial condition may be significantly affected by changes in the economy generally.

We operate in competitive markets, and we must continue to compete effectively.

The market for content collaboration platforms is competitive and rapidly changing. Certain features of our platform compete in the cloud storage market with products offered by Microsoft, Amazon, Apple, Google, and Adobe and in the content collaboration market with products offered by Microsoft, Atlassian, Slack, and Google. On a more limited basis, we compete with Box in the cloud storage market for deployments by large enterprises, as well as in the e-signature market along with Adobe and DocuSign. We also compete with smaller private companies that offer point solutions in the cloud storage market or the content collaboration market. We believe the principal competitive factors in our markets include the following:

- user-centric design;
- ease of adoption and use;
- scale of user network;
- features and platform experience;
- performance;
- brand;
- security and privacy;
- accessibility across several devices, operating systems, and applications;
- third-party integration;
- customer support;
- continued innovation;
- pricing; and
- macroeconomic trends.

With the introduction of new technologies and market entrants, we expect competition to intensify. Many of our actual and potential competitors or alliances among competitors benefit from competitive advantages over us, such as greater name recognition, longer operating histories, more varied products and services, larger marketing budgets, more established marketing relationships, access to larger user bases, major distribution agreements with hardware manufacturers and resellers, and greater financial, technical, and other resources. Some of our competitors may make acquisitions or enter into strategic relationships to offer a broader range of products and services than we do. These combinations make it increasingly difficult for us to compete effectively. We expect these trends to continue as competitors continue to strengthen or maintain their market positions.

Demand for our platform is also sensitive to price. Many factors, including our marketing, user acquisition and technology costs, and our current and future competitors' pricing and marketing strategies, can significantly affect our pricing strategies. Certain of our competitors offer, or may in the future offer, lower-priced or free products or services that compete with our platform or may bundle and offer a broader range of products and services.

Similarly, certain competitors may use marketing strategies that enable them to acquire users at a lower cost than us. There can be no assurance that we will not be forced to engage in price-cutting initiatives or to increase our marketing and other expenses to attract and retain users in response to competitive pressures, either of which could materially and adversely affect our business, results of operations, and financial condition.

Our business depends upon the interoperability of our platform across devices, operating systems, and third-party applications that we do not control.

One of the most important features of our platform is its broad interoperability with a range of diverse devices, operating systems, and third-party applications. Our platform is accessible from the web and from devices running Windows, Mac OS, iOS, Android, WindowsMobile, and Linux. We also have integrations with Microsoft, Adobe, Apple, Salesforce, Atlassian, Slack, BetterCloud, Google, IBM, Cisco, VMware, Okta, Symantec, Palo Alto Networks, Zoom, and a variety of other productivity, collaboration, data management, and security vendors. We are dependent on the accessibility of our platform across these third-party operating systems and applications that we do not control. Third-party services and products are constantly evolving, and we may not be able to modify our platform to assure its compatibility with that of other third parties following development changes. If we are unable to ensure compatibility of our platform with desired third party services, our business may be adversely impacted.

In addition, several of our competitors own, develop, operate, or distribute operating systems, app stores, third-party datacenter services, and other software, and also have material business relationships with companies that own, develop, operate, or distribute operating systems, applications markets, third-party datacenter services, and other software that our platform requires in order to operate. Some of these competitors have inherent advantages developing products and services that more tightly integrate with their software and hardware platforms or those of their business partners.

In addition, some of our competitors may be able to disrupt the operations or compatibility of our platform with their products or services, or exert strong business influence on our ability to, and terms on which we, operate and distribute our platform. For example, we currently offer products that directly compete with several large technology companies that we rely on to ensure the interoperability of our platform with their products or services. We also rely on these companies to make our mobile applications available through their app stores. As our respective products evolve, we expect this level of competition to increase. Should any of our competitors modify their products or standards in a manner that degrades the functionality of our platform or gives preferential treatment to competitive products or services, whether to enhance their competitive position or for any other reason, the interoperability of our platform with these products could decrease and our business, results of operations, and financial condition could be harmed.

Our business could be harmed by any significant disruption of service on our platform or loss of content.

Our brand, reputation, and ability to attract, retain, and serve our users are dependent upon the reliable performance of our platform, including our underlying technical infrastructure. Our users rely on our platform to store digital copies of their valuable content, including financial records, business information, documents, photos, and other important content. Our technical infrastructure may not be adequately designed with sufficient reliability and redundancy to avoid performance delays or outages that could be harmful to our business, and turnover in our personnel, may additionally impact our ability to respond to any such delays or outages. If our platform is unavailable when users attempt to access it, or if it does not load as quickly as they expect, users may not use our platform as often in the future, or at all.

As our user base and the amount and types of information stored, synced, and shared on our platform continue to grow, we will need an increasing amount of technical infrastructure, including network capacity and computing power, to continue to satisfy the needs of our users. The vast majority of user content is stored at our own custom-built infrastructure in co-location facilities that we directly lease and operate. As we add to our infrastructure, we may move or transfer additional content.

Further, as we continue to evolve our business to meet the needs of our users, we may overestimate or underestimate our infrastructure capacity requirements, which could adversely affect our results of operations. The costs associated with leasing and maintaining our custom-built infrastructure in co-location facilities and third-party datacenters already constitute a significant portion of our capital and operating expenses. We continuously evaluate our short- and long-term infrastructure capacity requirements to ensure adequate capacity for new and existing users while minimizing unnecessary excess capacity costs. If we overestimate the demand for our platform and therefore secure excess infrastructure capacity, our operating margins could be reduced. If we underestimate our infrastructure capacity requirements, we may not be able to service the expanding needs of new and existing users, and our hosting facilities, network, or systems may fail. Additionally, our ability to accurately perform capacity planning is dependent on the reliability of the global supply chain for hardware, network, and platform infrastructure equipment. Due to the current macro environment and related price increases and competition for a limited supply of such equipment, our global supply chain for datacenter equipment has experienced challenges, and such challenges could adversely impact our infrastructure capacity. Our datacenter equipment is primarily manufactured by third-party manufacturers, some of which utilize certain components for which there are few qualified suppliers. Prolonged disruptions at these suppliers could lead to a disruption in our ability to manufacture datacenter equipment on time to meet demand. Furthermore, our competitors use some of the same suppliers and their demand for hardware components can affect the capacity available to us resulting in inadequate datacenter capacity. Furthermore, our efforts to mitigate such disruptions and compete for such equipment may impact the timing and magnitude of our infrastructure spending, resulting in unexpected increases in shorter-term or longer-term costs than originally projected.

In addition, the datacenters that we use are vulnerable to damage or interruption from human error, intentional bad acts, security breaches and incidents, including computer malware, ransomware, cyber viruses, social engineering (phishing attacks), denial of service or other attacks, employee theft or misuse and other network attacks, earthquakes, floods, fires, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures, and similar events, any of which could disrupt our service, destroy user content, or prevent us from being able to continuously back up or record changes in our users' content. In the event of significant physical damage to one of these datacenters, it may take a significant period of time to achieve full resumption of our services, and our disaster recovery planning may not account for all eventualities. Damage or interruptions to these datacenters could harm our platform and business.

We generate revenue from sales of subscriptions to our platform, and any decline in demand for our platform, or for content collaboration solutions in general, could negatively impact our business.

We generate, and expect to continue to generate, revenue from the sale of subscriptions to our platform. As a result, widespread acceptance and use of content collaboration solutions in general, and our platform in particular, is critical to our future growth and success. If the content collaboration market fails to grow or grows more slowly than we currently anticipate, or if there are changes in trends with regard to remote or distributed work, demand for our platform could be negatively affected.

Changes in user preferences for content collaboration may have a disproportionately greater impact on us than if we offered multiple platforms or disparate products. Demand for content collaboration solutions in general, and our platform in particular, is affected by a number of factors, many of which are beyond our control. Some of these potential factors include:

- awareness of the content collaboration category generally;
- availability of products and services that compete with ours;
- the impact, scale, and duration, of trends towards or away from remote or distributed work;
- ease of adoption and use;
- features and platform experience;
- performance;
- brand;
- security and privacy;
- customer support;
- pricing; and
- macroeconomic trends.

The content collaboration market is subject to rapidly changing user demand and trends in preferences. If we fail to successfully predict and address these changes and trends, meet user demands, or achieve more widespread market acceptance of our platform, our business, results of operations, and financial condition could be harmed.

Failure to respond to rapid technological changes, extend our platform, or develop new features or products may harm our ability to compete effectively, which would adversely affect our business.

The content collaboration market is characterized by rapid technological change and frequent new product and service introductions. Our ability to grow our user base and increase revenue from existing users will depend heavily on our ability to enhance and improve our platform, introduce new features and products, increase our strategic partnerships with third parties, and interoperate across an increasing range of devices, operating systems, and third-party applications. Users may require features and capabilities that our current platform does not have. The need to respond to technological changes may require investments in our business that could impact short-term growth or profitability. We have made, and intend to continue making, significant investments in developing products that will incorporate artificial intelligence ("AI"), and while we are optimistic

that such new products will drive future growth of our business, the development of such new features could incur significant costs, and there is no guarantee that such new product offerings will ultimately be successful. Additionally, unforeseen failures in newly-developed AI technology could result in reputational harm or legal liability, and changes in the regulatory landscape relating to AI could negatively impact our business in the U.S. or in other jurisdictions where we operate.

In addition, while we believe trends towards remote or distributed work will prove to be significant and long lasting, and that these trends will open up increased market opportunities for us, such as our work on new AI-driven products, such trends or opportunities may not materialize or, if they do, we may not be able to develop new features or products, or enhance our existing offerings, sufficiently to take advantage of them. We invest significantly in research and development, and our goal is to focus our spending on measures that improve quality and ease of adoption and create organic user demand for our platform. For example, in 2022 we launched Dropbox Replay, which allows users to review, approve and collaborate on video workflows, and Dropbox Capture, which allows users to visually present their work through easy-to-take screen recordings, GIFs, and screenshots. There is no assurance that our enhancements to our platform or our new product experiences, partnerships, features, or capabilities will be compelling to our users or gain market acceptance. If our research and development investments do not accurately anticipate user demand, we are unsuccessful in establishing or maintaining our strategic partnerships, or if we fail to develop our platform in a manner that satisfies user preferences in a timely and cost-effective manner, we may fail to retain our existing users or increase demand for our platform.

The introduction of new products and services by competitors or the development of entirely new technologies to replace existing offerings could make our platform obsolete or adversely affect our business, results of operations, and financial condition. We may experience difficulties with software development, design, or marketing that could delay or prevent our development, introduction, or implementation of new product experiences, features, or capabilities. We also may experience broad-based business or economic disruptions that could adversely affect the productivity of our employees and result in delays in the development or implementation process. For example, in response to the COVID-19 pandemic, we transitioned to a Virtual First work model, which may lead to disruptions and decreased productivity that could result in delays in our product development process. The risk of such disruptions and decreased productivity may persist as our workforce operates under a Virtual First model. We have in the past experienced delays in our internally planned release dates of new features and capabilities, and there can be no assurance that new product experiences, features, or capabilities will be released according to schedule. Any delays could result in adverse publicity, loss of revenue or market acceptance, or claims by users brought against us, all of which could have a material and adverse effect on our reputation, business, results of operations, and financial condition. Moreover, new features may require substantial investment, and we have no assurance that such investments will be successful. If users do not widely adopt our new product experiences, features, and capabilities, we may not be able to realize a return on our investment. If we are unable to develop, license, or acquire new features and capabilities to our platform on a timely and cost-effective basis, or if such enhancements do not achieve market acceptance, our business, results of operations, and financial condition could be adversely affected.

We may not successfully manage our growth or successfully execute our plan for future growth.

The growth and expansion of our business, including the introduction of new features and products, places a continuous significant strain on our management, operational, and financial resources. As we introduce new products and features, and our user base and third-party relationships expand, our information technology systems, organizational structures, and internal controls and procedures may not be adequate to support our operations. In addition, we face challenges of integrating, developing, and motivating an increasingly distributed employee base in various countries around the world. These challenges may be heightened in connection with our Virtual First work model and our need to align our resources in order to create a more nimble and streamlined organization. Managing our growth will also require significant expenditures and allocation of valuable management resources.

Our ability to forecast our future results of operations is subject to a number of uncertainties, including our ability to effectively plan for and model future growth, and we may not receive our expected return on investments that we make in our business in the time we expect or at all. We have encountered in the past, and may encounter in the future, risks and uncertainties frequently experienced by growing companies in rapidly changing industries. If we fail to achieve the necessary level of efficiency in our organization as it grows, or if we are not able to accurately forecast future growth, or our investments do not result in the growth we expect, our business, results of operations, and financial condition could be harmed.

We depend on our key personnel and other highly qualified personnel, and if we fail to attract, integrate, and retain our personnel, and maintain our unique corporate culture, our business could be harmed.

We depend on the continued service and performance of our key personnel. In particular, Andrew W. Houston, our Chief Executive Officer and one of our co-founders, is critical to our vision, strategic direction, culture, and offerings. From time to

time, there have been changes in our management team resulting from the hiring or departure of our executives, and there may be additional changes in the future. For example, Timothy Young stepped down as our President in February 2023. While we seek to manage these transitions carefully, such changes may result in a loss of institutional knowledge and may cause disruptions to our business. If we fail to successfully integrate new key personnel into our organization or if key employees are unable to successfully transition into new roles, our business could be adversely affected.

All of our officers and key personnel are at-will employees. In addition, many of our key technologies and systems are custom-made for our business by our key personnel. The loss of key personnel, including key members of our management team, as well as certain of our key marketing, sales, product development, or technology personnel, could disrupt our operations and have an adverse effect on our ability to grow our business. In addition, while we believe our Virtual First strategy will give us the opportunity to align our resources to create a more nimble and streamlined organization, we can provide no assurance that we will be able to successfully execute on these plans, and failure to successfully manage these transitions may cause disruptions to our business. Additionally, we will need to adapt and respond to frequently changing circumstances that may impact our workforce, such as natural disasters or pandemics, or our ability to maintain an effective workforce may be impacted.

To execute our business plan, we must attract and retain highly qualified personnel. Competition for these employees is intense and we may not be successful in attracting and retaining qualified personnel. We have experienced, and we may continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications. As we continue to operate in a Virtual First model, our recent hires and planned hires may not become as productive as we expect, and we may be unable to hire, integrate, or retain sufficient numbers of qualified individuals. Many of the companies with which we compete for experienced personnel have greater resources than we have. In addition, in making employment decisions, particularly in the internet and high-technology industries, job candidates often consider the value of the equity they are to receive in connection with their employment. Employees may be more likely to leave us if the shares they own or the shares underlying their equity incentive awards have significantly appreciated or significantly reduced in value. Many of our employees may receive significant proceeds from sales of our equity in the public markets, which may reduce their motivation to continue to work for us. Furthermore, our workforce reduction in April 2023 may result in increased attrition beyond our intended reduction-in-force, reduce employee morale, and negatively impact employee recruiting and retention. If we fail to attract new personnel, or fail to retain and motivate our current personnel, our business and growth prospects could be harmed.

Additionally, if we do not maintain and continue to develop our corporate culture as we grow and evolve, it could harm our ability to foster the innovation, creativity, and teamwork we believe that we need to support our growth. Additions of executive-level management, significant numbers of new and remote employees, our workforce reduction, and higher employee turnover could significantly and adversely impact our culture, as could our Virtual First model.

We have a limited history of operating with a Virtual First workforce and the long-term impact on our financial results and business operations remains uncertain.

In October 2020, we announced a Virtual First work model pursuant to which remote work has become the primary experience for all of our employees and our intention is for our workforce to continue being more distributed over time. However, we have a limited history of operating with a Virtual First workforce and, although we anticipate that our Virtual First work model will have a long-term positive impact on our financial results and business operations, the impact remains uncertain. Additionally, there is no guarantee that we will realize the anticipated benefits to our business, including cost savings, increased employee satisfaction or ability to attract and retain employees. We may also not achieve operational efficiencies, or increased productivity.

Our continuing shift to a Virtual First work model could make it increasingly difficult to manage our business and adequately oversee our employees and business functions, potentially resulting in harm to our company culture, increased employee attrition, and the loss of key personnel, as well as potentially negatively impacting product research and development and the growth of our business. We may also experience an increased risk of privacy and data security breaches and incidents involving our data or our users' content. Any of these factors could adversely affect our financial condition and operating results.

In addition, as we continue our shift to Virtual First, we will need less office space than we are currently contractually committed to leasing and as a result, we have recorded and may in the future record impairment charges related to the office spaces we no longer expect to need, which has impacted and may in the future impact our ability to achieve or maintain GAAP profitability. Furthermore, any prolonged recessionary period and industry shifts towards remote or distributed work, declines in rent prices or increased availability of open office space, may prevent us from finding subtenants for our unused office space on favorable terms or at all. In the event that we are unable to sublease our space on favorable terms or at all, or if we are able

to sublease space but our subtenants fail to make lease payments to us or otherwise default on their obligations to us, we may generate less sublease income than we have currently estimated, continue to incur substantial payment obligations under our leases and incur additional or higher impairment charges than we have currently estimated, any of which could materially and adversely affect our business, cash flows, results of operations, profitability, and financial condition.

Our lack of a significant outbound sales force may limit the potential growth of our business.

Historically, our business model has been driven by organic adoption and viral growth, with more than 90% of our revenue generated from self-serve channels. As a result, we do not have a significant outbound sales force, which has enabled us to be more efficient with our sales and marketing spend. Although we believe our business model can continue to scale without a large outbound sales force, our word-of-mouth and user referral marketing model may not continue to be as successful as we anticipate, and our limited experience selling directly to large organizations through our outbound sales force may impede our future growth. As we continue to scale our business, an enhanced sales infrastructure could assist in reaching larger organizations and growing our revenue. Identifying and recruiting additional qualified sales personnel and training them would require significant time, expense, and attention, and would significantly impact our business model. Further, adding more sales personnel would change our cost structure and results of operations, and we may have to reduce other expenses in order to accommodate a corresponding increase in sales and marketing expenses. If our limited outbound sales force and lack of experience selling and marketing to large organizations prevents us from reaching larger organizations and growing our revenue, and if we are unable to hire, develop, and retain talented sales personnel in the future, our business, results of operations, and financial condition could be adversely affected.

We may expand sales to large organizations, which could lengthen sales cycles and result in greater deployment challenges.

As our business evolves, we may need to invest more resources into sales to large organizations. Large organizations may undertake a significant evaluation and negotiation process, which can lengthen our sales cycle. We may also face unexpected deployment challenges with large organizations or more complicated deployment of our platform. Large organizations may demand more configuration and integration of our platform or require additional security management or control features. We may spend substantial time, effort, and money on sales efforts to large organizations without any assurance that our efforts will produce any sales. Additionally, our ability to sell via an outbound sales force has been, and may continue to be, impeded by events, such as macroeconomic factors, tighter technology spending, layoffs at our potential customers, public health epidemics, and other catastrophic events. As a result, sales to large organizations may lead to greater unpredictability in our business, results of operations, and financial condition.

Any failure to offer high-quality customer support may harm our relationships with our users and our financial results.

We have designed our platform to be easy to adopt and use with minimal to no support necessary. Any increased user demand for customer support could increase costs and harm our results of operations. In addition, as we continue to grow our operations and support our global user base, we need to be able to continue to provide efficient customer support that meets our customers' needs globally at scale. Paying users receive additional customer support features and the number of our paying users has grown significantly, which will put additional pressure on our support organization. For example, the number of paying users has grown from 8.81 million as of December 31, 2016, to 17.90 million as of March 31, 2023. If we are unable to provide efficient customer support globally at scale, our ability to grow our operations may be harmed and we may need to hire additional support personnel, which could harm our results of operations. Our new user signups are highly dependent on our business reputation and on positive recommendations from our existing users. Any failure to maintain high-quality customer support, or a market perception that we do not maintain high-quality customer support, could harm our reputation, business, results of operations, and financial condition.

Our business depends on a strong brand, and if we are unable to maintain and enhance our brand, our ability to expand our base of users will be impaired and our business, results of operations, and financial condition will be harmed.

We believe that our brand identity and awareness have contributed to our success and have helped fuel our efficient go-to-market strategy. We also believe that maintaining and enhancing the Dropbox brand is critical to expanding our base of users. We anticipate that, as our market becomes increasingly competitive, maintaining and enhancing our brand may become increasingly difficult and expensive. Any unfavorable publicity or consumer perception of our platform or the providers of content collaboration solutions generally could adversely affect our reputation and our ability to attract and retain users. Additionally, if we fail to promote and maintain the Dropbox brand, our business, results of operations, and financial condition will be materially and adversely affected.

We are continuing to expand our operations outside the United States, where we may be subject to increased business and economic risks that could impact our results of operations.

We have paying users across approximately 180 countries and approximately half of our revenue in the year ended December 31, 2022 was generated from paying users outside the United States. We expect to continue to expand our international operations, which may include employees working in new jurisdictions and providing our platform in additional languages. Any new markets or countries into which we attempt to sell subscriptions to our platform may not be receptive. For example, we may not be able to expand further in some markets if we are unable to satisfy certain government- and industry-specific requirements. In addition, our ability to manage our business and conduct our operations internationally requires considerable management attention and resources and is subject to the particular challenges of supporting a rapidly growing business in an environment of multiple languages, cultures, customs, legal and regulatory systems, alternative dispute systems, and commercial markets. International expansion has required, and will continue to require, investment of significant funds and other resources. Expanding and operating internationally subjects us to regulatory, economic, geographic, social, and political risks and may increase risks that we currently face, including risks associated with:

- compliance with applicable international laws, regulations, and standards including laws and regulations with respect to labor and employment, privacy, data protection, cybersecurity, consumer protection, tax, export control and sanctions, and unsolicited email, and the risk of penalties to our users and individual members of management or employees if our practices are deemed to be out of compliance;
- recruiting and retaining talented and capable employees in locations outside the United States, and maintaining our company culture across all of our locations, including in light of our Virtual First work model and an increasingly distributed workforce;
- providing our platform and operating our business across a significant distance, in different languages and among different cultures, including the potential need to modify our platform and features to ensure that they are culturally appropriate and relevant in different countries;
- management of an employee base in jurisdictions that may not give us the same employment and retention flexibility as does the United States;
- operating in jurisdictions that do not protect intellectual property rights in the same manner or to the same extent as does the United States;
- compliance by us and our business partners with anti-corruption laws, import and export control laws, tariffs, trade barriers, economic sanctions, and other regulatory limitations on our ability to provide our platform in certain international markets;
- foreign exchange controls that might require significant lead time in setting up operations in certain geographic territories and might prevent us from repatriating cash earned outside the United States;
- political, social, and economic instability, conflicts, and wars, such as the conflict between Russia and Ukraine and its regional and global ramifications;
- changes in diplomatic and trade relationships, including the imposition of new trade restrictions, trade protection measures, import or export requirements, trade embargoes and other trade barriers;
- double taxation of our international earnings and potentially adverse tax consequences due to changes in the income and other tax laws of the United States or the international jurisdictions in which we operate;
- higher costs of doing business internationally, including increased accounting, travel, infrastructure, and legal compliance costs; and
- the impact of natural disasters and public health epidemics on employees, travel and the global economy.

If we continue to invest substantial time and resources to expand our operations internationally and are unable to manage these risks effectively, our business, financial condition, and results of operations could be adversely affected. In addition, continued international expansion may subject our business to broader economic, political, and other international risks, including economic volatility, security risks, and geopolitical conflicts. Further, compliance with laws, regulations, and

standards applicable to our global operations substantially increases our cost of doing business in international jurisdictions. We may be unable to keep current with changes in laws, regulations, or standards as they change. Although we have implemented policies and procedures designed to support compliance with these laws, regulations, and standards there can be no assurance that we will always maintain compliance or that all of our employees, contractors, partners, and agents will comply with the varying and sometimes conflicting laws, regulations and standards in all jurisdictions. Any violations could result in regulatory investigations and enforcement actions, fines, civil and criminal penalties, damages, injunctions, restrictions on our ability to conduct business, or reputational harm. If we are unable to comply with these laws and regulations or manage the complexity of our global operations successfully, our business, results of operations, and financial condition could be adversely affected.

We depend on our infrastructure and third-party datacenters, and any disruption in the operation of these facilities or failure to renew the services could adversely affect our business.

We host our services and serve all of our users using a combination of our own custom-built infrastructure that we lease and operate in co-location facilities and third-party datacenter services such as Amazon Web Services. While we typically control and have access to the servers we operate in co-location facilities and the components of our custom-built infrastructure that are located in those co-location facilities, we control neither the operation of these facilities nor our third-party service providers. Furthermore, we have no physical access or control over the services provided by Amazon Web Services.

Datacenter leases and agreements with the providers of datacenter services expire at various times. The owners of these datacenters and providers of these datacenter services may have no obligation to renew their agreements with us on commercially reasonable terms, or at all. Problems faced by datacenters, with our third-party datacenter service providers, with the telecommunications network providers with whom we or they contract, or with the systems by which our telecommunications providers allocate capacity among their users, including us, could adversely affect the experience of our users or result in unexpected increases in our costs. Our third-party datacenter operators could decide to close their facilities or cease providing services without adequate notice. In addition, any financial difficulties, such as bankruptcy, faced by our third-party datacenter operators or any of the service providers with whom we or they contract may have negative effects on our business, the nature and extent of which are difficult to predict.

If the datacenters and service providers that we use are unable to keep up with our growing needs for capacity, or if we are unable to renew our agreements with datacenters, and service providers on commercially reasonable terms, we may be required to transfer servers or content to new datacenters or engage new service providers, and we may incur significant costs, and possible service interruption in connection with doing so. Any changes in third-party service levels at datacenters or any real or perceived errors, defects, disruptions, or other performance problems with our platform could harm our reputation and may result in damage to, or loss or compromise of, our users' content. Interruptions in our platform might, among other things, reduce our revenue, cause us to issue refunds to users, subject us to potential liability, harm our reputation, or decrease our renewal rates.

We have relationships with third parties to provide, develop, and create applications that integrate with our platform, and our business could be harmed if we are unable to continue these relationships.

We use software and services licensed and procured from third parties to develop and offer our platform. We may need to obtain future licenses and services from third parties to use intellectual property and technology associated with the development of our platform, which might not be available to us on acceptable terms, or at all. Any loss of the right to use any software or services required for the development and maintenance of our platform could result in delays in the provision of our platform until equivalent technology is either developed by us, or, if available from others, is identified, obtained, and integrated, which could harm our platform and business. Any errors or defects in third-party software or services could result in errors or a failure of our platform, which could harm our business, results of operations, and financial condition.

We also depend on our ecosystem of developers to create applications that will integrate with our platform. As of December 31, 2022, Dropbox was receiving over 75 billion API calls per month, and just under 1,000,000 developers had registered and built applications on our platform. Our reliance on this ecosystem of developers creates certain business risks relating to the quality of the applications built using our APIs, service interruptions of our platform from these applications, lack of service support for these applications, and possession of intellectual property rights associated with these applications.

We may not have the ability to control or prevent these risks. As a result, issues relating to these applications could adversely affect our business, brand, and reputation.

Our use of open source software could negatively affect our ability to offer and sell subscriptions to our platform and subject us to possible litigation.

A portion of the technologies we use incorporates open source software, and we may incorporate open source software in the future. Open source software is generally licensed by its authors or other third parties under open source licenses. These licenses may subject us to certain unfavorable conditions, including requirements that we offer our platform that incorporates the open source software for no cost, that we make publicly available source code for modifications or derivative works we create based upon, incorporating or using the open source software, or that we license such modifications or derivative works under the terms of the particular open source license. Additionally, if a third-party software provider has incorporated open source software into software that we license from such provider, we could be required to disclose any of our source code that incorporates or is a modification of our licensed software. If an author or other third party that distributes open source software that we use or license were to allege that we had not complied with the conditions of the applicable license, we could be required to incur significant legal expenses defending against those allegations and could be subject to significant damages, enjoined from offering or selling our solutions that contained the open source software, and required to comply with the foregoing conditions. Any of the foregoing could disrupt and harm our business, results of operations, and financial condition.

Our ability to sell subscriptions to our platform could be harmed by real or perceived material defects or errors in our platform.

The software technology underlying our platform is inherently complex and may contain material defects or errors, particularly when first introduced or when new features or capabilities are released. We have from time to time found defects or errors in our platform, and new defects or errors in our existing platform or new software may be detected in the future by us or our users. There can be no assurance that our existing platform and new software will not contain defects. Any real or perceived errors, failures, vulnerabilities, or bugs in our platform could result in negative publicity or lead to data security, access, retention, or other performance issues, all of which could harm our business. The costs incurred in correcting such defects or errors may be substantial and could harm our results of operations and financial condition. Moreover, the harm to our reputation and legal liability related to such defects or errors may be substantial and could harm our business, results of operations, and financial condition.

We also utilize hardware purchased or leased and software and services licensed from third parties on our platform. Any defects in, or unavailability of, our or third-party software, services, or hardware that cause interruptions to the availability of our services, loss of data, or performance issues could, among other things:

- cause a reduction in revenue or delay in market acceptance of our platform;
- require us to issue refunds to our users or expose us to claims for damages;
- cause us to lose existing users and make it more difficult to attract new users;
- divert our development resources or require us to make extensive changes to our platform, which would increase our expenses;
- increase our technical support costs; and
- harm our reputation and brand.

We have acquired, and may in the future acquire, other businesses and technologies, which could require significant management attention, disrupt our business operations, cause us to incur debt or dilute stockholder value.

As part of our business strategy, we have acquired, and may in the future acquire, other companies, employee teams, or technologies to complement or expand our products, obtain personnel, or otherwise complement or grow our business. For example, in the fourth fiscal quarter of 2022, we acquired key assets from Boxcryptor, a provider of end-to-end "zero knowledge" encryption for cloud storage services, with plans to embed these capabilities natively within Dropbox to provide an additional layer of data protection for certain of our customers on paid plans. Additionally, in the fourth fiscal quarter of 2022, we acquired FormSwift, a cloud-based service that provides users the ability to create, edit, and save critical business forms and agreements.

The pursuit of acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating, and pursuing suitable acquisitions, whether or not they are consummated.

We may not be able to find suitable acquisition candidates and we may not be able to complete acquisitions on favorable terms, if at all, and even if we are able to identify suitable acquisition candidates, we may not be able to receive approval from the applicable competition authorities, or such target may be acquired by another company, including one of our competitors. If we do complete acquisitions, we may not ultimately strengthen our competitive position or achieve the anticipated benefits from such acquisitions, due to a number of factors, including:

- acquisition-related costs, liabilities, or tax impacts, some of which may be unanticipated;
- difficulty utilizing or integrating the acquired intellectual property, technology infrastructure, and operations;
- difficulty integrating and retaining key employees of acquired businesses and related challenges motivating and retaining our key employees after such acquisition;
- ineffective or inadequate, controls, procedures, or policies at an acquired business;
- inability to effectively offer, price, and support multiple product lines or services offerings of acquired businesses;
- potential unknown liabilities or risks associated with an acquired business, including those arising from existing contractual obligations, security vulnerabilities, cybersecurity incidents, or litigation matters;
- inability to maintain relationships with key customers, suppliers, and partners of an acquired business;
- failure to accurately forecast the financial impact of an acquisition transaction, including accounting charges;
- challenges integrating accounting, finance and forecasting practices of acquired business within our business;
- lack of experience in new markets, products or technologies;
- inability to effectively integrate brand identity of acquired businesses within those of our business;
- diversion of management's attention from other business concerns; and
- use of resources that are needed in other parts of our business.

We may have to pay a substantial portion of our available cash, incur debt, or issue equity securities to pay for any such acquisitions, each of which could affect our financial condition or the value of our capital stock. The sale of equity to finance any such acquisitions could result in dilution to our stockholders. If we incur more debt, it would result in increased fixed obligations and could also subject us to covenants or other restrictions that would impede our ability to flexibly operate our business.

In addition, we may not be able to integrate acquired businesses successfully or effectively manage the combined company following an acquisition. If we fail to successfully integrate acquisitions, or the people or technologies associated with those acquisitions, the results of operations of the combined company could be adversely affected. Any integration process will require significant time, resources, and attention from management, and disrupt the ordinary functioning of our business, and we may not be able to manage the process successfully, which could adversely affect our business, results of operations, and financial condition.

A significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill. We review goodwill for impairment at least annually. If our acquisitions do not yield expected returns, we may be required to record impairment charges based this assessment, which could adversely affect our results of operations.

Any acquisition we complete could be viewed negatively by users, developers, partners, or investors, and could have adverse effects on our existing business relationships, financial condition, or the value of our capital stock.

If we fail to address the foregoing risks or other problems encountered in connection with past or future acquisitions of businesses, new technologies, services and other assets, strategic investments or other transactions, or if we fail to successfully integrate such acquisitions or investments, or if we are unable to successfully complete other transactions or such transactions do not meet our strategic objectives, our business, results of operations and financial condition could be adversely affected.

Our current and future indebtedness may limit our operating flexibility or otherwise affect our business.

Our current indebtedness, including our 2026 Notes, 2028 Notes and our revolving credit facility, place significant restrictions on our business and could have important consequences to our stockholders and effects on our business, as could any future indebtedness.

For example, the terms of our revolving credit and guarantee agreement, as amended, contain a number of covenants that limit our ability and our subsidiaries' ability to, among other things, incur additional indebtedness, pay dividends, make redemptions and repurchases of stock, make investments, loans and acquisitions, create liens, engage in transactions with affiliates, merge or consolidate with other companies, or sell substantially all of our assets. We are also required to maintain certain financial covenants, including a consolidated leverage ratio incurrence covenant and a minimum liquidity balance.

In addition, such current and future indebtedness could:

- make it more difficult for us to satisfy our debt obligations, including the 2026 Notes and the 2028 Notes;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- restrict our current and future operations, make it more difficult to successfully execute our business strategy, or restrict us from exploiting business opportunities;
- place us at a competitive disadvantage compared to our competitors that have less indebtedness or are not subject to restrictive covenants;
- restrict or otherwise impact the pace and timing of repurchases under our stock repurchase program; and
- limit our availability to borrow additional funds for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy, or other general purposes.

Any of the foregoing could have a material adverse effect on our business, cash flows, results of operations, and financial condition.

Our operations may be interrupted and our business, results of operations, and financial condition could be adversely affected if we default on our leasing or credit obligations.

We finance a significant portion of our expenditures through leasing arrangements, and we may enter into additional similar arrangements in the future. As of December 31, 2022, we had an aggregate of \$1,157.6 million of commitments to settle contractual obligations. In particular, we utilize both finance and operating leases to finance some of our equipment, datacenters and offices. In addition, we may draw upon our revolving credit facility to finance our operations or for other corporate purposes. If we default on these leasing or credit obligations, our leasing partners and lenders may, among other things:

- require repayment of any outstanding lease obligations;
- terminate our leasing arrangements;
- terminate our access to the leased datacenters we utilize;
- stop delivery of ordered equipment;
- sell or require us to return our leased equipment;
- require repayment of any outstanding amounts drawn on our revolving credit facility;
- terminate our revolving credit facility; or

- require us to pay significant fees, penalties, or damages.

If some or all of these events were to occur, our operations may be interrupted and our ability to fund our operations or obligations, as well as our business, results of operations, and financial condition, could be adversely affected. In particular, if the debt under our revolving credit facility were to be accelerated, we may not have sufficient cash or be able to borrow sufficient funds to refinance the debt or sell sufficient assets to repay the debt, which could immediately materially and adversely affect our business, cash flows, results of operations, and financial condition. Even if we were able to obtain new financing, it may not be on commercially reasonable terms or on terms that are acceptable to us.

Risks Related to Our Financial Performance or Results

Our revenue growth rate has declined in recent periods and may continue to slow in the future.

Our rates of revenue growth have slowed and may continue to slow in future periods. Many factors may contribute to declines in our growth rates, including higher market penetration, increased competition, particularly from the availability of less expensive and bundled competitive products, slowing demand for our platform and declines in our rate of growth in paying users, a decrease in the growth of the overall content collaboration market, resource allocation across our business, including investments in new technologies or products that may not drive growth in the short term, a failure by us to continue capitalizing on growth opportunities, the impact of changing economic conditions, including as a result of catastrophic events, on our current and prospective paying users, fluctuations in foreign currency exchange rates, and the maturation of our business, among others. You should not rely on the revenue growth of any prior quarterly or annual period as an indication of our future performance. If our growth rates decline further, investors' perceptions of our business and the trading price of our Class A common stock could be adversely affected.

We have a history of net losses, we may increase expenses in the future, and we may not be able to achieve or maintain profitability.

Although we had been profitable on a GAAP basis in prior fiscal quarters, 2021 was our first profitable full fiscal year. We may, however, not achieve or maintain profitability in future periods, or, if we are profitable, we may not fully achieve our profitability targets. We incurred net losses on an annual basis from our inception through 2020. We generated net income of \$553.2 million and \$335.8 million during the years ended December 31, 2022 and 2021, respectively and we had an accumulated deficit of \$2,772.1 million as of March 31, 2023. As we strive to grow our business, expenses may increase, particularly as we continue to make investments to scale our business, reposition our products or respond to new technologies. For example, we will need an increasing amount of technical infrastructure to continue to satisfy the needs of our user base. Our research and development expenses may also increase as we plan to continue to hire employees for our engineering, product, and design teams to support these efforts. These investments may not result in increased revenue or growth in our business or our revenue may not grow to the extent we expect and expense growth may outpace revenue. Further, we have created mobile applications and mobile versions of Dropbox that are distributed to users primarily through app stores operated by Apple and Google, each of whom charge us in-application purchase fees. As a result, if more of our users subscribe to our products through mobile applications, these fees may have an adverse impact on our results of operations. In addition, although we anticipate that our shift to a Virtual First work model will have a long-term positive impact on our financial results and business operations, the impact remains uncertain. We have incurred impairment charges related to our facilities and may incur additional or unanticipated expense related to subleasing our facilities, including lower than anticipated sublease income that may result in additional or higher impairment charges than we have currently estimated, particularly if we are unable to sublease our unused office space on favorable terms or at all or if our subtenants fail to make lease payments to us in connection with our shift to a Virtual First model. We may also encounter unforeseen or unpredictable factors, including fluctuations in foreign currency exchange rates, unforeseen operating expenses, complications, or delays, which may result in increased costs, or cause us to generate less sublease income than we have currently estimated. Furthermore, it is difficult to predict the size and growth rate of our market, user demand for our platform or for any new features or products we develop, user adoption and renewal of our platform or of any new features or products we develop, the entry of competitive products and services, or the success of existing competitive products and services. As a result, we may not achieve or maintain profitability in future periods, or we may not otherwise achieve our goals related to profitability. If we fail to grow our revenue sufficiently to keep pace with our investments and other expenses, our results of operations and financial condition would be adversely affected.

Servicing our 2026 Notes and 2028 Notes may require a significant amount of cash, and we may not have sufficient cash flow or the ability to raise the funds necessary to satisfy our obligations under the 2026 Notes or 2028 Notes.

Our ability to make scheduled payments of the principal of, to pay interest on or to refinance our indebtedness, including the 2026 Notes and 2028 Notes, or to make cash payments in connection with any conversion of the 2026 Notes, 2028 Notes or upon any fundamental change if holders of the applicable series of notes require us to repurchase their notes for cash, depends on our future performance, which is subject to economic, financial, competitive and other factors beyond our control. Our business may not generate cash flow from operations in the future sufficient to service our indebtedness and make necessary capital expenditures. If we are unable to generate such cash flow, we may be required to adopt one or more alternatives, such as selling assets, restructuring indebtedness or obtaining additional equity capital on terms that may be onerous or highly dilutive. Our ability to refinance our indebtedness will depend on the capital markets and our financial condition at such time. We may not be able to engage in any of these activities or engage in these activities on desirable terms, which could result in a default on our debt obligations, which would materially and adversely impact our business, financial condition and operating results.

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

Our quarterly results of operations, including our revenue, gross margin, operating margin, profitability, cash flow from operations, and deferred revenue, may vary significantly in the future and period-to-period comparisons of our results of operations may not be meaningful. Accordingly, the results of any one quarter should not be relied upon as an indication of future performance. For example, while we have been profitable on a GAAP basis in prior fiscal quarters, our quarterly operating results have fluctuated in the past and will fluctuate in the future. Our quarterly results of operations may fluctuate as a result of a variety of factors, many of which are outside of our control, and as a result, may not fully reflect the underlying performance of our business. Factors that may cause fluctuations in our quarterly results of operations include, without limitation, those listed below:

- our ability to retain and upgrade paying users;
- our ability to attract new paying users and convert registered to paying users;
- the timing of expenses and recognition of revenue;
- the amount and timing of operating expenses related to the maintenance and expansion of our business, operations, and infrastructure, as well as entry into operating and finance leases;
- the timing of expenses related to acquisitions;
- any large indemnification payments to our users or other third parties;
- changes in our pricing policies or those of our competitors;
- the timing and success of new product feature and service introductions by us or our competitors;
- network outages or actual or perceived security breaches;
- changes in the competitive dynamics of our industry, including consolidation among competitors;
- changes in laws and regulations that impact our business;
- general economic and market conditions;
- fluctuations in foreign currency exchange rates;
- catastrophic events, including earthquakes, fires, floods, tsunamis, or other weather events, power loss, telecommunications failures, software or hardware malfunctions, cyber-attack, war, or terrorist attacks, and pandemics;
- changes in reserves or other non-cash credits or charges, such as the impairment charges as a result of adverse changes in the corporate real estate market which has impacted our subleasing strategy in conjunction with our shift to Virtual First, and releases of deferred tax asset valuation allowances; and

- any other impacts of shifting our operations to a Virtual First work model.

Fluctuation in quarterly results may negatively impact the value of our securities.

Our results of operations may not immediately reflect downturns or upturns in sales because we recognize revenue from our users over the term of their subscriptions with us.

We recognize revenue from subscriptions to our platform over the terms of these subscriptions. Our subscription arrangements generally have monthly or annual contractual terms, and we also have a small percentage of multi-year contractual terms. Amounts that have been billed are initially recorded as deferred revenue until the revenue is recognized. As a result, a large portion of our revenue for each quarter reflects deferred revenue from subscriptions entered into during previous quarters, and downturns or upturns in subscription sales, or renewals and potential changes in our pricing policies may not be reflected in our results of operations until later periods. Our subscription model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as subscription revenue from new users is recognized over the applicable subscription term. By contrast, a significant majority of our costs are expensed as incurred, which occurs as soon as a user starts using our platform. As a result, an increase in users could result in our recognition of more costs than revenue in the earlier portion of the subscription term. We may not attain sufficient revenue to maintain positive cash flow from operations or achieve profitability in any given period.

Our results of operations, which are reported in U.S. dollars, could be adversely affected if currency exchange rates fluctuate substantially in the future.

We conduct our business across approximately 180 countries around the world. As we continue to expand our international operations, we will become more exposed to the effects of fluctuations in currency exchange rates. This exposure is the result of selling in multiple currencies and operating in foreign countries where the functional currency is the local currency. In 2022, 27% of our sales were denominated in currencies other than U.S. dollars. Our expenses, by contrast, are primarily denominated in U.S. dollars. As a result, any increase in the value of the U.S. dollar against these foreign currencies has in the past and could in the future cause our revenue to decline relative to our costs, thereby decreasing our margins. Our results of operations are primarily subject to fluctuations in the Euro and British pound sterling. Because we conduct business in currencies other than U.S. dollars, but report our results of operations in U.S. dollars, we also face translation exposure to fluctuations in currency exchange rates, which could hinder our ability to predict our future results and earnings and could materially impact our results of operations. We do not currently maintain a program to hedge exposures to non-U.S. dollar currencies.

We are subject to counterparty risk with respect to the convertible note hedge transactions.

In connection with the pricing of the 2026 Notes and 2028 Notes, we entered into convertible note hedge transactions with certain financial institutions or affiliates of financial institutions, which we refer to as the “option counterparties,” and we will be subject to the risk that one or more of such option counterparties may default under the convertible note hedge transactions. Our exposure to the credit risk of the option counterparties will not be secured by any collateral. If any option counterparty becomes subject to insolvency proceedings, we will become an unsecured creditor in those proceedings with a claim equal to our exposure at that time under the convertible note hedge transaction. Our exposure will depend on many factors but, generally, the increase in our exposure will be correlated to the increase in the market price of our Class A common stock and in the volatility of the market price of our Class A common stock. In addition, upon a default by the option counterparty, we may suffer adverse tax consequences and dilution with respect to our Class A common stock. We can provide no assurance as to the financial stability or viability of any option counterparty.

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

As of December 31, 2022, we had federal, state, and foreign net operating loss carryforwards and federal and state research credit carryforwards available to reduce our future taxable income and/or tax liabilities. It is possible that we will not generate sufficient taxable income in time to use all of these net operating loss carryforwards and/or tax credits before their expiration. Under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, or the Code, if a corporation undergoes an “ownership change,” the corporation’s ability to use its pre-change net operating loss carryforwards and other pre-change attributes, such as research tax credits, to offset its post-change income may be limited. In general, an “ownership change” will occur if there is a cumulative change in our ownership by “5-percent stockholders” that exceeds 50 percentage points over a rolling three-year period. Similar rules and other limitations may apply under state tax laws. We have determined that we have experienced multiple ownership changes and, as a result, the annual utilization of our net operating loss carryforwards and other pre-change attributes will be subject to limitation. However, we do not expect that the annual limitations will significantly impact our ability to utilize our net operating loss or tax credit carryforwards prior to expiration.

Our operating results may be harmed if we are required to collect sales or other related taxes for our subscription services in jurisdictions where we have not historically done so.

We collect sales and value-added tax as part of our subscription agreements in a number of jurisdictions. One or more states or countries may seek to impose incremental or new sales, use, or other tax collection obligations on us, including for past sales by us or our resellers and other partners. A successful assertion by a state, country, or other jurisdiction that we should have been or should be collecting additional sales, use, or other taxes on our services could, among other things, result in substantial tax liabilities for past sales, create significant administrative burdens for us, discourage users from purchasing our platform, or otherwise harm our business, results of operations, and financial condition.

Our results of operations and financial condition could be materially affected by the enactment of legislation implementing changes in the U.S. or foreign taxation of international business activities or the adoption of other tax reform policies.

Due to the increasing focus by government taxing authorities on multinational companies, the tax laws of certain countries in which we do business could change on a prospective or retroactive basis or there could be changes in taxing jurisdictions' administrative interpretations, decisions, policies, and positions with respect to current law. Any such changes could increase our liabilities for taxes, interest and penalties, lead to higher effective tax rates, and harm our cash flows, results of operations and financial condition.

For example, many countries and the Organization for Economic Cooperation and Development ("OECD") have proposed to reallocate some portion of profits of large multinational companies with global revenues exceeding EUR20 billion to markets where sales arise ("Pillar One"), as well as enact a global minimum tax rate of at least 15% for multinationals with global revenue exceeding EUR750 million ("Pillar Two"), and many countries are considering or intend to adopt these proposals. In December 2022, the Council of the European Union ("EU") formally adopted the EU Minimum Tax Directive, which would require member states to adopt Pillar Two into their domestic law by December 31, 2023. In addition, the United States recently enacted the "Inflation Reduction Act" ("IRA"), which includes a 15% book-income alternative minimum tax for corporations with financial accounting profits over \$1 billion and a 1% excise tax on the value of certain stock repurchases by publicly traded corporations. The alternative minimum tax is not expected to have a material adverse impact on our business, results of operations, financial conditions, and cash flows; however, if we repurchase stock pursuant to our stock repurchase program or otherwise, the 1% excise tax on stock repurchases generally will increase the costs to us of such repurchases. Other changes to U.S. or non-U.S. tax laws could have an adverse impact on our business, results of operations, financial condition and cash flows.

We have publicly disclosed market opportunity estimates, growth forecasts, and key metrics, including the key metrics included in this Quarterly Report on Form 10-Q which could prove to be inaccurate, and any real or perceived inaccuracies may harm our reputation and negatively affect our business.

Market opportunity estimates and growth forecasts are subject to significant uncertainty and are based on assumptions and estimates that may not prove to be accurate. The estimates and forecasts we disclose relating to the size and expected growth of our target market may prove to be inaccurate. Even if the markets in which we compete meet the size estimates and growth we have forecasted, our business could fail to grow at similar rates, if at all. We also rely on assumptions and estimates to calculate certain of our key metrics, such as annual recurring revenue, paying users, average revenue per paying user and free cash flow. We regularly review and may adjust our processes for calculating our key metrics to improve their accuracy. Our key metrics may differ from estimates published by third parties or from similarly titled metrics of our competitors due to differences in methodology. If investors or analysts do not perceive our metrics to be accurate representations of our business, or if we discover material inaccuracies in our metrics, our reputation, business, results of operations, and financial condition would be harmed.

Risks Related to Legal and Regulatory Compliance

We are subject to a variety of U.S. and international laws that could subject us to claims, increase the cost of operations, or otherwise harm our business due to changes in the laws, changes in the interpretations of the laws, greater enforcement of the laws, or investigations into compliance with the laws.

We are subject to compliance with various laws, including those covering copyright, indecent content, child protection, consumer protection, and similar matters. There have been instances where improper or illegal content has been stored on our platform without our knowledge. As a service provider, we do not regularly monitor our platform to evaluate the legality of content stored on it. While to date we have not been subject to material legal or administrative actions as result of this content,

the laws in this area are currently in a state of flux and vary widely between jurisdictions. Accordingly, it may be possible that in the future we and our competitors may be subject to legal actions, along with the users who uploaded such content. In addition, regardless of any legal liability we may face, our reputation could be harmed should there be an incident generating extensive negative publicity about the content stored on our platform. Such publicity could harm our business and results of operations.

We are also subject to consumer protection laws that may impact our sales and marketing efforts, including laws related to subscriptions, billing, and auto-renewal. These laws, as well as any changes in these laws, could adversely affect our self-serve model and make it more difficult for us to retain and upgrade paying users and attract new ones. Additionally, we have in the past, are currently, and may from time to time in the future become the subject of inquiries and other actions by regulatory authorities as a result of our business practices, including our policies and practices around subscriptions, billing, auto-renewal, intermediary liability, privacy, and data protection. Consumer protection laws may be interpreted or applied by regulatory authorities in a manner that could require us to make changes to our operations or incur fines, penalties or settlement expenses, which may result in harm to our business, results of operations, and brand.

Our platform depends on the ability of our users to access the internet and our platform has been blocked or restricted in some countries for various reasons. For example, our platform is blocked in the People's Republic of China. If we fail to anticipate developments in the law, or fail for any reason to comply with relevant law, our platform could be further blocked or restricted and we could be exposed to significant liability that could harm our business.

We are also subject to various U.S. and international anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act, and Irish Criminal Justice (Corruption Offences) Act 2018, as well as other similar anti-bribery and anti-kickback laws and regulations. These laws and regulations generally prohibit companies and their employees and intermediaries from authorizing, offering, or providing improper payments or benefits to officials and other recipients for improper purposes. Although we take precautions to prevent violations of these laws, our exposure for violating these laws increases as we continue to expand our international presence and any failure to comply with such laws could harm our reputation and our business.

We are subject to export and import control laws and regulations that could impair our ability to compete in international markets or subject us to liability if we violate such laws and regulations.

We are subject to U.S. export controls and sanctions regulations that prohibit the shipment or provision of certain products and services to certain countries, governments, and persons targeted by U.S. sanctions. While we take precautions to prevent our products and services from being exported in violation of these laws, including implementing IP address blocking, we may have experienced violations in the past and we cannot guarantee that the precautions we take will prevent future violations of export control and sanctions laws. For example, in 2017, we discovered that our platform had been accessed by certain users in apparent violation of United States sanctions regulations. We filed an Initial Voluntary Self Disclosure in October 2017 with the Office of Foreign Assets Control, or OFAC, and a Final Voluntary Self Disclosure with OFAC in February 2018. In October 2018, OFAC notified us that it had completed its review of these matters and closed its review with the issuance of a Cautionary Letter. No monetary penalties were assessed with respect to the 2018 filing. If in the future we are found to be in violation of U.S. sanctions or export control laws, it could result in substantial fines and penalties for us and for the individuals working for us, particularly in light of warning letters we previously received from OFAC.

In addition, various countries regulate the import and export of certain encryption and other technology, including import and export permitting and licensing requirements, and have enacted laws that could limit our ability to distribute our products or could limit our users' ability to access our platform in those countries. Changes in our platform or client-side software, or future changes in export and import regulations may prevent our users with international operations from deploying our platform globally or, in some cases, prevent the export or import of our platform to certain countries, governments, or persons altogether. Any change in export or import regulations, economic sanctions or related legislation, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our platform by, or in our decreased ability to export or sell subscriptions to our platform to, existing or potential users with international operations. Any decreased use of our platform or limitation on our ability to export or sell our products would likely adversely affect our business, results of operations, and financial results.

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

We receive, store, process, and use personal information and other user content. Numerous federal, state, local, and international laws and regulations address privacy, data protection, information security, and the storing, sharing, use, processing, transfer, disclosure, and protection of personal information and other content, the scope of which are changing,

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

We also expect that there will continue to be new laws, regulations, and industry standards concerning privacy, data protection, and information security proposed and enacted in various jurisdictions. For example, in May 2018, the General Data Protection Regulation, or GDPR, went into effect in the EU. The GDPR imposed more stringent data protection requirements and provides greater penalties for noncompliance than previous data protection laws.

Additionally, although we have self-certified under the U.S.-EU and U.S.-Swiss Privacy Shield Frameworks with regard to our transfer of certain personal data from the European Economic Area ("EEA") and Switzerland to the United States, on July 16, 2020, the Court of Justice of the European Union ("CJEU") invalidated Decision 2016/1250 on the adequacy of the protection provided by the U.S.-EU Privacy Shield Framework, and on September 8, 2020, the Swiss Federal Data Protection and Information Commissioner announced that it no longer considers the U.S.-Swiss Privacy Shield adequate for the purposes of transfers of personal data from Switzerland to the U.S. While we rely on legal mechanisms to transfer data from the EEA, the United Kingdom, and Switzerland to the United States, there is some regulatory uncertainty surrounding the future of data transfers from these locations to the United States, and we are closely monitoring regulatory developments in this area. In its decision invalidating the U.S.-EU Privacy Shield Framework, the CJEU also imposed additional obligations on companies relying on standard contractual clauses approved by the European Commission ("SCCs") to transfer personal data. The CJEU decision may result in data protection regulators applying differing standards for, and requiring additional measures in connection with, transfers of personal data from the EEA and Switzerland to the United States. The European Commission issued revised SCCs in June 2021 that are required to be implemented. The revised SCCs and other developments relating to cross-border data transfer may require us to implement additional contractual and technical safeguards for any personal data transferred out of the EEA and Switzerland, which may increase our costs, lead to increased regulatory scrutiny or liability, necessitate additional contractual negotiations, and adversely impact our business, results of operations, and financial results.

Additionally, several states in the U.S. have enacted new data privacy laws. For example, the California Consumer Privacy Act of 2018 ("CCPA"), which affords consumers expanded privacy protections, went into effect on January 1, 2020. The California Privacy Rights Act ("CPRA"), effective as of January 1, 2023, significantly modified the CCPA, resulting in uncertainty and requiring us to incur additional costs and expenses. The enactment of the CCPA has prompted similar legislative developments in other states, such as Virginia, which in March 2021 enacted a Consumer Data Protection Act that went into effect January 1, 2023, Colorado, which in June 2021 enacted a Colorado Privacy Act that will go into effect July 1, 2023, Utah, which in March 2022 enacted a Utah Consumer Privacy Act that will go into effect July 1, 2023, Connecticut, which in May 2022 enacted a similar law, An Act Concerning Personal Data Privacy and Online Monitoring, which will go into effect July 1, 2023, and Iowa, which in March 2023 enacted an Act Relating to Consumer Data Protection, which will go into effect January 1, 2025. Similar laws are being considered by other state legislatures. These developments create the potential for a patchwork of overlapping but different state laws. The effects of the CCPA and these other laws remain far-reaching, and depending on final regulatory guidance and other related developments, may require us to modify our data processing practices and policies and to incur substantial costs and expenses in an effort to comply. Similarly, a number of legislative initiatives in the EEA and the United States, at both the federal and state level, as well as other jurisdictions have been proposed or enacted, and could impose new obligations in areas affecting our business. For example, on November 17, 2022, the Digital Services Act ("DSA") entered into force in the EU and includes new obligations to limit the spread of illegal content and illegal products online, increase the protection of minors, and provide users with more choice and transparency and allows for fines of up to 6% of annual turnover. The impacts of the DSA on the overall industry, business models and our operations are uncertain, and these regulations could result in changes to our subscriptions or introduce new operational requirements and administrative costs, each of which could have an adverse effect on our business, results of operations, and financial condition.

In addition, some countries are considering or have passed legislation implementing data protection requirements or requiring local storage and processing of data, or similar requirements, that could increase the cost and complexity of delivering our services.

With laws and regulations such as the GDPR in the EU and the CCPA in the U.S. imposing new and relatively burdensome obligations, and with substantial uncertainty over the interpretation and application of these and other laws and regulations, we may face challenges in addressing their requirements and making necessary changes to our policies and practices, and may incur significant costs and expenses in an effort to do so. Any failure or perceived failure by us to comply

with our privacy policies, our privacy-related obligations to users or other third parties, or any of our other legal obligations relating to privacy, data protection, or information security may result in governmental investigations, enforcement actions or other proceedings, litigation, claims, or public statements against us by consumer advocacy groups or others, and could result in significant liability or cause our users to lose trust in us, which could have an adverse effect on our reputation and business.

Furthermore, the costs of compliance with, and other burdens imposed by, the laws, regulations, and policies that are applicable to the businesses of our users may limit the adoption and use of, and reduce the overall demand for, our services. In addition to government regulation, self-regulatory standards and industry-specific regulations, other industry standards or requirements may legally or contractually apply to us or be argued to apply to us, or we may elect to comply with, or to facilitate our customers' compliance with, such regulations, standards, requirements, or other actual or asserted obligations. If we are unable or are perceived to be unable to comply with any of these regulations, standards, requirements, or other actual or asserted obligations, if we are unable to maintain certifications or standards relevant to our customers, or if our customers are unable to obtain regulatory approval to use our services where required, our business may be harmed. In addition, an inability to satisfy the standards of certain government agencies that our customers may expect may have an adverse impact on our business and results.

Additionally, if third parties we work with, such as vendors or developers, violate applicable laws or regulations or our policies, such violations may also put our users' content at risk and could in turn have an adverse effect on our business. Any significant change to applicable laws, regulations, or industry practices regarding the collection, use, retention, security, or disclosure of our users' content, or regarding the manner in which the express or implied consent of users for the collection, use, retention, or disclosure of such content is obtained, could increase our costs and require us to modify our services and features, possibly in a material manner, which we may be unable to complete, and may limit our ability to store and process user data or develop new services and features.

Our business could be adversely impacted by changes in internet access for our users or laws specifically governing the internet.

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

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

On June 11, 2018, the repeal of the Federal Communications Commission's, or FCC, "net neutrality" rules took effect and returned to a "light-touch" regulatory framework. The prior rules were designed to ensure that all online content is treated the same by internet service providers and other companies that provide broadband services. Additionally, California and a number of other states are considering or have enacted legislation or executive actions that would regulate the conduct of broadband providers. We cannot predict whether the FCC order or state initiatives will be modified, overturned, or vacated by legal action of the court, federal legislation, or the FCC. With the repeal of net neutrality rules in effect, we could incur greater operating expenses, which could harm our results of operations. As the internet continues to experience growth in the number of users, frequency of use, and amount of data transmitted, the internet infrastructure that we and our users rely on may be unable to support the demands placed upon it. The failure of the internet infrastructure that we or our users rely on, even for a short period of time, could undermine our operations and harm our results of operations.

In addition, there are various laws and regulations that could impede the growth of the internet or other online services, and new laws and regulations may be adopted in the future. These laws and regulations could, in addition to limiting internet neutrality, involve taxation, tariffs, privacy, data protection, content, copyrights, distribution, electronic contracts and other communications, consumer protection, and the characteristics and quality of services, any of which could decrease the demand for, or the usage of, our platform. Legislators and regulators may make legal and regulatory changes, or interpret and apply existing laws, in ways that require us to incur substantial costs, expose us to unanticipated civil or criminal liability, or cause us to change our business practices. These changes or increased costs could materially harm our business, results of operations, and financial condition.

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

We own a large number of patents, copyrights, trademarks, domain names, and trade secrets and, from time to time, are subject to litigation based on allegations of infringement, misappropriation or other violations of intellectual property, or other rights. As we face increasing competition and gain an increasingly high profile, the possibility of intellectual property rights claims, commercial claims, and other assertions against us grows. We have in the past been, are currently, and may from time to time in the future become, a party to litigation and disputes related to our intellectual property, our business practices, transactions involving our securities and our platform. For example, as discussed above in the section titled “Legal Proceedings,” we are currently involved in legal proceedings against Motion Offense, which allege that Dropbox infringes certain of its patents. Although we assert that Motion Offense’s allegations are without merit both because the asserted patents are invalid and because Dropbox does not infringe, it is not possible presently to either (i) determine the outcome of this matter or (ii) estimate any maximum possible exposure or range of possible loss. The costs of supporting litigation and dispute resolution proceedings are considerable, and there can be no assurances that a favorable outcome will be obtained. Our business, results of operations, and financial condition could be materially and adversely affected by such costs and any unfavorable outcomes in current or future litigation. We may need to settle litigation and disputes on terms that are unfavorable to us, or we may be subject to an unfavorable judgment that may not be reversible upon appeal. The terms of any settlement or judgment may require us to cease some or all of our operations or pay substantial amounts to the other party. With respect to any intellectual property rights claim, we may have to seek a license to continue practices found to be in violation of third-party rights, which may not be available on reasonable terms and may significantly increase our operating expenses. A license to continue such practices may not be available to us at all, and we may be required to develop alternative non-infringing technology or practices or discontinue the practices. The development of alternative, non-infringing technology or practices could require significant effort and expense.

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

We rely and expect to continue to rely on a combination of patents, patent licenses, trade secrets, domain name protections, trademarks, and copyright laws, as well as confidentiality and license agreements with our employees, consultants, and third parties, to protect our intellectual property and proprietary rights. In the United States and abroad, we have over 1,550 issued patents and more than 350 pending patent applications. However, third parties may knowingly or unknowingly infringe our proprietary rights, third parties may challenge our proprietary rights, pending and future patent, trademark, and copyright applications may not be approved, and we may not be able to prevent infringement without incurring substantial expense. We have also devoted substantial resources to the development of our proprietary technologies and related processes. In order to protect our proprietary technologies and processes, we rely in part on trade secret laws and confidentiality agreements with our employees, consultants, and third parties. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover our trade secrets, in which case we would not be able to assert trade secret rights, or develop similar technologies and processes. Further, laws in certain jurisdictions may afford little or no trade secret protection, and any changes in, or unexpected interpretations of, the intellectual property laws in any country in which we operate may compromise our ability to enforce our intellectual property rights. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights. If the protection of our proprietary rights is inadequate to prevent use or appropriation by third parties, the value of our platform, brand, and other intangible assets may be diminished and competitors may be able to more effectively replicate our platform and its features. Any of these events could materially and adversely affect our business, results of operations, and financial condition.

Risks Related to Ownership of Our Class A Common Stock

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

The trading price of our Class A common stock may be volatile and could be subject to fluctuations in response to various factors, some of which are beyond our control. Factors that could cause fluctuations in the trading 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 trading prices and trading volumes of technology stocks;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- sales of shares of our Class A common stock by us or our stockholders;
- failure of securities analysts to maintain coverage of us, changes in financial estimates by securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors;
- the financial projections we may provide to the public, any changes in those projections, or our failure to meet those projections;
- announcements by us or our competitors of new products, features, 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 results of operations or fluctuations in our results of operations;
- actual or anticipated changes in our key metrics;
- actual or anticipated developments in our business, our competitors' businesses or the competitive landscape generally;
- actual or perceived breaches of, or failures related to, privacy, data protection or data security;
- 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, products, services, or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations, or principles;
- any significant change in our management; and
- general economic conditions and slow or negative growth of our markets and catastrophic events, including earthquakes, fires, floods, tsunamis, or other weather events, power loss, telecommunications failures, software or hardware malfunctions, cyber-attack, war, such as the conflict between Russia and Ukraine, or terrorist attacks, and pandemics.

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 securities litigation that may be instituted against us in the future could result in substantial costs and a diversion of our management's attention and resources.

The multi-class structure of our common stock has the effect of concentrating voting control with those stockholders who held our capital stock prior to the completion of our IPO, and it may depress the trading price of our Class A common stock.

Our Class A common stock has one vote per share, our Class B common stock has ten votes per share, and our Class C common stock has no voting rights, except as otherwise required by law. As of March 31, 2023, our directors, executive officers and holders of more than 5% of our common stock, and their respective affiliates, held in the aggregate 82.5% of the voting power of our capital stock, with Mr. Houston holding approximately 74.7% of the voting power of our capital stock. We are including the Co-Founder Grant in this calculation since the shares underlying such grant are legally issued and outstanding shares of our Class A common stock and Mr. Houston is able to vote these shares prior to their vesting. Because of the ten-to-one voting ratio between our Class B and Class A common stock, the holders of our Class B common stock collectively will continue to control a majority of the combined voting power of our common stock and therefore be able to control all matters submitted to our stockholders for approval so long as the shares of Class B common stock represent at least 9.1% of all outstanding shares of our Class A and Class B common stock. This concentrated control will limit or preclude other stockholders' ability to influence corporate matters for the foreseeable future, including the election of directors, amendments of our organizational documents, and any merger, consolidation, sale of all or substantially all of our assets, or other major corporate transaction requiring stockholder approval. In addition, this may prevent or discourage unsolicited acquisition proposals or offers for our capital stock that other stockholders may feel are in their best interests as one of our stockholders.

Future transfers or sales by holders of Class B common stock will generally result in those shares converting to Class A common stock, except for certain transfers described in our amended and restated certificate of incorporation, including transfers effected for estate planning purposes where sole dispositive power and exclusive voting control with respect to the shares of Class B common stock is retained by the transferring holder and transfers between our co-founders. In addition, each outstanding share of Class B common stock held by a stockholder who is a natural person, or held by the permitted entities or permitted transferees of such stockholder (as described in our amended and restated certificate of incorporation), will convert automatically into one share of Class A common stock upon the death of such natural person. In the event of Mr. Houston's death or permanent and total disability, shares of Class B common stock held by Mr. Houston, his permitted entities or permitted transferees will convert to Class A common stock, provided that the conversion will be deferred for nine months, or up to 18 months if approved by a majority of our independent directors, following his death or permanent and total disability. The conversion of Class B common stock to Class A common stock will have the effect, over time, of increasing the relative voting power of those individual holders of Class B common stock who retain their shares in the long term.

In addition, because our Class C common stock carries no voting rights (except as otherwise required by law), if we issue Class C common stock in the future, the holders of Class B common stock may be able to elect all of our directors and to determine the outcome of most matters submitted to a vote of our stockholders for a longer period of time than would be the case if we issued Class A common stock rather than Class C common stock in such transactions.

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

The market price of our Class A common stock could decline as a result of a large number of sales of shares of such stock, and the perception that these sales could occur may also depress the market price of our Class A common stock, particularly if those sales are by our officers and directors and their affiliates.

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

Transactions relating to our 2026 Notes and 2028 Notes may dilute the ownership interest of stockholders, or may otherwise depress the price of our common stock.

If the 2026 Notes or the 2028 Notes are converted by holders of such series, we are required under the applicable indenture to pay cash up to the aggregate principal amount converted and pay or deliver, as the case may be, cash, Class A common stock, or any combination of cash or Class A common stock, at our election, in respect of the remainder, if any, of our conversion obligation in excess of the aggregated principal amount of such notes converted. If we elect to deliver any Class A common stock upon conversion of the 2026 Notes or the 2028 Notes with respect to our conversion obligation in excess of the aggregated principal amount of such notes converted, if any, it would dilute the ownership interests of existing stockholders. Any sales in the public market of the Class A common stock issuable upon such conversion could adversely affect prevailing market prices of our Class A common stock. In addition, certain holders of the 2026 Notes or the 2028 Notes may engage in short selling to hedge their position in the convertible notes. Anticipated future issuances of shares of our Class A common stock upon conversion of the 2026 Notes or 2028 Notes could depress the price of our Class A common stock.

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

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

- any transaction that would result in a change in control of our company requires the approval of a majority of our outstanding Class B common stock voting as a separate class;
- our multi-class common stock structure, which provides our holders of Class B common stock with the ability to significantly influence the outcome of matters requiring stockholder approval, even if they own significantly less than a majority of the shares of our outstanding Class A common stock, Class B common stock, and Class C common stock;
- when the outstanding shares of Class B common stock represent less than a majority of the total combined voting power of our Class A and Class B common stock, or the Voting Threshold Date, our Board of Directors will be classified into three classes of directors with staggered three-year terms, and directors will only be able to be removed from office for cause;
- until the Class B common stock, as a class, converts to Class A common stock, any amendments to our restated certificate of incorporation will require the approval of two-thirds of the combined vote of our then-outstanding shares of Class A common stock and Class B common stock; and following the conversion of our Class B common stock, as a class, to Class A common stock, certain amendments to our amended and restated certificate of incorporation will require the approval of two-thirds of our then outstanding voting power;
- our amended and restated bylaws will provide that approval of stockholders holding two-thirds of our outstanding voting power voting as a single class is required for stockholders to amend or adopt any provision of our bylaws;
- after the Voting Threshold Date our stockholders will only be able to take action at a meeting of stockholders, and will not be able to take action by written consent for any matter;
- until the Voting Threshold Date, our stockholders will be able to act by written consent only if the action is first recommended or approved by the Board of Directors;
- vacancies on our Board of Directors will be able to be filled only by our Board of Directors and not by stockholders;
- only the chairman of our Board of Directors, our chief executive officer, a majority of our Board of Directors, or, until the Class B common stock, as a class, converts to Class A common stock, a stockholder holding thirty percent of the combined voting power of our Class A and Class B common stock are authorized to call a special meeting of stockholders;
- certain litigation against us may be required to be brought in Delaware;
- our restated certificate of incorporation authorizes undesignated preferred stock, the terms of which may be established and shares of which may be issued, without the approval of the holders of Class A common stock; and
- advance notice procedures apply for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders.

These anti-takeover defenses could discourage, delay, or prevent a transaction involving a change in control of our company. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors of their choosing and to cause us to take other corporate actions they desire, any of which, under certain circumstances, could limit the opportunity for our stockholders to receive a premium for their shares of our capital stock, and could also affect the price that some investors are willing to pay for our Class A common stock.

Our amended and restated bylaws designate a state or federal court located within the State of Delaware as the exclusive forum for substantially all disputes between us and our stockholders, and also provide that the federal district courts will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act, each of which could limit our stockholders' ability to choose the judicial forum for disputes with us or our directors, officers, or employees.

Our amended and restated bylaws provide that, unless we consent in writing to the selection of an alternative forum, the sole and exclusive forum for (1) any derivative action or proceeding brought on our behalf, (2) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, or other employees to us or our stockholders, (3) any action arising pursuant to any provision of the Delaware General Corporation Law, or the certificate of incorporation or the amended and restated bylaws, or (4) any other action asserting a claim that is governed by the internal affairs doctrine shall be the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, the federal district court for the District of Delaware), in all cases subject to the court having jurisdiction over indispensable parties named as defendants.

Our amended and restated bylaws also provide that the federal district courts of the United States of America will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act, or a Federal Forum Provision.

Any person or entity purchasing or otherwise acquiring any interest in any of our securities shall be deemed to have notice of and consented to this provision. These exclusive-forum provisions may limit a stockholder's ability to bring a claim in a judicial forum of its choosing for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers, and other employees.

If we face relevant litigation and are unable to enforce these provisions, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could harm our results of operations.

We cannot guarantee that our stock repurchase program will be fully implemented or that it will enhance long-term stockholder value

In February 2020, our Board of Directors approved a stock repurchase program for the repurchase of up to \$600 million of the outstanding shares of our Class A common stock, in February 2021 our Board of Directors authorized the repurchase of up to an additional \$1 billion of the outstanding shares of our Class A common stock and in February 2022 our Board of Directors further authorized the repurchase of up to an additional \$1.2 billion of the outstanding shares of our Class A common stock. The repurchase program does not have an expiration date and we are not obligated to repurchase a specified number or dollar value of shares. Share repurchases will be made from time to time in private transactions or open market purchases, as permitted by securities laws and other legal requirements. Although we have previously announced an intention to allocate a significant portion of our free cash flow to share repurchases, any share repurchases remain subject to the circumstances in place at that time, including prevailing market prices. As a result, there can be no guarantee around the timing of our share repurchases, or that the volume of such repurchases will increase. In addition, as part of the IRA, the United States implemented a 1% excise tax on the value of certain stock repurchase by publicly traded companies. This tax will generally increase the costs to us of any share repurchases. The stock repurchase program could affect the price of our Class A common stock, increase volatility and diminish our cash reserves. Our repurchase program may be suspended or terminated at any time and, even if fully implemented, may not enhance long-term stockholder value.

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

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

General Risk Factors

Our business could be disrupted by catastrophic events.

Occurrence of any catastrophic event, including 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 or result in unexpected increases in our costs. Further, outbreaks of pandemic diseases, or the fear of such events, have resulted in responses, including government-imposed travel restrictions, grounding of flights, and shutdown

of workplaces. As a result, we are conducting business with substantial modifications, including modifications to employee travel and employee work locations. These modifications may disrupt important business operations, such as our product development and sales and marketing activities, and the productivity of our employees.

Additionally, our U.S. headquarters and some of the datacenters we utilize are located in the San Francisco Bay Area, a region known for seismic activity, and our insurance coverage may not compensate us for losses that may occur in the event of an earthquake or other significant natural disaster. In addition, acts of terrorism could cause disruptions to the internet or the economy as a whole. Even with our disaster recovery arrangements, our service could be interrupted. If our systems were to fail or be negatively impacted as a result of a natural disaster or other event, our ability to deliver products to our users would be impaired, we could lose critical data and we may be subject to increased costs. If we are unable to develop adequate plans to mitigate the impact of a disaster or to ensure that our business functions continue to operate during and after a disaster, and successfully execute on those plans in the event of a disaster or emergency, our business, results of operations, financial condition, and reputation would be harmed.

We may have exposure to greater than anticipated tax liabilities, which could adversely impact our results of operations.

We are subject to income taxes in the United States and various jurisdictions outside of the United States. Our effective tax rate could fluctuate due to changes in the mix of earnings and losses in countries with differing statutory tax rates. Our tax expense could also be impacted by changes in non-deductible expenses, changes in excess tax benefits of stock-based compensation, changes in the valuation of deferred tax assets and liabilities and our ability to utilize them, the applicability of withholding taxes and effects from acquisitions. In addition to introducing a new minimum corporate income tax on certain large corporations, and an excise tax of 1% on certain share repurchases by corporations, the recently enacted IRA increased funding for the Internal Revenue Service (“IRS”). Although we do not anticipate the new corporate minimum income tax will currently apply, changes in the business and pending regulations on the interpretation and application of the new corporate minimum tax may have adverse tax consequences for us. The excise tax on share repurchases applies to any repurchase of stock (including transactions deemed to be repurchases for U.S. income tax purposes) we undertake, which will generally increase the costs to us of any share repurchases.

We are subject to review and audit by U.S. federal, state, local, and foreign tax authorities. Such tax authorities may disagree with tax positions we take and if any such tax authority were to successfully challenge any such position, our financial results and operations could be materially and adversely affected. We may also be subject to additional tax liabilities due to changes in non-income-based taxes resulting from changes in federal, state, or international tax laws, changes in taxing jurisdictions’ administrative interpretations, decisions, policies, and positions, results of tax examinations, settlements or judicial decisions, changes in accounting principles, or changes to our business operations, including acquisitions, as well as the evaluation of new information that results in a change to a tax position taken in a prior period.

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

We are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and the rules and regulations of the applicable listing standards of the Nasdaq Global Select Market, or Nasdaq. We expect that the requirements of these rules and regulations will continue to increase our legal, accounting, and financial compliance costs, make some activities more difficult, time-consuming and costly, and place significant strain on our personnel, systems, and resources.

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

our internal control over financial reporting from our independent registered public accounting firm, we could be subject to investigations or sanctions by regulatory authorities and we could incur substantial expenses.

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

Our reported results of operations 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 Financial Accounting Standards Board, or 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 results of operations, and may even affect the reporting of transactions completed before the announcement or effectiveness of a change. It is difficult to predict the impact of future changes to accounting principles or our accounting policies, any of which could negatively affect our results of operations.

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

Historically, we have funded our operations and capital expenditures primarily through equity issuances, cash generated from our operations, and debt financing for capital purchases. Although we currently anticipate that our existing cash, cash equivalents and short-term investments, amounts available under our existing credit facilities, and cash flow from operations will be sufficient to meet our cash needs for the foreseeable future, we may require additional financing. We evaluate financing opportunities from time to time, and our ability to obtain financing will depend, among other things, on our development efforts, business plans, operating performance, and condition of the capital markets at the time we seek financing. We cannot assure you that additional financing will be available to us on favorable terms when required, or at all and, in light of macroeconomic challenges, inflation and increased interest rates, financing terms have become less favorable. If we raise additional funds through the issuance of equity or equity-linked or debt securities, those securities may have rights, preferences or privileges senior to the rights of our Class A common stock, and our stockholders may experience dilution.

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

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

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**Issuer Purchases of Equity Securities**

The following table presents information with respect to Dropbox's repurchases of Class A common stock during the quarter ended March 31, 2023.

Period	Total Number of Shares Purchased (in millions) ⁽¹⁾	Average Price Paid per Share ⁽²⁾	Total Number of Shares Purchased as Part of Publicly Announced Programs (in millions) ⁽¹⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under Publicly Announced Programs (in millions) ⁽¹⁾
January 1 - 31	2.28	\$ 22.84	2.28	\$ 695.72
February 1 - 28	2.42 ⁽³⁾	\$ 22.60	2.27	\$ 644.34
March 1 - 31	3.53	\$ 20.39	3.53	\$ 572.32
Total	8.23	\$ 21.70	8.08	

⁽¹⁾ On February 17, 2022, we announced that our Board of Directors authorized the repurchase of \$1.2 billion of the outstanding shares of our Class A common stock. Under this program, shares may be repurchased, subject to general business and market conditions and other investment opportunities, through open market purchases or privately held negotiated transactions, including through Rule 10b5-1 plans, in each case as permitted by securities laws and other legal requirements. The repurchase program does not have an expiration date. See Note 12 "Stockholders' Deficit" to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for additional information related to share repurchases.

⁽²⁾ Average price paid per share includes costs associated with the repurchases, excluding the 1% excise tax.

⁽³⁾ Includes 150,924 shares of restricted common stock withheld by the Company upon vesting of restricted stock awards to satisfy tax withholding requirements.

ITEM 6. EXHIBITS

We have filed the exhibits listed on the accompanying Exhibit Index, which is incorporated herein by reference.

EXHIBIT INDEX

Exhibit Number	Description	Form	File Number	Incorporated by Reference from Exhibit Number	Filed with SEC
31.1	Certification of Principal 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.				
31.2	Certification of Principal 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.				
32.1†	Certifications of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2023, formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statement of Operations, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Cash Flows, (v) Condensed Consolidated Statements of Stockholders' Deficit, and (vi) Notes to Unaudited Condensed Consolidated Financial Statements.				
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101).				

† 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 Dropbox, 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.

DROPBOX, INC.

Date: May 8, 2023

By: /s/ Andrew W. Houston
Andrew W. Houston
Chief Executive Officer
(Principal Executive Officer)

Date: May 8, 2023

By: /s/ Timothy J. Regan
Timothy J. Regan
Chief Financial Officer
(Principal Accounting and Financial Officer)

**CERTIFICATION OF PRINCIPAL 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, Andrew W. Houston, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Dropbox, 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)) 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) 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
 - (c) 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: May 8, 2023

DROPBOX, INC.

By: /s/ Andrew W. Houston
Name: Andrew W. Houston
Title: Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL 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, Timothy J. Regan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Dropbox, 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)) 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) 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
 - (c) 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: May 8, 2023

DROPBOX, INC.

By: /s/ Timothy J. Regan
Name: Timothy J. Regan
Title: Chief Financial Officer
(Principal Accounting and
Financial Officer)

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

I, Andrew W. Houston, 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 Dropbox, Inc. for the fiscal quarter ended March 31, 2023 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 Dropbox, Inc.

Date: May 8, 2023

By: /s/ Andrew W. Houston
Name: Andrew W. Houston
Title: Chief Executive Officer
(Principal Executive Officer)

I, Timothy J. Regan, 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 Dropbox, Inc. for the fiscal quarter ended March 31, 2023 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 Dropbox, Inc.

Date: May 8, 2023

By: /s/ Timothy J. Regan
Name: Timothy J. Regan
Title: Chief Financial Officer
(Principal Accounting and Financial Officer)