

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2021

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission File Number: 001-40526

**CONFLUENT, INC.**

(Exact name of Registrant as specified in its Charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

899 W. Evelyn Avenue  
Mountain View, California  
(Address of principal executive offices)

47-1824387  
(I.R.S. Employer Identification No.)

94041  
(Zip Code)

Registrant's telephone number, including area code: (800) 439-3207

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES  NO

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES  NO

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of the shares of common stock held by non-affiliates of the Registrant, based on the closing price of the Registrant's shares of common stock on the Nasdaq Global Select Market on June 30, 2021, was approximately \$1,307.9 million.

As of February 10, 2022, there were 118,836,804 shares of the registrant's Class A common stock and 154,111,671 shares of the Registrant's Class B common stock, each with a par value of \$0.00001 per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive Proxy Statement relating to the 2022 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the Registrant's fiscal year ended December 31, 2021.

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**SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K contains forward-looking statements about us and our industry that involve substantial risks and uncertainties. All statements other than statements of historical fact contained in this Annual Report on Form 10-K, including statements regarding our future results of operations and financial condition, business strategy and plans, and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements because they contain words such as “anticipate,” “believe,” “contemplate,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “should,” “target,” “toward,” “will,” “would,” or the negative of these words or other similar terms or expressions. These forward-looking statements include, but are not limited to, statements concerning the following:

- our expectations regarding our revenue, revenue mix, expenses, and other results of operations;
- our ability to acquire new customers and successfully retain existing customers;
- our ability to increase consumption of our offering and expand features and functionalities;
- our ability to achieve or sustain our profitability;
- future investments in our business, our anticipated capital expenditures, and our estimates regarding our capital requirements;
- the costs and success of our sales and marketing efforts and our ability to promote our brand;
- our growth strategies;
- the estimated addressable market opportunity;
- our reliance on key personnel and our ability to identify, recruit, and retain skilled personnel;
- our ability to effectively manage our growth, including international expansion;
- our ability to protect our intellectual property rights and any costs associated therewith;
- the effects of the COVID-19 pandemic or other public health crises;
- our ability to compete effectively with existing competitors and new market entrants; and
- the growth rates of the markets in which we compete.

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

Forward-looking statements are based on our management’s beliefs and assumptions and on information currently available. These forward-looking statements are subject to a number of known and unknown risks, uncertainties, and assumptions, including risks described in the section titled “Risk Factors” and elsewhere in this Annual Report on Form 10-K. Other sections of this Annual Report on Form 10-K may include additional factors that could harm our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time, and it is not possible for our management to predict all risk factors nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ from those contained in, or implied by, any forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. We cannot assure you that the events and circumstances reflected in the forward-looking statements will be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this report or to conform these statements to actual results or to changes in our expectations. You should read this Annual Report on Form 10-K and the documents that we reference in this Annual Report on Form 10-K and have filed as exhibits to this report with the understanding that our actual future results, levels of activity, performance, and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements.

### **Where You Can Find More Information**

Investors and others should note that we may announce material business and financial information to our investors using our Investor Relations website ([investors.confluent.io](http://investors.confluent.io)), our filings with the Securities and Exchange Commission (“SEC”), webcasts, press releases, public conference calls, and blogs published on our website. We use these mediums, including our website, to communicate with investors and the general public about our company, our products, and other issues. It is possible that the information that we make available on our website may be deemed to be material information. We therefore encourage investors and others interested in our company to review the information that we make available on our website.

We also use our Twitter, LinkedIn, and Facebook accounts as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. The information we post through these social media channels may be deemed material. Accordingly, investors should monitor these accounts, in addition to following our SEC filings, webcasts, press releases, public conference calls, and blogs published on our website. This list may be updated from time to time. The information we post through these channels is not a part of this Annual Report on Form 10-K. These channels may be updated from time to time on our investor relations website.

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

## PART I

### Item 1. Business

#### Overview

Confluent is on a mission to set data in motion. We have pioneered a new category of data infrastructure designed to connect all the applications, systems, and data layers of a company around a real-time central nervous system. This new data infrastructure software has emerged as one of the most strategic parts of the next-generation technology stack, and using this stack to harness data in motion is critical to the success of modern companies as they strive to compete and win in the digital-first world.

Our way of life has shifted to a digital-first paradigm, and the digital realm has become the new competitive battlefield in the global economy. In order to compete and win in today's world, organizations must continually innovate on software systems that are increasingly critical to how they do business.

Being digital-first is not just a matter of adding an application or automating an existing process. It is an end-to-end reimagining of business. It means creating rich, digital front-end customer experiences as a primary way of interacting with customers. It means transitioning to real-time, software-driven back-end operations as a business. In retail, this is the difference between accurate inventory tracking across multiple channels to ensure a consumer can have an up-to-date snapshot of what is actually in-store, versus leaving a consumer disappointed on arrival when the product that they thought was available is out-of-stock. In manufacturing, this is the difference between harnessing a real-time flow of data from IoT sensors to deliver predictive maintenance and reduce downtime, versus episodic, manual inspections of equipment.

This is a matter of life or death for companies. Tech disruptors are delivering rich, digital customer experiences and setting the standard for customer expectations. Businesses in every industry are in full mobilization to rebuild their businesses around the new experiences made possible with software and data. Organizations that get it right can experience stronger growth and improved customer loyalty and gain significant competitive advantage. Conversely, organizations that fail to deliver a real-time customer experience that is intuitive, informed, and reliable can expect frustration, dissatisfaction, and churn.

These innovations in front-end customer experiences and back-end business operations reflect a larger technology trend—the fundamental shift in the role of software in the modern organization. Today, software is no longer simply used as a set of applications to increase employee productivity (such as email and expense reporting). Instead, software is directly orchestrating customer experiences and operations that run the business. It is not just that companies are using more software—in a very real sense, they are actually becoming software.

Several waves of technology innovation have driven this changing role of software. Cloud has re-imagined infrastructure as code, making it easier than ever for developers to build applications. Mobile has extended enormous amounts of computing power to fit in the palms of our hands, making usage of technology ubiquitous in our lives. Meanwhile, machine learning is extending the scope and role of software to new domains and processes.

However, in order to complete this transition, another fundamental wave is required. The operation of the business needs to happen in real-time and cut across infrastructure silos. Organizations can no longer have disconnected applications around the edges of their business with piles of data stored and siloed in separate databases. These sources of data need to integrate in real-time in order to be relevant, and applications need to be able to react continuously to everything happening in the business as it occurs. To accomplish this, businesses need data infrastructure that provides connectivity across the entire organization with real-time flow and processing of data, and the ability to build applications that react and respond to that data flow. As companies increasingly become software, they need a central nervous system that connects all of their disparate software systems, unifying their business and enabling them to react intelligently in real-time.

Because of this, we believe that it is no longer enough for an organization to innovate based on the current paradigm of capturing data, storing it, and then querying or analyzing it. Organizations need a strategy, and a foundational data platform, to operate their business in real-time based on data as it is being generated in the moment. This idea of “data in motion” is at least as critical to the operations of a company as “data at rest,” and we believe the new generation of winning organizations will be defined by their ability to take action on it.

Traditional database technologies were not designed for data in motion, but architected for stored data at rest. Despite significant developments in the scalability and speed of analysis in both traditional and more modern databases (such as NoSQL, time-series, and graph databases), they remain limited to data-at-rest use cases and cannot harness data in motion. The leading open source offering for data in motion, Apache Kafka, was originally created by our founders at LinkedIn in 2011 and brought to the mainstream a new paradigm of data processing. However, this was only the beginning. Confluent was founded to create a product that could make data in motion the central nervous system of every company in the world.

Confluent is pioneering this fundamentally new category. Our offering is designed to act as the nexus of real-time data, from every source, allowing it to stream across the organization and enabling applications to harness it to power real-time customer experiences and data-driven business operations. Our offering can be deployed either as a fully-managed, cloud-native SaaS offering available on all major cloud providers or an enterprise-ready, self-managed software offering. Our cloud-native offering works across multi-cloud and hybrid infrastructures, delivering massive scalability, elasticity, security, and global interconnectedness, enabling agile development.

Our open source roots are a key driver of our go-to-market success. Apache Kafka has become the industry standard for data in motion. It is one of the most successful open source projects, estimated to have been used by over 70% of the Fortune 500. Modern applications are expected to integrate with Apache Kafka, and the technical skill set for Kafka has become a critical requirement in the industry. Confluent’s products provide the capabilities of Apache Kafka but do so on a platform built for the cloud, complemented by connectivity to the larger enterprise, and with the ability to process and govern at scale. The developer community understands the benefits of a complete platform for data in motion. Consequently, software developers within our prospective customers’ engineering or IT departments are often very familiar with our underlying technology and value proposition and evangelize on our behalf.

Confluent has built an operationalized customer journey, which we call our Data in Motion Journey, focused on data in motion that ties together product features, go-to-market efforts, and customer success capabilities, and helps take customers from their initial experiments with the technology to organization-wide adoption as one of their most critical data platforms. This starts by landing use cases in a high volume, low-friction manner while projects are still being conceived and the architecture of the solution is being designed. Awareness and use of our offering begin even before our sales efforts, given the widespread adoption of Apache Kafka by developers and the self-service adoption made possible with our cloud product and community downloads. Our enterprise sales force takes these initial engagements and helps users progress to production use cases and paying customers either on a pay-as-you-go model or with a committed contract. Once customers see the benefits of our product for their initial use cases, they often expand into other use cases and lines of business, divisions, and geographies. Our deep technical expertise, coupled with our product capabilities and laser focus on customer outcomes, enable us to form strategic partnerships with our customers on this journey. This expansion is helped by a natural network effect in which the value of our platform to a customer increases as more use cases are adopted, more applications and systems are connected, and more data is added. Over time, by enabling data in motion across the organization, Confluent can become the central nervous system for their entire organization, allowing data to be captured and processed as it is generated in real-time across hundreds of teams, systems, and applications throughout the company. This expansion effect is reflected by our dollar-based net retention rate as of December 31, 2021 of over 130%.

Our business has experienced rapid growth around the world. As of December 31, 2021, we had 734 customers with \$100,000 or greater in annual recurring revenue (“ARR”) across a wide range of industries, compared to 513 such customers as of December 31, 2020, representing year-over-year growth of 43%. Our revenue was \$387.9 million, \$236.6 million, and \$149.8 million in 2021, 2020, and 2019, respectively, representing year-over-year growth of 64% and 58%, respectively. Our Confluent Cloud revenue was \$94.2 million, \$31.4 million, and \$14.4 million in 2021, 2020, and 2019, respectively, representing year-over-year growth of 200% and 117% respectively. Our Confluent Platform revenue was \$252.9 million, \$177.2 million, and \$115.8 million in 2021, 2020, and 2019, respectively, representing year-over-year growth of 43% and 53%, respectively. In 2021, revenue from outside the United States accounted for 36% of our total revenue, coming from customers in over 100 countries. In 2021, 2020, and 2019, we incurred operating losses of \$339.6 million, \$233.2 million, and \$98.1 million, respectively, and our net loss was \$342.8 million, \$229.8 million, and \$95.0 million, respectively. As of December 31, 2021, we had an accumulated deficit of \$748.9 million.

## **Our Solution**

Confluent is pioneering a fundamentally new category of data infrastructure focused on data in motion for developers and enterprises alike. In order for enterprises to deliver rich customer experiences, it is critical for all of their business functions, departments, teams, applications, and data stores to have complete connectivity, be thoroughly integrated, and be able to analyze data as it is generated. Confluent is designed to be this intelligent connective tissue by having real-time data from multiple sources constantly streamed across an enterprise for real-time analysis.

Our offering enables organizations to deploy production-ready applications that run across cloud infrastructures and data centers, and scales elastically, with enhanced features for security and compliance. Our platform provides the capabilities to fill the structural, operational, and engineering gaps that are required for businesses to fully realize the power of data in motion. We enable software developers to easily build their initial applications to harness data in motion, and enable large, complex enterprises to make data in motion core to everything they do. As organizations mature in their adoption cycle, we enable them to build more and more applications that take advantage of data in motion. The results have a dual effect: businesses continuously improve their ability to provide better customer experiences and concurrently drive data-driven business operations. We believe that, over time, Confluent can become the central nervous system for modern digital enterprises, providing ubiquitous real-time connectivity and powering real-time applications across the enterprise.

Confluent’s solution can be deployed either as a fully-managed cloud-native SaaS offering available on-demand, Confluent Cloud, or an enterprise-ready, self-managed software offering, Confluent Platform.

A high-performance, low-latency infrastructure for harnessing data in motion requires operating wherever a customer’s applications and systems reside. Customers with applications in a particular cloud would use Confluent Cloud in that cloud provider and region. Customers with applications on premises, or on a private cloud, would use Confluent Platform in that data center. Customers with both on premises and cloud, or even multiple clouds, need Confluent in each of these environments. Together, these solutions can act as one unified fabric for data streams that connect all of these customer environments.

Our solution has three differentiated elements:

- **Cloud-Native.** Confluent offers true cloud functionality for data in motion. We offer a fully-managed, cloud-native service that is massively scalable, elastic, secure, and globally interconnected, enabling agile development. This is a completely different experience than what would result from taking on premise software and simply offering it on cloud virtual machines, which are virtualized environments that mimic the behavior of an on-premise experience in the cloud. It requires a feature set to enable elasticity and scalability that cuts right to the heart of the design of data systems. We had to completely re-architect the technologies underlying data in motion, including Apache Kafka, for the cloud to make a truly cloud-native offering. We offer a high-velocity, frictionless pay-as-you-go model, allowing developers to easily set up, experience, and see the value of Confluent while only being billed for what is used. The combination of these capabilities and features creates a compelling and simple solution for developers looking to build upon data in motion in the cloud and for enterprises looking for a secured, governed enterprise solution. With Confluent, developers and enterprises alike can focus on their applications and drive value without worrying about the operational overhead of managing data infrastructure.
- **Complete.** We created a complete platform for data in motion, by leveraging capabilities from open source Apache Kafka with our significant proprietary capabilities. Our technology moves and processes data concurrently, with specific tools such as ksqlDB, a native data-in-motion database that allows users to build data-in-motion applications using just a few SQL statements, as well as over 100 connectors. Our robust capabilities dramatically enhance developer productivity, increase ease of operations, and provide enterprise-level security, governance, resilience, and expertise in a complete platform, providing significant benefits over companies trying to build these complex features on their own.
- **Everywhere.** We have built a truly hybrid and multi-cloud offering. We can support customers in their cloud and multi-cloud environments, on-premises, or a combination of both. From early on, we recognized that the journey to the cloud is not overnight or simple, and in order for our customers to effectively digitally transform, they require a fundamental platform for data in motion that can integrate seamlessly across their entire technology environment. We offer this essential capability and enable organizations to seamlessly leverage data in motion across their public cloud, private cloud, and data center environments, ensuring total connectivity throughout an organization. For enterprises that are increasingly expanding internationally, Confluent's multi-cloud support also enables organizations to leverage data in motion across multiple data centers and providers, stretched around the world. For enterprises that want to be hybrid cloud, we are able to extract information from the entirety of their infrastructure, allowing us to act as the bridge that unites legacy systems in older environments with modern applications in the cloud. This ability to let customers embrace the new without having to fully replace everything that is old is a critical point of differentiation and a critical element in the cloud adoption strategy of many of our customers.

### Confluent Is Becoming the Central Nervous System of Organizations

As Confluent grows within an organization, the network effects we generate create even more value to the organization as a whole. By fundamentally re-architecting how data flows, we are able to replace complexity with simplicity, delays with real-time, and disparate data with a unified view across the modern enterprise software stack.

Most organizations start off with a complex mess of point-to-point connections between their applications, databases, and data warehouses. This is unavoidable when data is primarily at rest, held in storage across the organization, and requiring these connections to be built. Adopting a new technology to connect this mess would be prohibitively slow if there were not an underlying force driving this change. Fortunately, our platform has a unique network effect that helps speed its adoption. The first application that utilizes our platform generally does so for the capabilities in harnessing data in motion. In doing so, it brings into the platform the data streams needed for its usage. However, although these data streams are brought for one application, they are usable by all future applications and bring value to the entire ecosystem. As a result, future applications can connect to the platform to access these data streams, bringing with them their own data streams. As a result, there is a clear virtuous cycle: applications bring data streams, which in turn attract more applications.



As customers expand with our foundational platform, we set more and more data in motion across the organization and replace the various point-to-point connections with our complete platform. This means data can intelligently be made available in real-time to more and more of the organization as applications connect to a single platform. We are able to hold a highly strategic position to create greater value to existing applications and databases as data in motion across the entire organization begins to flow, be directed, and be processed through Confluent. We believe that this eventually leads to Confluent becoming the central nervous system of an organization, allowing data to be captured and processed as it is generated around the whole organization, enabling organizations to react intelligently in real-time.

## Key Benefits to Our Customers

Our platform delivers the following key business benefits to our customers:

- **Ability to Deliver Rich Customer Experiences and Data-Driven Business Operations.** The world is increasingly demanding applications that are responsive in real time to data in motion. By harnessing the power of data in motion, our customers can deliver differentiated customer experiences, such as suggesting the next show to watch in real time or providing live information on the status of a grocery order. Enterprises can also enable data-driven operations such as real-time, preventive maintenance, IoT analytics, and diagnostics.
- **Accelerated Time-to-Market.** Speed is essential for our customers, as they seek to disrupt established industries or innovate to fend off emerging disruptors. Our fully-managed cloud-native service enables our customers to start developing instantly, without any internal or external operational barriers. And, with the ability to pay-as-you-go, our customers can begin using Confluent without commitment or delay from internal procurement processes. Furthermore, our offering comes with a rich, pre-built ecosystem, making it simple, quick and efficient to integrate Confluent into the enterprise. This enables greater engineering organization efficiency and an accelerated time-to-market.
- **Reduced Total Cost of Ownership.** Confluent significantly reduces the operational barriers and costs associated with shifting to a data-in-motion architecture. Coupled with accelerated time to market, our customers benefit from both reduction in total cost of ownership as well as rapid ROI.
- **Freedom of Choice.** Confluent is hybrid and multi-cloud compatible so customers can deploy on premises or in the cloud. We recognize that enterprises have their data stored in many places and that an effective solution must be able to connect to various data sources.
- **Mission Critical Security and Reliability.** Confluent has enterprise-grade security and governance capabilities to provide confidentiality of critical information. We enable mission-critical reliability and resiliency, allowing data persistence, dynamic backing up of data across replicated partitions, fault-tolerance, and automated client failover.
- **Robust Developer Community.** Apache Kafka has an extremely robust developer community. It is one of the most successful open source projects, with more than 60,000 meet-up members across over 200 global meetup groups, estimated to have been used by over 70% of the Fortune 500. Confluent continues to add to open source Apache Kafka and has helped build an ecosystem of contributors. This means that developers outside of Confluent are building connectors, more functionality, and deploying patches to Apache Kafka while Confluent continues to also add features both to Apache Kafka and to Confluent's proprietary offering. This leads to a positive feedback loop as it strengthens the Apache Kafka offering, attracting more developers, who in turn further strengthen Apache Kafka, which benefits us, as users see the benefit of a data-in-motion platform, and the wider Apache Kafka community. In addition, we make available many features that we have developed at Confluent under our Confluent Community License, which means developers can access, benefit from, and modify the source code for such features, further increasing our reach and mindshare in the developer community.

## Our Growth Strategy

We are pursuing our substantial market opportunity with growth strategies that include:

- **Easy and Frictionless Land with Cloud Pay-As-You-Go.** Due to the cloud-native nature of Confluent Cloud, we are able to acquire new customers through a seamless and frictionless self-service motion. Customers can get started via our free cloud trial and easily convert online to become paying customers. Our cloud-native capabilities allow us to land customers at low entry points, with no commitment, and seamlessly expand via increased usage. We will continue to leverage our cloud-native differentiation to create an easy buying motion and drive our growth.
- **Continue our Focus on our Customer Growth Go-To-Market Model.** Our integrated Customer Growth Go-To-Market model is designed to drive business growth by mapping the customer journey from initial interest, to pilot, to first production project, to an integrated platform across the enterprise. We intend to develop our strategy of garnering customer signups, converting to paid customers, expanding through additional use cases and rapidly delivering customer value. We will continue to offer a range of services and training offerings, partnering with our customers to increase the value they realize from our solution and thereby increase their consumption of our offering.
- **Enterprise-Wide Expansion via Solutions Selling.** After acquiring a new customer, we seek to grow our footprint by solving additional use cases for that customer. Since we are a fundamental data infrastructure platform, the use cases we can address are wide-ranging, from industry-specific use cases such as real-time fraud detection for financial services and real-time customer insights for a retailer, to industry-agnostic use cases such as hybrid and multi-cloud development, security information and event management (SIEM) optimization, data warehouse modernization, accelerating cloud migration, or enabling microservices-based application development. We enjoy a powerful network effect as we enter organizations; once one application is connected to Confluent, our customers often connect other applications to that first application, which can result in a flywheel where Confluent can permeate the enterprise. We believe Confluent can become the central nervous system of modern enterprises at scale. Our dollar-based net retention rate of over 130% as of December 31, 2021 reflects our ability to rapidly demonstrate our value and address a vast array of use cases for our customers.
- **Extend our Product Leadership and Innovation.** We pioneered the category of harnessing the power of data in motion and are committed to innovating to extend our product leadership. We will continue to build out our platform, add more capabilities, build more applications, and invest in developing technology that increases developer productivity and promotes rapid customer success. From ksqlDB, which is a native data-in-motion database that allows users to build data-in-motion applications using just a few SQL statements, to Project Metamorphosis, where we delivered critical new cloud-native product features and capabilities every month from May 2020 to December 2020, we have continued to innovate and make it easier for any organization to harness data in motion.
- **Continue to Invest in the Open Source Community.** Our open source roots provide a large pool of targeted developers and enterprises who are interested in or have already adopted open source Apache Kafka. These developers are readily able to use and benefit from our cloud-native service or enterprise-ready software. We will continue to invest in delivering features to open source Apache Kafka in order to continue adding value to the Apache Kafka community, maintain our leadership standing in the new data-in-motion paradigm, and ensure that the open source benefits to our business continue.
- **Grow and Harness our Partner Ecosystem.** We have built a powerful partner ecosystem encompassing the major cloud providers, global and regional systems integrators, and ISVs. Our partners include AWS, Microsoft, GCP, Accenture, Alibaba, Elastic, IBM, MongoDB, and Snowflake. We intend to continue to invest in these relationships and build further partnerships to ensure our software is widely sold, distributed, and supported.

- **Expand Internationally.** We believe markets outside of the United States present a significant opportunity for additional growth of our business. During the year ended December 31, 2021, our international revenue represented 36% of our total revenue, coming from customers in over 100 countries. We expect to continue to make significant investments to support our growth in our existing international markets and in penetrating additional international markets.
- **Expand the Scope of our Platform with ksqlDB and Other Investments.** We believe that the rise of real-time stream processing of data in motion is still in the early stages of adoption. Our investment in ksqlDB positions us to succeed in this emerging area as it gains adoption with customers. This adoption is expected to lead to significant displacement of batch data processing on traditional databases and a corresponding shift in spend to data in motion technologies, such as Confluent. We believe our investment in ksqlDB positions us to capture this shift and use it to fuel further growth.
- **Grow Further Use Cases Up-The-Stack Leveraging our Strategic Position for Data in Motion.** Data in motion is a disruptive new platform technology, and as such there are countless use-case focused opportunities up the stack. As we grow into our role as a central nervous system within companies, we believe we have an incredibly strategic position from which to grow into use-case specific adjacencies that apply data in motion. We see the potential for broad, cross-industry customer adoption of use cases around machine learning, IoT, data integration, real-time analytics, real-time logistics, customer data unification, cloud migration, microservices, data sharing, as well as countless others. We believe we are strategically positioned to understand what these use cases are when reimagined around data in motion and to partner and/or build pre-packaged solutions purpose-built for these use cases.

## Our Product Offering

Our software offering provides a complete solution for working with data in motion, including the ability to read, write, store, capture, validate, secure, and process continuous streams of data. It also has features designed to fulfill the requirements of modern cloud infrastructure: it is a modern distributed system built to be secure, fault tolerant, and scalable elastically from a single application to hundreds or thousands of applications within an organization. Our software can be consumed in two ways, Confluent Cloud and Confluent Platform, that our customers can leverage independently or together. Regardless of where our customers have their technology environments, we are able to deliver an integrated platform for data in motion that can become their central nervous system.

- **Confluent Cloud is our fully-managed cloud-native offering**, available on all of the major cloud providers (AWS, GCP, and Microsoft Azure). Confluent Cloud is offered to our customers via a pay-as-you-go model with no commitment, or via an annual, or multi-year, subscription model where customers draw down upon a committed dollar amount. Key attributes of Confluent Cloud include:
  - **Serverless.** Confluent Cloud offers self-serve provisioning with no complex cluster sizing, zero downtime, upgrades and bug fixes, elastic scaling, and the ability for customers to pay only for what they actually use.
  - **Complete.** Confluent Cloud offers data compatibility with fully-managed Schema Registry, rapid development through fully-managed connectors, real-time processing with fully-managed ksqlDB, virtually infinite data retention, and committer-led support with contractual response times of 60 minutes or less for severe-impact issues.
  - **Flexible.** Confluent Cloud offers the ability to build a persistent bridge from on-premises to cloud, and the ability to stream across public clouds for multi-cloud data pipelines.
  - **Highly Available.** Confluent Cloud offers a guaranteed 99.95% uptime SLA, ability to scale to 10s of GBps with dedicated capacity, ability to achieve sub 30ms latency at scale, and multi availability-zone (AZ) replication.

- *Secure.* Confluent Cloud offers at-rest and in-transit data encryption, SAML/SSO for user authentication, private networking via VPC peering or AWS Transit Gateway, and monitoring visibility with topic- and cluster-level metrics.
- **Confluent Platform is our enterprise-grade self-managed software offering**, able to be deployed on-premises as well as across public and private cloud environments. Confluent Platform is offered to our customers via an annual or multi-year subscription. Key attributes of Confluent Platform include:
  - *Unrestricted Developer Productivity.* Confluent Platform offers developers the ability to build across multiple development languages, utilize a rich pre-built ecosystem of over 100 connectors, and benefit from a fully integrated data-in-motion database.
  - *Efficient Operations at Scale.* Confluent Platform enables our customers to minimize operational complexity while ensuring high performance and scalability.
  - *Production-Stage Prerequisites.* Confluent Platform offers foundational enterprise-level features needed to implement data in motion in production.
  - *Freedom of Choice.* Confluent Platform can be deployed on-premises or in public or hybrid cloud environments.

Our offering provides a full set of features and functionality to enable adoption of data in motion throughout an organization. Key features include:

- **Rich Pre-Built Ecosystem**
  - *Over 100 Pre-Built Connectors.* We develop and work with partners who develop enterprise-ready connectors to easily integrate data and build applications. Connectors are supported by either Confluent or our partners.
  - *ksqlDB.* ksqlDB is a database that unifies the processing of data in motion and data at rest. This enables customers to build applications that compute new stored data sets off continuous data streams or enrich data streams with stored data. It translates the near-universal SQL interface of traditional databases to the world of data in motion, making it accessible for the vast majority of software developers with minimal learning time.
  - *Schema Registry.* Schema Registry is a central repository with a RESTful interface for developers to define standard schemas and register applications to enable compatibility.
- **Management, Monitoring, and Global Resilience**
  - *Confluent Control Center (C3).* Offers a simple way to manage and monitor data in motion as it scales across the enterprise. Control Center is a web-based graphical user interface to understand the data-in-motion environment, meet SLAs, and control key components of the data-in-motion platform.
  - *Multi-Region Clusters.* Multi-Region Clusters automate disaster recovery, allowing customers to run a single cluster across multiple data centers and automate disaster recovery with operational simplicity.
  - *Cluster and Schema Linking.* Cluster and Schema Linking enable customers to consistently geo-replicate data, making it easy to create a seamless and persistent bridge from Confluent Platform in on-premises environments to Confluent Cloud.
- **Dynamic Performance and Elasticity**
  - *Self-Balancing Clusters.* Self-Balancing Clusters automate partition rebalances to optimize throughput, accelerate broker scaling, and reduce the operational burden of managing a large cluster. Partition rebalances are completed quickly and without any risk of human error.

- *Tiered Storage.* Tiered Storage allows deployments to recognize two tiers of storage: local disks and cost-efficient object stores (Amazon S3 or GCP Storage). Brokers can offload older topic data to object storage, enabling virtually infinite retention.
- *Scalability.* Confluent offers the ability to scale to trillions of events as well as scale across business units in order to become an enterprise standard.
- **Enterprise-Grade Security**
  - *Structured Audit Logs.* Structured Audit Logs capture authorization logs in a set of dedicated topics, on a local or a remote cluster.
  - *Role-based Access Control (RBAC).* RBAC is a centralized implementation for secure access to resources with fine-tuned granularity and platform-wide standardization. Customers can control permissions by users/groups to clusters, topics, consumers groups, and even individual connectors.
  - *Stream Governance.* Confluent's Stream Governance capabilities enable customers to maintain enterprise-grade cloud security and compliance, including the ability to increase collaboration with self-service data discovery and understand complex data relationships.
- **Data Compatibility and DevOps Automation**
  - *Schema Validation.* Schema Validation provides a direct interface between the broker and Schema Registry to validate and enforce schemas programmatically. Schema Validation can be configured at the topic level.
  - *Confluent Operator.* Confluent Operator simplifies running Confluent Platform as a cloud-native system on Kubernetes, whether on-premises or in the cloud. It delivers an enterprise-ready implementation of the Kubernetes Operator API to automate deployment and key lifecycle operations.

Our offering is designed to serve as fundamental data infrastructure for our customers and solve an enormous variety of use cases across both front-end customer experiences and back-end business operations.

In addition to our core offering, we offer several services offerings:

- **Professional Services.** Professional Services provides expertise and tools that help our customers accelerate platform adoption and achieve successful business outcomes. We offer packaged and residency offerings focused on helping customers plan, implement, manage/monitor, and optimize their platform and applications.
- **Education.** Our offering includes training and certification guidance, technical resources, and access to hands-on training and certification exams. Education offerings are targeted at different types of users and delivery modalities to suit end customer needs. We have instructor-led training, self-paced on-demand courses, and certification.
- **Certification Program.** Technical expertise in data in motion is highly sought after and a highly-paid skill set. Our certification program enables technical personnel to demonstrate and validate in-depth knowledge of data in motion.

## **Our Licensing**

Our software products are protected by our licensing policies, which include our full proprietary license as well as our community license, which restricts others from offering our technology as a competing SaaS offering.

Instead of opting for a traditional “open core” model, our core offering (Confluent Server) is substantially differentiated from Apache Kafka and was fundamentally re-architected to operate at cloud-scale, while being interoperable with existing Apache Kafka systems.

Our Confluent Community License makes available many features that we have developed at Confluent. This gives developers the functionality needed to get started with Confluent, but excludes some of the core features of our commercial platform. Developers can access and modify the source code for such features but cannot take these features and use them to provide a competing SaaS offering.

We focus on converting Confluent Community License users to paying customers by demonstrating the value of the fully-managed Confluent Cloud offering and the self-managed Confluent Platform offering, where developers get proprietary features such as Confluent control center, Confluent operator, self-balancing clusters, tiered storage, structured audit logs, RBAC, schema validation, and multi-region clusters, as described in “—Our Product Offering” above.

## **Sales and Marketing**

In order to fully capitalize on our large market opportunity, our sales and marketing teams are tightly integrated to execute upon a cohesive go-to-market motion. The sales and marketing teams prioritize the core value of driving customer success and value in all strategies to acquire new customer accounts and grow our presence within existing customer accounts.

Our Customer Growth Go-To-Market model is centered around the Data in Motion Journey, from initial interest, to pilot, to first production project, to an integrated platform across the enterprise. Through mapping to the customer journey, we are able to drive customer value in a highly targeted manner.

Our strategy to expand within accounts has two fundamental aspects: first, to convert additional pockets of Apache Kafka interest and deployments within a given customer into a Confluent deployment, and second, to expand into additional use cases within a given customer through solutions selling with horizontal and vertical solutions. We believe there is a strong opportunity for growth as we solve a wide array of use cases.

Our focus on customer success is critical to our sales and marketing success. We offer a wide range of training, professional services, education, and support offerings to enable our customers to rapidly onboard, adopt, and ultimately realize value from data in motion.

Partnerships with the leading cloud providers (AWS, Azure, and GCP), as well as global and regional systems integrators and technology ISVs (IBM, MongoDB, Elastic, and Snowflake) are also central to our sales and marketing strategy. We believe through these partnerships we will significantly expand the reach of our technology.

We believe in offering the ability for customers to engage with us in the manner best suited to them. We offer a fully self-service motion, where developers can learn and purchase in a completely online manner. We offer direct sales engagement, where customers can interact with experienced and knowledgeable field teams. We also offer the ability to engage and transact through our partner ecosystem, including the major cloud provider marketplaces, system integrators, technology ISVs, and resellers.

Our open source roots are a key driver to our go-to-market success. The expansive Apache Kafka technical community is fervently devoted to this technology, and often advocates for our technology even when we are not engaged in an organization. They see the value of Apache Kafka and the opportunity to benefit from a complete platform for data in motion with Confluent. Consequently, our prospective customers are often very familiar with our underlying technology and value proposition, and are capable of evangelizing on our behalf.

Executive-level engagements are also a key facet of our growth strategy. As our customer engagements progress from project to platform to enterprise-wide deployments, our customer relationships often include business as well as technology leaders. Through this wide set of customer relationships, we believe we will be more rapidly able to evolve into enterprise-wide customer deployments.

## Research and Development

Our research and development efforts are focused on enhancing our platform features and functionalities and expanding the services we offer to increase market penetration and deepen our relationships with our customers. We believe that the timely development of new, and the enhancement of our existing, platform features and services is essential to maintaining our competitive position. We continually incorporate feedback and new use cases from our community and customers into our platform. Our development teams foster greater agility, which enables us to develop innovative products and make rapid changes to our technologies that increase resiliency and operational efficiency.

## Competition

Our market is highly competitive and characterized by rapid changes in technology, customer needs, frequent introductions of new offerings, and improvements to existing service offerings.

Our primary competition, especially on premise, is internal IT teams that are attempting to “do it themselves” using open source software. Our offering is substantially differentiated from Apache Kafka, and therefore companies using only open source tools do not benefit from our full product offering. As the move to the cloud increases, we expect that competition from open source alternatives will decrease as companies increasingly adopt fully-managed cloud solutions.

Our principal competitors in the cloud are the well-established public cloud providers such as AWS that generally compete in all of our markets. These enterprises are developing and have released fully-managed, data ingestion, and data streaming products, such as Azure Event Hubs (Microsoft Corporation), Amazon Managed Streaming for Apache Kafka, Amazon Kinesis and Amazon DynamoDB Streams (AWS), and Cloud Pub/Sub and Cloud Dataflow (Google).

On premise there are a number of vendors with legacy products that have pivoted into this space including TIBCO Streaming, Cloudera Dataflow, Redhat (IBM) AMQ Streams, and Oracle Cloud Infrastructure Streaming.

We believe the principal competitive factors for companies in our industry include the following:

Focus on data in motion, characterized by:

- the ability to provide an end-to-end operationalized customer journey;
- mindshare and ability to drive innovation in the category of data in motion; and
- the ability to support customers at scale with mission critical use cases.

Product differentiation, characterized by:

- Cloud-native capabilities
  - operate at significant scale;
  - offer elasticity;
  - offer end-to-end security; and
  - offer flexible pricing, including pay-as-you-go delivery.

- Completeness of offering
  - a complete platform for data in motion (not just low-level streaming);
  - rich SQL-based stream processing;
  - integrated data governance capabilities; and
  - ease of integration with connectors to a wide variety of existing applications and IT and cloud infrastructure.
- Availability of offering
  - as a fully-managed service in the three leading public clouds;
  - as a Kubernetes-based software offering for the private cloud;
  - in legacy on-premise data centers as a software product; and
  - ability to span all of these customer environments in one unified data-in-motion platform.

General competitive factors, including:

- size of customer base and level of market adoption;
- price and total cost of ownership;
- brand awareness and reputation;
- quality of professional services and customer support;
- strength of sales and marketing efforts; and
- adherence to industry standards and certifications.

On the basis of the factors above, we believe that we compare favorably to our competitors. However, some of our actual and potential competitors have advantages over us, such as substantially greater financial, technical, and other resources, including larger sales forces and marketing budgets, greater brand recognition, broader distribution networks and global presence, longer operating histories, more established relationships with current or potential customers and commercial partners, and more mature intellectual property portfolios. They may be able to leverage these resources to gain market share and prevent potential customers from purchasing our products. Additionally, we expect the industry to attract new entrants, who could compete with our business and introduce new offerings. As we scale and expand our business, we may enter new markets and encounter additional competition.

## **Our Employees and Human Capital Resources**

### ***Our Community***

Our employees are the power behind our innovation and the foundation of our business. Investing in our people is always a top priority and we constantly strive to enhance and advance our culture and community. As of December 31, 2021, we had 1,981 employees distributed across 21 countries. 67% of our employees at that time were located within the United States. Some individual employees outside of the United States may be members of trade unions or participate in staff representative bodies, including in France where we have assisted employees in forming a Social Economic Committee as required by local law.



## ***Culture and Values***

Culture is about how all employees at Confluent work together to get things done. Each part of the company has distinct norms and practices that are specific to what they do. But across Confluent, we share attributes of a common company culture that help us agree on how we will interact as a group, who we hire and help determine what kind of behavior is rewarded. Our six core values are:

- Earn Our Customers' Love
- To Build a Great Company, Build a Great Team
- Be Smart, Humble, and Empathetic
- Be Fired Up and Get Stuff Done
- Be Tasteful, Not Wasteful
- One Team

## ***Engagement***

We conduct regular, anonymous engagement surveys to help us understand the employee experience, maintain a real-time pulse on employee engagement, and continuously action areas of opportunity as an organization. It is a quick way for management to see trends in engagement and progress on action plans. By continuing to lift our engagement, we can impact retention and attraction of top talent to Confluent.

## ***Learning and Development***

We strive to provide a culture of curiosity and learning where employees can try new things and continually grow and develop. We offer a variety of resources to support this, including quarterly manager check-ins to facilitate development conversations, an on-demand e-learning platform and ongoing learning programs delivered by our Learning and Development team.

## ***Compensation and Benefits***

We aim to provide compensation and benefits that are equitable, competitive, and meet the diverse needs of our global workforce. We believe it is an important factor for our employees to have a stake in our success, which is why our total compensation packages include both cash and equity components for most levels.

In addition to our standard suite of health, dental, retirement, and paid time off benefits, we have renewed our focus on employee wellness in response to the COVID-19 pandemic. These efforts included the introduction of new employee counseling resources through enhanced medical benefits, a more robust employee assistance program, launching a fertility benefit, and increasing our paid parental leave program. We also introduced team "recharge days" to allow employees three workdays per quarter to truly unplug and focus their full attention on personal pursuits including health, family, and wellbeing.

While Confluent has been remote-friendly from the start, since March 2020, many of our employees have been working remotely and we expect to continue that practice even as our offices reopen. We believe that our continued investments in our remote-first model will enable us to attract top talent and provide employees the flexibility they increasingly seek.

### ***Diversity and Inclusion***

We are committed to the principles of fairness and equality. We believe that this commitment makes us a stronger, more vibrant, and more innovative company. We seek to build an environment where every employee, regardless of background, identity, or life experience, has an equal opportunity to grow and thrive.

### **Intellectual Property**

Intellectual property rights are important to the success of our business. We rely on a combination of copyright, trademark, trade secret laws and patents in the United States and other jurisdictions, as well as license agreements, confidentiality procedures, non-disclosure agreements with third parties, and other contractual protections, to protect our intellectual property rights, including rights in our proprietary technology, software, know-how and brand. We use open source software in our offering.

As of December 31, 2021, we hold two U.S. patents and have no patent applications or non-U.S. patents. The patents are scheduled to expire in 2037. As of December 31, 2021, we own three registered trademarks in the United States, one trademark application pending in the United States, 17 registered trademarks in various non-U.S. jurisdictions, and 15 trademark applications pending in various non-U.S. jurisdictions.

Although we rely on intellectual property rights, including contractual protections, to establish and protect our intellectual property rights, we believe that factors such as the technological and creative skills of our personnel, creation of new services, features and functionality, and frequent enhancements to our platform are essential to establishing and maintaining our technology leadership position.

We control access to and use of our proprietary technology and other confidential information through the use of internal and external controls, including contractual protections with employees, contractors, customers, and partners. We require our employees, consultants, independent contractors, and other third parties to enter into confidentiality and proprietary rights agreements and we control and monitor access to our software, documentation, proprietary technology, and confidential information. Our policy is to require all employees, consultants, and independent contractors to sign agreements assigning to us any inventions, trade secrets, works of authorship, developments, processes, and other intellectual property generated by them on our behalf and under which they agree to protect our confidential information. In addition, we generally enter into confidentiality agreements with our customers and partners. See the section titled “Risk Factors” for a more comprehensive description of risks related to our intellectual property.

### **Available Information**

Our website address is [www.confluent.io](http://www.confluent.io). Information found on, or accessible through, our website is not a part of, and is not incorporated into, this Annual Report on Form 10-K. We file electronically with the SEC our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. We make available on our website at [www.confluent.io](http://www.confluent.io), free of charge, copies of these reports and other information as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

## Item 1A. Risk Factors

*Investing in our Class A common stock involves a high degree of risk. You should consider and read carefully all of the risks and uncertainties described below, as well as other information included in this Annual Report on Form 10-K, including our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K, before making an investment decision. The risks described below are not the only ones we face. The occurrence of any of the following risks or additional risks and uncertainties not presently known to us or that we currently believe to be immaterial could materially and adversely affect our business, financial condition, or results of operations. In such case, the trading price of our Class A common stock could decline, and you may lose some or all of your original investment. You should not interpret our disclosure of any of the following risks to imply that such risks have not already materialized.*

### Risk Factors Summary

Below is a summary of the principal factors that make an investment in our Class A common stock speculative or risky:

- Our recent rapid growth may not be indicative of our future growth. Our rapid growth also makes it difficult to evaluate our future prospects and may increase the risk that we will not be successful.
- We have a history of operating losses and may not achieve or sustain profitability in the future.
- Health epidemics, including the COVID-19 pandemic, and responses to such epidemics, have had, and could in the future have, an adverse impact on our business, operations, and the markets and communities in which we, our partners, and customers operate.
- We derive substantially all of our revenue from our platform for data in motion. Failure of our offering to satisfy customer demands or achieve continued market acceptance over competitors, including open source alternatives, would harm our business, results of operations, financial condition, and growth prospects.
- We intend to continue investing significantly in Confluent Cloud, and if it fails to achieve further market adoption, our growth, business, results of operations, and financial condition could be harmed.
- Failure to effectively develop and expand our sales and marketing capabilities or improve the productivity of our sales and marketing organization could harm our ability to expand our potential customer and sales pipeline, increase our customer base, and achieve broader market acceptance of our offering.
- If we are unable to attract new customers or expand our potential customer and sales pipeline, our business, financial condition, and results of operations will be adversely affected.
- Our business depends on our existing customers renewing their subscriptions and usage-based minimum commitments, purchasing additional subscriptions and usage-based minimum commitments, and expanding their use of our offering.
- If we fail to maintain and enhance our brand, including among developers, our ability to expand our customer base will be impaired and our business, financial condition, and results of operations may suffer.
- The markets in which we participate are competitive, and if we do not compete effectively, our business, financial condition, and results of operations could be harmed.
- If we or third parties who we work with experience a security breach, or if the confidentiality, integrity, or availability of our information technology, software, services, communications, or data is compromised, our offering may be perceived as not being secure, our reputation may be harmed, demand for our offering may be reduced, proprietary data and information, including source code, could be, and has in the past been, exfiltrated, and we may incur significant liabilities.

- We rely on third-party providers of cloud-based infrastructure to host Confluent Cloud. Any failure to adapt our offering to evolving network architecture technology, disruption in the operations of these third-party providers, limitations on capacity or use of features, or interference with our use could adversely affect our business, financial condition, and results of operations.
- We expect fluctuations in our financial results, making it difficult to project future results, and if we fail to meet the expectations of securities analysts or investors with respect to our results of operations, our stock price and the value of your investment could decline.
- The dual class structure of our common stock as contained in our amended and restated certificate of incorporation has the effect of concentrating voting control with those stockholders who held our stock prior to the IPO, including our executive officers, employees, and directors and their affiliates, and limiting your ability to influence corporate matters, which could adversely affect the trading price of our Class A common stock.

### **Risks Related to Our Business and Operations**

***Our recent rapid growth may not be indicative of our future growth. Our rapid growth also makes it difficult to evaluate our future prospects and may increase the risk that we will not be successful.***

Our revenue was \$387.9 million, \$236.6 million, and \$149.8 million for the years ended December 31, 2021, 2020, and 2019, respectively. You should not rely on the revenue growth of any prior period as an indication of our future performance. Even if our revenue continues to increase, we expect that our revenue growth rate will decline in the future as a result of a variety of factors, including the maturation of our business. Overall growth of our revenue depends on a number of factors, including our ability to:

- market and price our offering effectively so that we are able to attract new customers and expand sales to our existing customers;
- successfully develop a substantial customer and sales pipeline for our products;
- expand the features and functionality of our offering to enable additional use cases for our customers;
- hire new sales personnel to support our growth, and reduce the time for new sales personnel to achieve desired productivity levels;
- extend our product leadership to expand our addressable market;
- differentiate our offering from open source alternatives and products offered by our competitors;
- maintain and expand the rates at which new customers purchase and existing customers renew subscriptions and committed use of our offering and increase consumption of our offering;
- provide our customers with support that meets their needs;
- expand our partner ecosystem, including with major cloud providers, independent software vendors (ISVs), and regional and global systems integrators;
- increase awareness of our brand on a global basis to successfully compete with other companies; and
- expand to new international markets and grow within existing markets.

We may not successfully accomplish any of these objectives, and as a result, it is difficult for us to forecast our future results of operations. If the assumptions that we use to plan our business are incorrect or change in reaction to changes in our market, or if we are unable to maintain consistent revenue or revenue growth, our stock price could be volatile, and it may be difficult to achieve and maintain profitability. You should not rely on our revenue for any prior quarterly or annual periods as any indication of our future revenue or revenue growth.

In addition, we expect to continue to expend substantial financial and other resources on:

- expansion and enablement of our sales, services, and marketing organization to increase brand awareness and drive adoption of our offering;
- product development, including investments in our product development team and the development of new products and new features and functionality for our offering to expand use cases and provide feature parity across third-party public cloud platforms, as well as investments in further differentiating our existing offering;
- our cloud infrastructure technology, including systems architecture, scalability, availability, performance, and security;
- technology and sales channel partnerships, including cloud marketplaces;
- international expansion;
- acquisitions or strategic investments; and
- general administration, including increased legal and accounting expenses associated with being a public company.

These investments may not result in increased revenue in our business. If we are unable to maintain or increase our revenue at a rate sufficient to offset the expected increase in our costs, our business, financial position and results of operations will be harmed, and we may not be able to achieve or maintain profitability. Additionally, we may encounter unforeseen operating expenses, difficulties, complications, delays, and other unknown factors that may result in losses in future periods. If our revenue does not meet our expectations in future periods, our business, financial position, and results of operations may be harmed.

***We have a history of operating losses and may not achieve or sustain profitability in the future.***

We have experienced net losses in each period since inception. We generated a net loss of \$342.8 million, \$229.8 million, and \$95.0 million for the years ended December 31, 2021, 2020, and 2019, respectively. As of December 31, 2021, we had an accumulated deficit of \$748.9 million. While we have experienced significant revenue growth in recent periods, we are not certain whether or when we will obtain a high enough volume of sales to achieve or maintain profitability in the future. We also expect our costs and expenses to increase in future periods, which could negatively affect our future results of operations if our revenue does not increase. In particular, we intend to continue to expend significant funds to further develop our offering, including by introducing new offerings and features and functionality, and to expand our sales, marketing, and services teams to drive new customer adoption, expand the use of our offering by existing customers, support international expansion, and implement additional systems and processes to effectively scale operations. We will also face increased compliance costs associated with growth, the planned expansion of our customer base and pipeline, international expansion, and being a public company. In addition, Confluent Cloud operates on public cloud infrastructure provided by third-party vendors, and our costs and gross margins are significantly influenced by the prices we are able to negotiate with these public cloud providers, which in many cases are also our competitors. To the extent we are able to successfully increase the percentage of our revenue attributable to Confluent Cloud, we may incur increased costs related to our public cloud contracts, which would negatively impact our gross margins. Our efforts to grow our business may be costlier than we expect, or the rate of our growth in revenue may be slower than we expect, and we may not be able to increase our revenue enough to offset our increased operating expenses. In addition, our efforts and investments to implement systems and processes to scale operations may not be sufficient or may not be appropriately executed. As a result, we may incur significant losses in the future for a number of reasons, including the other risks described herein, and unforeseen expenses, difficulties, complications or delays, and other unknown events. If we are unable to achieve and sustain profitability, the value of our business and Class A common stock may significantly decrease.

***We have a limited operating history, which makes it difficult to forecast our future results of operations.***

We were founded in 2014. As a result of our limited operating history, our ability to accurately forecast our future results of operations is limited and subject to a number of uncertainties, including our ability to plan for and model future growth. Our historical revenue growth should not be considered indicative of our future performance. Further, in future periods, our revenue growth could slow or our revenue could decline for a number of reasons, including shifts in our offering and revenue mix, slowing demand for our offering, increasing competition, decreased productivity of our sales and marketing organization and effectiveness of our sales and marketing efforts to acquire new customers, failure to retain existing customers or expand existing subscriptions and usage-based minimum commitments, changing technology, a decrease in the growth of our overall market, or our failure, for any reason, to continue to take advantage of growth opportunities. We have also encountered, and will continue to encounter, risks and uncertainties frequently experienced by growing companies in rapidly changing industries, such as the risks and uncertainties described in this Annual Report on Form 10-K. If our assumptions regarding these risks and uncertainties and our future revenue growth are incorrect or change, or if we do not address these risks successfully, our operating and financial results could differ materially from our expectations, and our business could suffer.

***Health epidemics, including the COVID-19 pandemic, and responses to such epidemics, have had, and could in the future have, an adverse impact on our business, operations, and the markets and communities in which we, our partners, and customers operate.***

Our business and operations could be adversely affected by health epidemics, including the COVID-19 pandemic, impacting the markets and communities in which we, our partners, and customers operate. The ongoing global COVID-19 pandemic has adversely impacted, and may continue to adversely impact, many aspects of our business, despite the availability of COVID-19 vaccines. As certain of our customers or potential customers experience downturns or uncertainty in their own business operations and revenue resulting from the spread of COVID-19, they have and may continue to decrease or delay their technology spending, request pricing concessions or payment extensions, or seek renegotiations of their contracts. While historical pricing concessions, payment extensions, and contract renegotiations, including as a result of the COVID-19 pandemic, have not been significant or resulted in a significant decrease in our revenue or delay in revenue recognition, we cannot assure you that future concessions, extensions, or renegotiations that we grant will be similarly insignificant or will not have a significant impact on our revenue, including delays in revenue recognition. The extent of the impact of the COVID-19 pandemic on our customers and our customers' response to the COVID-19 pandemic is difficult to assess or predict, and we may be unable to accurately forecast our revenues or financial results, especially given that the long-term impact of the pandemic remains uncertain, due in part to new variant strains of the virus and the degree of their vaccine resistance. Our results of operations could be materially above or below our forecasts, which could adversely affect our results of operations, disappoint analysts and investors, and/or cause our stock price to decline.

In response to the COVID-19 pandemic, many state, local, and foreign governments have put in place, and others in the future may put in place, quarantines, executive orders, shelter-in-place orders, vaccination and masking requirements, and similar government orders and restrictions in order to control the spread of the disease. Such orders or restrictions, or the perception that such orders or restrictions could occur, including in anticipation of new variant strains of the virus, have resulted in business closures, work stoppages, slowdowns and delays, work-from-home policies, travel restrictions, cancellation or postponement of events, and delays in or reduced effectiveness of office re-openings, among other effects that could negatively impact productivity and disrupt our operations and those of our partners and customers. Starting in March 2020, we temporarily required employees to work remotely, and many of our employees are still working remotely, and we suspended most travel by our employees. We have extended the remote work option for employees and have implemented a vaccine mandate for our U.S. employees, where permissible with local, state and federal laws. We may take further actions that alter our operations as may be required by federal, state, or local authorities, or which we determine are in our best interests or as are otherwise required. We cannot assure you when we may ease restrictions, in part or in full, including due to emerging variant strains of the virus and applicable governmental mandates. For activities that may be conducted remotely, there is no guarantee that we will be as effective while working remotely. Because our team is dispersed, some employees have experienced, and may continue to experience, less capacity to work due to increased personal obligations (such as childcare, eldercare, or caring for family who become sick), some have become sick themselves and been unable to work, or may be otherwise negatively affected, mentally or physically, by the COVID-19 pandemic and prolonged social distancing. Decreased effectiveness and availability of our team could adversely affect our results due to slow-downs in our sales cycles and recruiting and onboarding efforts, delays in our entry into customer contracts, delays in addressing performance issues, delays in product development, delays and inefficiencies among various operational aspects of our business, including our financial organization, or other decreases in productivity that could seriously harm our business. Furthermore, we postponed, and may decide to further postpone or cancel, certain planned investments in our business in response to changes in our business as a result of the spread of COVID-19. For example, during the second and third quarters of 2020, we temporarily reduced the pace of our employee hiring across all functions and may do so in the future if there is another severe downturn in economic activity associated with the pandemic. These actions have and may continue to impact our competitive positioning, ability to attract and retain customers, and our growth, business and revenue. Any acceleration or ramp up of operating expenses in the future may also result in lower operating margins for applicable periods.

The global impact of the COVID-19 pandemic continues to evolve, and we will continue to monitor the situation closely. While vaccines have become available in certain countries and some economies have reopened, the ultimate impact of the COVID-19 pandemic or a similar health epidemic is highly uncertain and subject to change. We do not yet know the full extent of potential delays or impacts on our business, operations, ability to access capital, or the global economy as a whole, including due to future waves of outbreak or new variant strains of the virus which may require re-closures or other preventative measures. While the spread of COVID-19 may be contained or mitigated, there is no guarantee that a future outbreak of this or any other widespread epidemics will not occur, or that the global economy will recover, either of which could harm our business.

***We derive substantially all of our revenue from our platform for data in motion. Failure of our offering to satisfy customer demands or achieve continued market acceptance over competitors, including open source alternatives, would harm our business, results of operations, financial condition, and growth prospects.***

We derive and expect to continue to derive substantially all of our revenue from sales of, and additional services related to, our platform for data in motion. We have directed, and intend to continue to direct, a significant portion of our financial and operating resources to developing more features and functionality for such offering. Our growth will depend in large part on enabling additional use cases for our customers after they initially adopt our offering, ranging from industry-specific use cases to use cases generated by the network effects of connecting multiple applications within an enterprise. In addition, the success of our business is substantially dependent on the actual and perceived viability, benefits, and advantages of our offering as a preferred platform for data in motion, particularly when compared to open source alternatives developed internally by customers. As such, market adoption of our offering is critical to our continued success. Demand for our offering is affected by a number of factors, including increased market acceptance of our offering by existing customers and potential new customers, effectiveness of our sales and marketing strategy, the extension of our offering to new applications and use cases, the timing of development and release of new offerings by us and our competitors, technological change, and growth or contraction of the market in which we compete. Failure to successfully address these factors, satisfy customer demands, achieve continued market acceptance over competitors, including open source alternatives, and achieve growth in sales of our offering would harm our business, results of operations, financial condition, and growth prospects.

***We have historically derived a substantial portion of our revenue from Confluent Platform, and any loss in market acceptance or reduction in sales of Confluent Platform would harm our business, results of operations, financial condition, and growth prospects.***

Our business is substantially dependent on Confluent Platform, our enterprise-ready, self-managed software offering. Confluent Platform contributed 73% and 85% of our subscription revenue for the years ended December 31, 2021 and 2020, respectively. We expect to continue to rely on customer adoption and expansion of Confluent Platform as a component of our future growth. In particular, we are dependent on Confluent Platform serving as a fundamental self-managed, data-in-motion offering to generate wide-ranging use cases for our customers and increase our dollar-based net retention rate with existing customers. If we experience loss in market acceptance, reduced customer renewals or new customer adoption, or limited use case expansion among existing customers of Confluent Platform, our growth, business, financial condition, and results of operations may be harmed.



***We intend to continue investing significantly in Confluent Cloud, and if it fails to achieve further market adoption, our growth, business, results of operations, and financial condition could be harmed.***

We intend to continue investing significantly in developing and growing Confluent Cloud as a fully-managed, cloud-native service. We have less experience marketing, determining pricing for, and selling Confluent Cloud, and we are still determining how best to market, price, and support adoption of Confluent Cloud. As a result, any shift in our sales strategy focused on customer acquisition for Confluent Cloud could result in near term fluctuations in our financial results as compared to prior periods, particularly if previous Confluent Platform customers shift to Confluent Cloud, given that sales of Confluent Cloud have historically had a lower average price compared to subscriptions to Confluent Platform. Our sales strategy for Confluent Cloud also involves landing customers at low entry points, including starting with our free Confluent Cloud trial and pay-as-you-go, which have no commitments. There can be no assurance that such customers will enter into usage-based minimum commitments with us, expand their existing commitments, or ramp their usage of Confluent Cloud. In addition, there can be no assurance as to the length of time required to attain substantial market adoption of Confluent Cloud, if at all. To expand our potential customer and sales pipeline for Confluent Cloud, we will need to increase brand awareness, cultivate relationships with potential customers in key industries and sectors and rapidly convert the sales pipeline into new customers. To increase market adoption and expand the customer base for Confluent Cloud, we also intend to target the commercial customer segment, comprised of small to medium-sized companies, including early stage companies, as part of our overall sales and marketing strategy for Confluent Cloud. These customers typically demand faster deployment of Confluent Cloud within their organizations and prioritize ease of use. In addition, the sales cycle for these customers is typically shorter, requiring accelerated ramp time of our sales force and higher velocity marketing strategies. If we are unsuccessful in these and our other efforts to drive market adoption of and expand the customer base for Confluent Cloud, or if we do so in a way that is not profitable, fails to compete successfully against our current or future competitors, or fails to adequately differentiate Confluent Cloud from open source alternatives, our growth, business, results of operations, and financial condition could be harmed.

***We may not be able to successfully manage our growth, and if we are not able to grow efficiently, our business, financial condition, and results of operations could be harmed.***

As usage and adoption of our offering grows, we will need to devote additional resources to improving our offering's capabilities, features, and functionality. In addition, we will need to appropriately scale our internal business operations and our services organization to serve our growing customer base. Any failure of or delay in these efforts could result in impaired product performance and reduced customer satisfaction, resulting in decreased sales to new customers, lower dollar-based net retention rates, or the issuance of service credits or requested refunds, which would hurt our revenue growth and our reputation. Further, any failure in optimizing the costs associated with our third-party cloud services as we scale could negatively impact our gross margins. Our expansion efforts will be expensive and complex, and require the dedication of significant management time and attention. We could also face inefficiencies, vulnerabilities or service disruptions as a result of our efforts to scale our internal infrastructure, which may result in extended outages, loss of customer trust, and harm to our reputation. We cannot be sure that the expansion of and improvements to our internal infrastructure will be effectively implemented on a timely basis, if at all, and such failures could harm our business, financial condition, and results of operations.

***The markets in which we participate are competitive, and if we do not compete effectively, our business, financial condition, and results of operations could be harmed.***

Our platform for data in motion combines and expands upon functionality from numerous traditional product categories, and hence we compete in each of these categories with products from a number of different vendors. Our primary competition, especially on-premise, is internal IT teams that develop data infrastructure software using open source software, including Apache Kafka. Our principal competitors in the cloud are the well-established public cloud providers that compete in all of our markets. These enterprises are developing and have released fully-managed, real-time data ingestion and data streaming products, such as Azure Event Hubs (Microsoft Corporation), Amazon Kinesis, Amazon MSK, and Amazon DynamoDB Streams (AWS), and Cloud Pub/Sub and Cloud Dataflow (Google). On premise, there are a number of vendors with legacy products that have pivoted into this space including TIBCO Streaming, Cloudera Dataflow, Redhat (IBM), AMQ Streams, and Oracle Cloud Infrastructure Streaming.

We currently offer Confluent Cloud on the public clouds provided by AWS, Azure, and GCP, which are also some of our primary actual and potential competitors. There is risk that one or more of these public cloud providers could use their respective control of their public clouds to embed innovations or privileged interoperating capabilities in competing products, bundle competing products, provide us unfavorable pricing, leverage their public cloud customer relationships to exclude us from opportunities, and treat us and our customers differently with respect to terms and conditions or regulatory requirements compared to similarly situated customers. In addition, if public cloud providers develop a data-in-motion offering that operates across multiple public clouds or on premise, we would face increased competition from these providers. Further, they have the resources to acquire or partner with existing and emerging providers of competing technologies and thereby accelerate adoption of those competing technologies. All of the foregoing could make it difficult or impossible for us to provide subscriptions and services that compete favorably with those of the public cloud providers.

With the introduction of new technologies, market entrants, and open source alternatives, including those based on Apache Kafka, we expect that the competitive environment will remain intense going forward. Because Apache Kafka is open source and there are few technological barriers to entry into the open source market, it may be relatively easier for competitors, some of which may have greater resources than we have, to enter our markets and develop data-in-motion alternatives based on Apache Kafka. In addition, the data infrastructure market is large and continues to grow rapidly, and our future success will depend in part on differentiating our product offering from open source alternatives, including Apache Kafka, and other data-in-motion product offerings. If we are unable to sufficiently differentiate our offering from Apache Kafka, other offerings based on or derived from Apache Kafka, or other data-in-motion product offerings, we may not be successful in achieving market acceptance of our offering, which would limit our growth and future revenue. Some existing and prospective customers may elect to use certain of our data-in-motion platform functions under free-to-use licenses, which can reduce demand for our offering. Such existing or prospective customers may also have reservations about utilizing proprietary software like our offering and may instead opt to use solely open source software based on the perception that this will lower long-term costs and reduce dependence on third-party vendors. In addition, our existing customers have chosen or could in the future choose to develop similar capabilities in-house and strengthen their use of open source software, rather than continue to purchase our offering.

Some of our actual and potential competitors have been acquired by other larger enterprises and have made or may make acquisitions or may enter into partnerships or other strategic relationships that may provide more comprehensive offerings than they individually had offered or achieve greater economies of scale than us. Any trend toward industry consolidation may negatively impact our ability to successfully compete and may impose pressure on us to engage in similar strategic transactions, including acquisitions, which would be costly and may divert management's attention. In addition, new entrants not currently considered to be competitors may enter the market through acquisitions, partnerships, or strategic relationships. As we look to market and sell our offering and platform capabilities to potential customers with existing solutions, we must convince their internal stakeholders that the capabilities of our offering are superior to their current solutions.

We compete on the basis of a number of factors, including:

- ease of deployment, integration, and use;
- enterprise-grade data in motion;
- the cloud-native capabilities of our offering;
- the ability to operate at scale and offer elasticity, end-to-end security, and reliability;
- the completeness of our offering, including as a complete platform for data in motion, and our ability to offer rich SQL-based stream processing, integrated governance capabilities, and connectors to existing applications and IT and cloud infrastructure;
- the availability of our offering, including in multiple public clouds, and for use in private clouds and in on-premise data centers;

- quality of professional services and customer support;
- price and total cost of ownership;
- flexible pricing, such as pay-as-you-go delivery;
- sales and marketing productivity and expertise;
- brand recognition and reputation; and
- adherence to industry standards and certifications.

Our competitors vary in size and in the breadth and scope of the products offered. Many of our competitors and potential competitors have greater name recognition, longer operating histories, more established customer relationships and installed customer bases, larger marketing budgets and greater resources than we do. Further, other potential competitors not currently offering competitive solutions may expand their product offerings to compete with our offering and platform capabilities, or our current and potential competitors may establish cooperative relationships among themselves or with third parties that may further enhance their resources and product offerings in our addressable market. Our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, and customer requirements. An existing competitor or new entrant could introduce new technology that reduces demand for our offering. In addition to product and technology competition, we face pricing competition. Some of our competitors offer their solutions at a lower price, which has resulted in, and may continue to result in, pricing pressures.

For all of these reasons, we may not be able to compete successfully against our current or future competitors, and this competition could result in the failure of our offering to continue to achieve or maintain market acceptance, any of which would harm our business, results of operations, and financial condition.

***The market for our offering may develop more slowly or differently than we expect.***

It is difficult to predict customer adoption rates and demand for our offering, the entry of competitive products or the future growth rate and size of the data infrastructure market. The expansion of this market depends on a number of factors, including the cost, performance, and perceived value associated with data infrastructure platforms as an alternative or supplement to legacy systems such as traditional databases, as well as the ability of platforms for data in motion to address heightened data security and privacy concerns. If we have a security incident or third-party cloud service providers experience security incidents, loss of customer data, disruptions in delivery or other similar problems, which is an increasing focus of the public and investors in recent years, the market for products as a whole, including our offering, may be negatively affected. In addition, many of our potential customers have made significant investments in alternative data infrastructure platforms and may be unwilling to invest in new products, such as our offering. If data-in-motion technology does not continue to achieve market acceptance, or there is a reduction in demand caused by a lack of customer acceptance, technological challenges, weakening economic conditions, data security or privacy concerns, governmental regulation, competing technologies and products, decreases in information technology spending or otherwise, the market for our offering might not continue to develop or might develop more slowly than we expect, which would adversely affect our business, financial condition, and results of operations.

***We expect fluctuations in our financial results, making it difficult to project future results, and if we fail to meet the expectations of securities analysts or investors with respect to our results of operations, our stock price and the value of your investment could decline.***

Our results of operations have fluctuated in the past and are expected to fluctuate in the future due to a variety of factors, many of which are outside of our control. As a result, our past results may not be indicative of our future performance. In addition to the other risks described herein, factors that may affect our results of operations include the following:

- changes in our revenue mix and related changes in revenue recognition;

- changes in actual and anticipated growth rates of our revenue, customers, and key operating metrics;
- fluctuations in demand for or pricing of our offering;
- fluctuations in usage of Confluent Cloud under usage-based minimum commitments and pay-as-you-go arrangements;
- our ability to attract new customers;
- our ability to retain our existing customers, particularly large customers, and secure renewals of subscriptions and usage-based minimum commitments, as well as the timing of customer renewals or non-renewals;
- customer retention rates and the pricing and quantity of subscriptions renewed, as well as our ability to accurately forecast customer expansions and renewals;
- downgrades in customer subscriptions;
- customers and potential customers opting for alternative products, including developing their own in-house solutions or opting to use only the free version of our offering;
- timing and amount of our investments to expand the capacity of our third-party cloud service providers;
- seasonality in sales, customer implementations, results of operations, and remaining performance obligations, or RPO;
- investments in new offerings, features, and functionality;
- fluctuations or delays in development, release, or adoption of new features and functionality for our offering;
- delays in closing sales, including the timing of renewals, which may result in revenue being pushed into the next quarter, particularly because a large portion of our sales occur toward the end of each quarter;
- fluctuations or delays in purchasing decisions in anticipation of new offerings or enhancements by us or our competitors;
- changes in customers' budgets and in the timing of their budget cycles and purchasing decisions;
- our ability to control costs, including hosting costs associated with Confluent Cloud and our operating expenses;
- the amount and timing of payment for operating expenses, particularly research and development and sales and marketing expenses, including commissions;
- timing of hiring personnel for our research and development and sales and marketing organizations;
- the amount and timing of non-cash expenses, including stock-based compensation expense and other non-cash charges;
- the amount and timing of costs associated with recruiting, educating, and integrating new employees and retaining and motivating existing employees;
- the effects of acquisitions and their integration;
- general economic conditions, both domestically and internationally, as well as economic conditions specifically affecting industries in which our customers participate;
- fluctuations in foreign currency exchange rates;

- the impact of new accounting pronouncements;
- changes in revenue recognition policies that impact our subscriptions and services revenue;
- changes in regulatory or legal environments that may cause us to incur, among other things, expenses associated with compliance;
- the impact of changes in tax laws or judicial or regulatory interpretations of tax laws, which are recorded in the period such laws are enacted or interpretations are issued and may significantly affect the effective tax rate of that period;
- health epidemics or pandemics, such as the COVID-19 pandemic;
- changes in the competitive dynamics of our market, including consolidation among competitors or customers; and
- significant security breaches of, technical difficulties with, or interruptions to, the delivery and use of our offering.

Any of these and other factors, or the cumulative effect of some of these factors, may cause our results of operations to vary significantly. If our quarterly results of operations fall below the expectations of investors and securities analysts who follow our stock, the price of our Class A common stock could decline substantially, and we could face costly lawsuits, including securities class action suits.

***Our revenue mix may result in fluctuations in our results across periods, making it difficult to assess our future growth.***

Our revenue mix is varied based on the revenue recognition principles applicable to our offering. We recognize a portion of revenue from sales of subscriptions to Confluent Platform up front when our term-based license is delivered. The remainder, constituting post-contract customer support, maintenance, and upgrades, referred to together as PCS, comprises the substantial majority of the revenue and is recognized ratably over the subscription term. Customers may use Confluent Cloud either without a minimum commitment contract, which we refer to as pay-as-you-go, or on a usage-based minimum commitment contract of at least one year in duration. Pay-as-you-go customers are billed, and revenue from them is recognized, based on usage. Customers with usage-based minimum commitments are billed annually in advance or monthly in arrears, and we recognize revenue from such subscriptions based on usage by the customer. Historically, our Confluent Cloud sales have been individually smaller, with varied usage levels from such customers over time, which may continue as we target the commercial customer segment as part of our sales strategy for Confluent Cloud. As a result, there may be fluctuations in revenue period over period as revenue is dependent on varying patterns of customer consumption as well as timing of sales of Confluent Platform, which can result in larger upfront revenue recognition upon delivery of the term-based licenses. In addition, we may experience fluctuations in margins as a result of high cloud infrastructure costs resulting from increased Confluent Cloud sales. Future fluctuations in our revenue and results across periods, including due to further changes in our revenue mix, may make it difficult to assess our future growth and performance.

***Downturns or upturns in our sales may not be immediately reflected in our financial position and results of operations.***

We recognize a significant portion of our revenue ratably over the term of Confluent Platform subscriptions. As a result, any decreases in new subscriptions or renewals in any one period may not immediately be fully reflected as a decrease in revenue for that period but would negatively affect our revenue in future quarters, even though such a decrease would be reflected in certain of our key metrics as of the end of such period, including RPO. This also makes it difficult for us to rapidly increase our revenue through the sale of additional subscriptions in any period, as revenue is recognized over the term of the subscription. In addition, fluctuations in usage under our usage-based Confluent Cloud offering or monthly subscriptions for our pay-as-you-go offering could affect our revenue on a period-over-period basis. If our quarterly results of operations fall below the expectations of investors and securities analysts who follow our stock, the price of our Class A common stock would decline substantially, and we could face costly lawsuits, including securities class actions.

***Seasonality may cause fluctuations in our sales, results of operations, and remaining performance obligations.***

Historically, we have experienced seasonality in RPO and new customer bookings, as we typically sell a higher percentage of subscriptions to new customers and renewal subscriptions with existing customers in the fourth quarter of the year. We believe that this results from the procurement, budgeting and deployment cycles of many of our customers, particularly our enterprise customers. We expect that this seasonality will continue to affect our bookings, RPO, and results of operations in the future and might become more pronounced as we continue to target larger enterprise customers.

***If we fail to adapt and respond effectively to rapidly changing technology, evolving industry standards, changing regulations, or to changing customer needs, requirements, or preferences, our offering may become less competitive.***

Our ability to attract new users and customers and increase revenue from existing customers depends in large part on our ability to enhance, improve, and differentiate our existing offering, increase adoption and usage of our offering, and introduce new offerings and capabilities. The market in which we compete is relatively new and subject to rapid technological change, evolving industry standards, and changing regulations, as well as changing customer needs, requirements, and preferences. The success of our business will depend, in part, on our ability to adapt and respond effectively to these changes on a timely basis. Because the market for our offering is relatively new, it is difficult to predict customer adoption, increased customer usage and demand for our offering, the size and growth rate of this market, the entry of competitive products, or the success of existing competitive products. If we are unable to enhance our offering and keep pace with rapid technological change, or if new technologies emerge that are able to deliver competitive products at lower prices, more efficiently, more conveniently or more securely than our offering, our business, financial condition, and results of operations could be adversely affected.

To remain competitive, we need to continuously modify and enhance our offering to adapt to changes and innovation in existing and new technologies. We expect that we will need to continue to differentiate our data-in-motion platform capabilities, as well as expand and enhance our platform to support a variety of adjacent use cases. This development effort will require significant engineering, sales, and marketing resources. Any failure to effectively offer solutions for these adjacent use cases could reduce customer demand for our offering. Further, our offering must also integrate with a variety of network, hardware, mobile, cloud, and software platforms and technologies, and we need to continuously modify and enhance our offering to adapt to changes and innovation in these technologies. This development effort may require significant investment in engineering, support, marketing, and sales resources, all of which would affect our business and results of operations. Any failure of our offering to operate effectively with widely adopted, future data infrastructure platforms, applications, and technologies would reduce the demand for our offering. If we are unable to respond to customer demand in a cost-effective manner, our offering may become less marketable and less competitive or obsolete, and our business, financial condition, and results of operations could be adversely affected.

***The competitive position of our offering depends in part on its ability to operate with third-party products and services, including those of our partners, and if we are not successful in maintaining and expanding the compatibility of our offering with such products and services, our business may be harmed.***

The competitive position of our offering depends in part on its ability to operate with products and services of third parties, including software companies, software services, and infrastructure, and our offering must be continuously modified and enhanced to adapt to changes in hardware, software, networking, browser, and database technologies. In the future, one or more technology companies, whether our partners or otherwise, may choose not to support the operation of their software, software services, and infrastructure with our offering, or our offering may not support the capabilities needed to operate with such software, software services, and infrastructure. In addition, to the extent that a third party were to develop software or services that compete with ours, that provider may choose not to support our offering. We intend to facilitate the compatibility of our offering with various third-party software, software services, and infrastructure offerings by maintaining and expanding our business and technical relationships. If we are not successful in achieving this goal, our business, financial condition, and results of operations may be harmed.

***Unfavorable conditions in our industry or the global economy, or reductions in information technology spending, could limit our ability to grow our business and negatively affect our results of operations.***

Our results of operations may vary based on the impact of changes in our industry or the global economy on us or our customers and potential customers. Negative conditions in the general economy both in the United States and abroad, including conditions resulting from changes in gross domestic product growth, financial and credit market fluctuations, international trade relations, political turmoil, natural catastrophes, warfare, and terrorist attacks on the United States, Europe, the Asia Pacific region, including Japan, or elsewhere, could cause a decrease in business investments, including spending on information technology, and negatively affect the growth of our business. Competitors, many of whom are larger and have greater financial resources than we do, may respond to challenging market conditions by lowering prices in an attempt to attract our customers. In addition, the increased pace of consolidation in certain industries may result in reduced overall spending on our offering. We cannot predict the timing, strength, or duration of any economic slowdown, instability, or recovery, generally or within any particular industry.

***If we are unable to successfully manage the growth of our professional services business and improve our margins from these services, our business, financial condition, and results of operations will be harmed.***

Our professional services business, which engages with customers to help them in their strategy, architecture, and adoption of a platform for data in motion, has grown as we have scaled our business. We believe our investment in professional services facilitates the adoption of our offering, especially with larger customers. As a result, our sales efforts have focused on marketing our offering to larger customers, rather than the profitability of our professional services business. If we are unable to successfully manage the growth of this business and improve our profit margin from these services, our business, financial condition, and results of operations will be harmed.

***We will face risks associated with the growth of our business with certain heavily regulated industry verticals.***

We market and sell our offering to customers in heavily regulated industry verticals, including the banking and financial services industries. As a result, we face additional regulatory scrutiny, risks, and burdens from the governmental entities and agencies which regulate those industries. Selling to and supporting customers in heavily regulated verticals and expanding in those verticals will continue to require significant resources, and there is no guarantee that such efforts will be successful or beneficial to us. If we are unable to successfully maintain or expand our market share in such verticals, or cost-effectively comply with governmental and regulatory requirements applicable to our activities with customers in such verticals, our business, financial condition, and results of operations may be harmed.

***Sales to government entities are subject to a number of challenges and risks.***

We sell to U.S. Federal, state, and local government customers, as well as foreign and governmental agency customers. Sales to such entities are subject to a number of challenges and risks. Selling to such entities can be highly competitive, expensive, and time-consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. Government contracting requirements may change and in doing so restrict our ability to sell into the government sector until we have obtained any required government certifications. Further, achieving and maintaining government certifications, such as U.S. Federal Risk and Authorization Management Program (FedRAMP) certification for Confluent Cloud, may require significant upfront cost, time, and resources. If we do not obtain U.S. FedRAMP certification for Confluent Cloud, we will not be able to sell Confluent Cloud to certain Federal government and public sector customers as well as private sector customers that require such certification for their intended use cases, which could harm our growth, business, and results of operations. This may also harm our competitive position against larger enterprises whose competitive offerings are FedRAMP certified. Further, there can be no assurance that we will secure commitments or contracts with government entities even following such certifications, which could harm our margins, business, financial condition, and results of operations. Government demand and payment for our offering are affected by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our offering.

Further, governmental entities may demand contract terms that differ from our standard arrangements and are less favorable than terms agreed with private sector customers. Such entities may have statutory, contractual or other legal rights to terminate contracts with us or our partners for convenience or for other reasons. Any such termination may adversely affect our ability to contract with other government customers as well as our reputation, business, financial condition, and results of operations. In addition, compliance with requirements applicable to suppliers to the Federal government, including contractual requirements, regulations and Executive Orders, may require us to change certain of our operations and involve significant effort and expense, which could harm our margins, business, financial condition, and results of operations. Governments and whistleblowers routinely investigate and audit government contractors' administrative processes and compliance with applicable legal requirements. An unfavorable investigation or audit could result in the government refusing to continue buying our subscriptions, a reduction of revenue, suspension or debarment from government contracting, or fines or civil or criminal liability if the audit uncovers improper or illegal activities, including under the False Claims Act, which could adversely affect our results of operations and reputation.

Our customers also include certain non-U.S. governments, to which government procurement law risks similar to those present in U.S. government contracting also apply, particularly in certain emerging markets where our customer base is less established. In addition, compliance with complex regulations and contracting provisions in a variety of jurisdictions can be expensive and consume significant management resources. In certain jurisdictions, our ability to win business may be constrained by political and other factors unrelated to our competitive position in the market. Each of these difficulties could harm our business and results of operations.



***Acquisitions, strategic investments, joint ventures, or alliances could be difficult to identify, pose integration challenges, divert the attention of management, disrupt our business and culture, dilute stockholder value, and adversely affect our business, financial condition, and results of operations.***

We have in the past and may in the future seek to acquire or invest in businesses, joint ventures, products and platform capabilities, technologies, or technical know-how that we believe could complement or expand our platform capabilities, enhance our technical capabilities, or otherwise offer growth opportunities. Further, the proceeds we received from the IPO and our convertible notes offering increase the likelihood that we will devote resources to exploring larger and more complex acquisitions and investments than we have previously attempted. Any such acquisition or investment may divert the attention of management and cause us to incur various expenses in identifying, investigating, and pursuing suitable opportunities, whether or not the transactions are completed, and may result in unforeseen operating difficulties and expenditures. In particular, we may encounter difficulties assimilating or integrating the businesses, technologies, products and platform capabilities, personnel, or operations of any acquired companies, particularly if the key personnel of an acquired company choose not to work for us, their software is not easily adapted to work with our platform, or we have difficulty retaining the customers of any acquired business due to changes in ownership, management or otherwise. These transactions may also disrupt our business, divert our resources, and require significant management attention that would otherwise be available for development of our existing business. We may also have difficulty establishing our company values with personnel of acquired companies, which may negatively impact our culture and work environment. Any such transactions that we are able to complete may not result in any synergies or other benefits we had expected to achieve, which could result in impairment charges that could be substantial. In addition, we may not be able to find and identify desirable acquisition targets or business opportunities or be successful in entering into an agreement with any particular strategic partner. These transactions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our results of operations. In addition, if the resulting business from such a transaction fails to meet our expectations, our business, financial condition, and results of operations may be adversely affected or we may be exposed to unknown risks or liabilities.

***We may require additional capital to support the growth of our business, and this capital might not be available on acceptable terms, if at all.***

We have funded our operations since inception primarily through equity and debt financings and sales of our offering. We cannot be certain when or if our operations will generate sufficient cash to fully fund our ongoing operations or the growth of our business. We intend to continue to make investments to support our business, which may require us to engage in equity or debt financings to secure additional funds. Additional financing may not be available on terms favorable to us, if at all. If adequate funds are not available on acceptable terms, we may be unable to invest in future growth opportunities, which could harm our business, results of operations, and financial condition. If we incur additional debt, the debt holders, together with holders of our outstanding convertible notes, would have rights senior to holders of common stock to make claims on our assets, and the terms of any future debt could restrict our operations, including our ability to pay dividends on our common stock. Furthermore, if we issue additional equity securities, including through future issuances of equity-linked or derivative securities, our existing stockholders could experience further dilution, and the new equity securities could have rights senior to those of our common stock. Because our decision to issue securities in the future will depend on numerous considerations, including factors beyond our control, we cannot predict or estimate the amount, timing, or nature of any future issuances of debt or equity securities. As a result, our stockholders bear the risk of future issuances of debt or equity securities reducing the value of our Class A common stock and diluting their interests.

## Risks Related to Cybersecurity and Data Privacy

*If we or third parties who we work with experience a security breach, or if the confidentiality, integrity, or availability of our information technology, software, services, communications, or data is compromised, our offering may be perceived as not being secure, our reputation may be harmed, demand for our offering may be reduced, proprietary data and information, including source code, could be, and has in the past been, exfiltrated, and we may incur significant liabilities.*

Our offering involves the transmission and processing of data, which can include personal information and our or our customers' or other third parties' sensitive, proprietary, and confidential information. Security breaches compromising the confidentiality, integrity, and availability of this information could result from cyber-attacks, computer malware, viruses, social engineering (including phishing), ransomware, supply chain attacks, credential stuffing, efforts by individuals or groups of hackers and sophisticated organizations, including state-sponsored organizations, errors or malfeasance of our personnel, and security vulnerabilities in the software or systems on which we rely, including third-party systems. Such incidents have become more prevalent in our industry, particularly against cloud services, and may in the future result in the unauthorized, unlawful, or inappropriate access to, inability to access, disclosure of, or loss of the sensitive, proprietary, and confidential information that we own, process, or control, such as customer information and proprietary data and information, including source code. Additionally, due to the ongoing COVID-19 pandemic, certain functional areas of our workforce remain in a remote work environment and outside of our corporate network security protection boundaries, which imposes additional risks to our business, including increased risk of industrial espionage, phishing, and other cybersecurity attacks, and unauthorized access to or dissemination of sensitive, proprietary, or confidential information.

We also rely on third parties to operate our critical business systems and process the sensitive, proprietary, and confidential information that we own, process, or control, including customer information and proprietary data and information, including source code. These third parties may not have adequate security measures and could experience a security breach that compromises the confidentiality, integrity, or availability of the systems they operate for us or the information they process on our behalf. Cybercrime and hacking techniques are constantly evolving, and we or third parties who we work with may be unable to anticipate attempted security breaches, react in a timely manner, or implement adequate preventative measures, particularly given increasing use of hacking techniques designed to circumvent controls, avoid detection, and remove or obfuscate forensic artifacts.

While we have taken steps designed to protect the confidentiality, integrity, and availability of our systems and the sensitive, proprietary, and confidential information that we own, process, or control, our security measures or those of third parties who we work with have been, and could from time to time in the future be, breached or may otherwise not be effective against security threats. For example, beginning in January 2021, a malicious third party gained unauthorized access to a third-party vendor, Codecov, that provides a software code testing tool, potentially affecting more than a thousand of Codecov's customers, which we refer to as the Codecov Breach. In April 2021, we were notified that we had been impacted by the Codecov Breach. Through our investigations, we determined that the attackers leveraged a vulnerability in Codecov's software to gain access to credentials in our development environment, and thereby obtained unauthorized read-only access to, and copied to overseas IP addresses, the private Github repositories containing our source code and certain internal-use documents containing references to certain customers and other customer-related attributes. Upon learning of the breach, we took action to revoke Codecov's access and discontinued our use of the Codecov service, rotated all of our credentials identified as exposed by the Codecov compromise to prevent further unauthorized access, analyzed available logs to determine whether there was evidence that the exposed credentials were leveraged to gain access to Confluent systems or systems of our customers, enhanced monitoring of our environment to identify and respond to suspicious activity, and engaged a third-party forensics firm to assist in our investigation, response, and impact mitigation. While the attackers obtained access to certain customer-related references and information described above, we did not find any evidence of access to any customer data sent through or stored in our products, nor did we find any evidence that the attackers modified any of our source code or uploaded any malware or any other malicious code to our system. However, the full extent of the impact of this incident on our operations, products, or services may not be known for some time, and we cannot assure you that there will be no further impact in the future. This incident or any future incidents relating to the Codecov Breach could result in the use of exfiltrated source code to attempt to identify vulnerabilities in our offering, future ransomware or social engineering attacks, reduced market acceptance of our offering, injury to our reputation and brand, legal claims against us, and the diversion of our resources.

In addition, we do not control content that our customers transmit, process, and maintain using our offering. If our customers use our offering for the transmission or storage of personal information and our security measures are or are believed to have been breached, our business may suffer and we could incur significant liability. In addition, our remediation efforts may not be successful.

Any security breach or other incident that results in the compromise of the confidentiality, integrity, or availability of our systems or the sensitive, proprietary, or confidential information that we own, process, or control, or the perception that one has occurred, including the Codecov incident described above, could result in a loss of customer confidence in the security of our platform and damage to our brand, reduce the demand for our offering, disrupt business operations, result in the exfiltration of proprietary data and information, including source code, require us to spend material resources to investigate or correct the breach and to prevent future security breaches and incidents, expose us to legal liabilities, including litigation, regulatory enforcement and indemnity obligations, claims by our customers or other relevant parties that we have failed to comply with contractual obligations to implement specified security measures, and adversely affect our business, financial condition, and results of operations. We cannot assure you that the limitations of liability in our contracts would be enforceable or adequate or would otherwise protect us from liabilities or damages.

These risks are likely to increase as we continue to grow and process, control, store, and transmit increasingly large amounts of data.

Additionally, we cannot be certain that our insurance coverage will be adequate or otherwise protect us with respect to claims, expenses, fines, penalties, business loss, data loss, litigation, regulatory actions, or other impacts arising out of security breaches, particularly if we experience an event that impacts multiple customers, or that such coverage will continue to be available on acceptable terms or at all. Any of these results could adversely affect our business, financial condition, and results of operations.

***Real or perceived errors, failures, bugs, or defects in our offering could adversely affect our reputation and harm our business.***

Our offering and platform for data in motion are complex and, like all software, may contain undetected defects or errors. We are continuing to evolve the features and functionality of our data-in-motion platform through updates and enhancements, and as we do so, we may introduce additional defects or errors that may not be detected until after deployment by our customers. In addition, if our platform is not implemented or used correctly or as intended, inadequate performance and disruptions in service may result. Moreover, if we acquire companies or integrate into our platform technologies developed by third parties, we may encounter difficulty in incorporating the newly-obtained technologies into our platform and maintaining the quality standards that are consistent with our reputation. Since our customers use our platform for data in motion for important aspects of their business, any actual or perceived errors, defects, bugs, or other performance problems could damage our customers' businesses. Any defects or errors in our data-in-motion platform, or the perception of such defects or errors, could result in a loss of, or delay in, market acceptance of our offering, loss of existing or potential customers, and delayed or lost revenue and could damage our reputation and our ability to convince enterprise users of the benefits of our offering.

In addition, errors in our data-in-motion platform could cause system failures, loss of data or other adverse effects for our customers that may assert warranty and other claims for substantial damages against us. Although our agreements with our customers typically contain provisions that seek to limit our exposure to such claims, it is possible that these provisions may not be effective or enforceable under the laws of some jurisdictions. While we seek to insure against these types of claims, our insurance policies may not adequately limit our exposure to such claims. These claims, even if unsuccessful, could be costly and time consuming to defend and could harm our business, financial condition, results of operations, and cash flows.

***Interruptions or performance problems associated with our offering may adversely affect our business, financial condition, and results of operations.***

Our continued growth depends in part on our ability to provide a consistently reliable platform for data in motion. If we are unable to do so due to vulnerabilities in programming, coding errors, outages caused by our platform's complexity or scale or due to disruptions in cloud services, or because the systems complexity and scale result in extended outages, we may experience a loss of customers, lost or delayed market acceptance of our offering, delays in payment to us by customers, injury to our reputation and brand, legal claims against us, and the diversion of our resources.

It may become increasingly difficult to maintain and improve the performance of Confluent Cloud as our customer base grows and Confluent Cloud becomes more complex. We may experience disruptions, outages, and other performance problems in Confluent Cloud due to a variety of factors, including infrastructure changes, introductions of new functionality, human or software errors, denial of service attacks, issues with third-party cloud hosting providers, or other security-related incidents. In addition, to the extent that we do not effectively address capacity constraints, upgrade our systems as needed, and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business, financial condition, and results of operations may be adversely affected.

***Complying with increasingly stringent laws and requirements relating to privacy, data security, and data protection may be expensive and disruptive to our business, and our failure or perceived failure to comply with them could harm our business.***

We, our customers, and third parties who we work with are subject to numerous evolving and increasingly stringent foreign and domestic laws and requirements relating to privacy, data security, and data protection that are increasing the cost and complexity of operating our business.

Many states have enacted privacy, data security, and data protection laws. For example, the California Consumer Privacy Act, or CCPA, gives California residents expanded rights to access and delete their personal information, opt-out of certain personal information sharing, and receive detailed information about how their personal information is used. The CCPA provides for civil penalties for violations, as well as a private right of action for data breaches that is expected to increase data breach litigation. Some observers have noted that the CCPA could mark the beginning of a trend toward more stringent privacy legislation in the United States. California has already adopted a new law, the California Privacy Rights Act of 2020, or CPRA, that will substantially expand the CCPA effective January 1, 2023. Virginia has similarly enacted a comprehensive privacy law, the Consumer Data Protection Act, and Colorado recently enacted the Colorado Privacy Act, both of which emulate the CCPA and CPRA in many respects. Further, proposals for comprehensive privacy, data security, and data protection legislation are advancing in several other states, and a patchwork of differing requirements would increase the cost and complexity of operating our business and increase our exposure to liability.

Foreign laws relating to privacy, data security, and data protection are also undergoing a period of rapid change and have become more stringent in recent years. For example, the General Data Protection Regulation, or GDPR, applies in the European Union, or EU, and has also been transposed into national law in the United Kingdom, or the UK. The GDPR subjects noncompliant companies to fines of up to the greater of 20 million Euros or 4% of their global annual revenues, potential bans on processing of personal information, and private litigation. The GDPR requires companies to give detailed disclosures about how they collect, use, and share personal information; contractually commit to data protection measures in contracts with customers and vendors; maintain adequate data security measures; notify regulators and affected individuals of certain data breaches; meet extensive privacy governance and documentation requirements; and honor individuals' data protection rights, including their rights to access, correct, and delete their personal information. The GDPR also requires controllers to conduct data protection impact assessments for certain types of processing and requires processors to assist controllers with such assessments, which may be complex and burdensome to conduct. Laws in EU member states and the UK also impose restrictions on direct marketing communications and the use of cookies and similar technologies online, and a new regulation proposed in the EU called the e-Privacy Regulation may make such restrictions more stringent.

European privacy, data security, and data protection laws, including the GDPR, also generally restrict the transfer of personal information from Europe to the United States and most other countries unless the parties to the transfer have implemented certain transfer mechanisms. The transfer mechanism on which we have primarily relied for such transfers has been implementation of the European Commission’s Standard Contractual Clauses, or SCCs, in our relevant data transfer agreements. However, a July 2020 decision of the Court of Justice of the EU heightened the standards to use the SCCs for the transfer of EU personal data to countries that have not been deemed to provide an adequate level of protection as required by the GDPR, including the United States, and required the implementation of additional safeguards where necessary. Authorities in Switzerland have since raised questions about the SCCs as a mechanism for complying with Swiss data transfer requirements. On June 4, 2021, the European Commission adopted new SCCs, which impose on companies additional obligations relating to data transfers, including the obligation to conduct a transfer impact assessment and, depending on a party’s role in the transfer, to implement additional security measures and to update internal privacy practices. We have elected to rely on the new SCCs for data transfers, and continue to incur significant time and resources to comply with new regulations. The new SCCs may increase the legal risks and liabilities under European privacy, data security, and data protection laws. At present, there are few, if any, viable alternatives to the SCCs. If we do not fully comply with the heightened standards to use the SCCs, including by implementing supplementary measures pursuant to recommendations made by the European Data Protection Board where necessary, we may be subject to fines or penalties and our business may be harmed. In addition, the regulation of data transfers between the EU and UK remains subject to uncertainty following the exit of the U.K. from the EU, or Brexit. On June 28, 2021, the European Commission issued an adequacy decision under the GDPR which allows transfers of personal information from the EU to the UK to continue without restriction for a period of four years ending June 27, 2025. If the adequacy decision is withdrawn or not renewed, transfers of personal information from the EU to the UK will require a valid transfer mechanism and companies making such transfers may be required to implement new processes and put new agreements in place to make such transfers. Additionally, although UK privacy, data security, and data protection law is designed to be consistent with the GDPR, uncertainty remains regarding how data transfers to and from the UK will be regulated notwithstanding Brexit. If our efforts to comply with Europe’s highly dynamic cross-border data transfer requirements are not successful, we will face increased risk of substantial fines by European regulators and bans on importing personal information. These evolving requirements may also result in reduced demand for our services from customers subject to the GDPR and require us to increase our data processing capabilities and other operations in Europe at significant expense.

Privacy, data security, and data protection rules are also becoming more stringent beyond Europe. For example, in recent years Brazil and Japan have enacted new and amended laws that seek to align those countries’ data protection rules more closely with the GDPR, and companies that violate them face substantial penalties. Proposals for new comprehensive privacy, data security, and data protection legislation are also advancing in China, India, and Canada. For example, in August 2021, China adopted the Personal Information Protection Law (“PIPL”), which took effect on November 1, 2021 and introduces a legal framework similar to the GDPR that is viewed as the beginning of a comprehensive system for the protection of personal information in China. Foreign data localization laws requiring certain data to be stored in the jurisdiction of origin have also become increasingly common.

Like our legal obligations, the demands our customers place on us relating to privacy, data protection, and data security are becoming more stringent. Privacy, data security, and data protection laws including the GDPR and CCPA increasingly require companies to impose specific contractual restrictions on their service providers. In addition, customers that use certain of our products to process protected health information may require us to sign business associate agreements that subject us to the privacy and security requirements under the U.S. Health Insurance Portability and Accountability Act of 1996 and the U.S. Health Information Technology for Economic and Clinical Health Act, as well as state laws that govern the privacy and security of health information. Our customers’ increasing privacy, data security, and data protection standards also increase the cost and complexity of ensuring that the third parties we rely on to operate our business and deliver our services can meet these standards. If we or our vendors are unable to meet our customers’ demands or comply with the increasingly stringent legal or contractual requirements they impose on us relating to privacy, data security, and data protection, including requirements based on updated SCCs, we may face increased legal liability, customer contract terminations and reduced demand for our services.

Finally, we publish privacy policies and other documentation regarding our collection, use, disclosure, and other processing of personal information. Although we endeavor to adhere to these policies and documentation, we and the third parties on which we rely may at times fail to do so or may be perceived to have failed to do so. Such failures could subject us to regulatory enforcement action as well as costly legal claims by affected individuals or our customers.

We strive to comply with applicable privacy, data security, and data protection laws and requirements, but we cannot fully determine the impact that current or future such laws and requirements may have on our business or operations. Such laws or requirements may be inconsistent from one jurisdiction to another, subject to differing interpretations, and courts or regulators may deem our efforts to comply as insufficient. If we or the third parties we rely on to operate our business and deliver our services fail to comply, or are perceived as failing to comply, with our legal or contractual obligations relating to privacy, data security or data protection, or our policies and documentation relating to personal information, we could face governmental enforcement action; litigation with our customers, individuals or others; fines and civil or criminal penalties for us or company officials; obligations to cease offering our services or to substantially modify them in ways that make them less effective in certain jurisdictions; negative publicity and harm to our brand and reputation; and reduced overall demand for our services. Such developments could adversely affect our business, financial condition, and results of operations.

#### **Risks Related to Our Sales and Marketing Efforts and Brand**

***Failure to effectively develop and expand our sales and marketing capabilities or improve the productivity of our sales and marketing organization could harm our ability to expand our potential customer and sales pipeline, increase our customer base, and achieve broader market acceptance of our offering.***

Our ability to increase our customer base, achieve broader market adoption and acceptance of our offering, and expand our potential customer and sales pipeline and brand awareness will depend to a significant extent on our ability to expand and improve the productivity of our sales and marketing organization. We plan to continue expanding our direct sales force, both domestically and internationally. We also plan to dedicate significant resources to sales and marketing programs, including to decrease the time required for our sales personnel to achieve desired productivity levels. Historically, newly hired sales personnel have needed several quarters to achieve desired productivity levels. Our increased sales and marketing efforts will also involve investing significant financial and other resources, which could result in increased costs and negatively impact margins. Our business and results of operations will be harmed if our sales and marketing efforts fail to successfully expand our potential customer and sales pipeline, including through increasing brand awareness, new customer acquisition, and market adoption of our offering, particularly for Confluent Cloud, fail to generate significant increases in revenue or result in increases that are smaller than anticipated. We may not achieve anticipated revenue growth from expanding our sales force if we are unable to hire, develop, integrate, and retain talented and effective sales personnel, if our new and existing sales personnel, on the whole, are unable to achieve desired productivity levels in a reasonable period of time or at all, or if our sales and marketing programs are not effective.

***If we fail to maintain and enhance our brand, including among developers, our ability to expand our customer base will be impaired and our business, financial condition, and results of operations may suffer.***

We believe that maintaining and enhancing the Confluent brand, including among developers, is important to support the marketing and sale of our existing and future offerings to new customers and expansion of sales to existing customers. We believe that the importance of brand recognition will increase as competition in our market increases. In particular, we believe that enhancing the Confluent brand will be critical to the growth and market adoption and acceptance of Confluent Cloud due to the presence of open source alternatives, competing large public cloud providers with widespread name recognition, such as AWS, Azure, and GCP, and other data infrastructure platforms. Software developers, including those within our customers' IT departments, are often familiar with our underlying technology and value proposition. We rely on their continued adoption of our offering to evangelize on our behalf within their organizations and increase reach and mindshare within the developer community. Actions that we have taken in the past or may take in the future with respect to Apache Kafka or our community license, including the development and growth of our proprietary offering, may be perceived negatively by the developer community and harm our reputation. Successfully maintaining and enhancing our brand will depend largely on the effectiveness of our marketing efforts, our ability to provide reliable products that continue to meet the needs of our customers at competitive prices, our ability to maintain our customers' trust, our ability to continue to develop new functionality and use cases, our ability to successfully differentiate our offering and its capabilities from competitive products, including open source alternatives, and our ability to increase our reach and mindshare in the developer community. Our brand promotion activities may not generate customer awareness or yield increased revenue, and even if they do, any increased revenue may not offset the expenses we incur in building our brand. If we fail to successfully promote and maintain our brand, our business, financial condition, and results of operations may suffer.

***We have a limited history with pricing models for our offering, and we may need to adjust the pricing terms of our offering, which could have an adverse effect on our revenue and results of operations.***

We have limited experience with respect to determining the optimal prices for our offering, and we have changed our pricing model from time to time and expect to continue to do so in the future. For example, in late 2019, we transitioned the primary purchase model for Confluent Cloud from a defined configuration paid annually in advance to a model based on actual monthly usage and committed annual spend. We also expect to continue providing additional features and functionality for our offering as we work toward expanding applications and use cases for our offering, which will require us to continuously evaluate optimal pricing for our offering. If we do not optimally adjust pricing for our offering, our revenue and margins as well as future customer acquisitions may be negatively impacted. As the markets for our offering mature, or as new competitors introduce new products or services that compete with ours, we may be unable to attract new customers at the same price or on the same terms. Moreover, enterprise customers may demand greater price concessions, or we may be unable to increase prices to offset increases in costs, including hosting costs associated with Confluent Cloud. As a result, in the future we may be required to reduce our prices or increase our discounting, which could adversely affect our revenue, gross margin, profitability, financial position, and cash flow.



***Sales to enterprise customers involve risks that may not be present or that are present to a lesser extent with respect to sales to smaller organizations.***

As of December 31, 2021, we had 734 customers with \$100,000 or greater in ARR. See the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Business Metrics” for a description of ARR. Sales to enterprise customers and large organizations involve risks that may not be present or that are present to a lesser extent with sales to smaller customers, including the commercial customer segment. These risks include longer sales cycles, more complex customer requirements, substantial upfront sales costs and less predictability in completing some of our sales. For example, enterprise customers may require considerable time to evaluate and test our offering and those of our competitors prior to making a purchase decision and placing an order. A number of factors influence the length and variability of our sales cycle, including the need to educate potential customers about the uses and benefits of our offering, the discretionary nature of purchasing and budget cycles, the COVID-19 pandemic, heightened information security and privacy requirements, and the competitive nature of evaluation and purchasing approval processes. Since the process for deployment, configuration and management of our offering is complex, we are also often required to invest significant time and other resources to train and familiarize potential customers with our offering. Customers may engage in extensive evaluation, testing, and quality assurance work before making a purchase commitment, which increases our upfront investment in sales, marketing, and deployment efforts, with no guarantee that these customers will make a purchase or increase the scope of their subscriptions. In certain circumstances, an enterprise customer’s decision to use our offering may be an organization-wide decision, and therefore, these types of sales require us to provide greater levels of education regarding the use and benefits of our offering. As a result, the length of our sales cycle, from identification of the opportunity to deal closure, has varied, and may continue to vary, significantly from customer to customer, with sales to large enterprises and organizations typically taking longer to complete. Moreover, large enterprise customers often begin to deploy our offering on a limited basis but nevertheless demand configuration, integration services, and pricing negotiations, which increase our upfront investment in the sales effort with no guarantee that these customers will deploy our offering widely enough across their organization to justify our substantial upfront investment.

Given these factors, it is difficult to predict whether and when a sale will be completed and when revenue from a sale will be recognized due to the variety of ways in which customers may purchase our offering. This may result in lower than expected revenue in any given period, which would have an adverse effect on our business, results of operations, and financial condition.

***Our estimates of market opportunity and forecasts of market growth may prove to be inaccurate, and even if the market in which we compete achieves the forecasted growth, our business could fail to grow at similar rates, if at all.***

Our estimates of market opportunity and forecasts of market growth may prove to be inaccurate. 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, including due to the risks described in this Annual Report on Form 10-K. Even if the market in which we compete achieves the forecasted growth, our business could fail to grow at similar rates, if at all.

The variables that go into the calculation of our market opportunity are subject to change over time, and there is no guarantee that any particular number or percentage of addressable users or companies covered by our market opportunity estimates will purchase our offering at all or generate any particular level of revenue for us.

Any expansion in our market depends on a number of factors, including the cost, performance, and perceived value associated with our platform for data in motion and those of our competitors. Even if the market in which we compete meets our size estimates and growth forecasts, our business could fail to grow at similar rates, if at all. Our growth is subject to many factors, including our success in implementing our business strategy, which is subject to many risks and uncertainties.

## Risks Related to Our Customers

***If we are unable to attract new customers or expand our potential customer and sales pipeline, our business, financial condition, and results of operations will be adversely affected.***

To increase our revenue, we must continue to generate market acceptance of our brand and attract new customers and expand our potential customer and sales pipeline. Our success will depend to a substantial extent on the widespread adoption of our offering as an alternative to competing solutions, including open source alternatives. In addition, as our market matures, our offering evolves, and competitors introduce lower cost or differentiated products that compete with our offering, our ability to sell our offering could be impaired. Similarly, our sales efforts could be adversely impacted if customers or users within these organizations perceive that features incorporated into competitive products reduce the need for our offering or if they prefer to purchase competing products that are bundled together with other types of products, such as data infrastructure platforms offered by public cloud providers. Our existing sales and marketing strategies for new customer acquisition may also be unsuccessful. For example, we offer free, limited evaluation and developer usage of Confluent Platform and free introductory usage of Confluent Cloud to encourage awareness, usage, familiarity, and adoption, and a pay-as-you-go arrangement for Confluent Cloud without minimum usage commitments. If we are unable to successfully convert these free users into paying customers, or convert pay-as-you-go customers into customers with usage-based minimum commitments, we will not realize the intended benefits of this marketing and adoption strategy. As a result of these and other factors, we may be unable to attract new customers or expand our potential customer and sales pipeline, which may have an adverse effect on our business, financial condition, and results of operations.

***Our business depends on our existing customers renewing their subscriptions and usage-based minimum commitments, purchasing additional subscriptions and usage-based minimum commitments, and expanding their use of our offering.***

Our future success depends in part on our ability to expand our customers' use of our offering into additional use cases, our customers renewing their subscriptions and usage-based minimum commitments, and our ability to develop our offering for additional use cases and applications. The terms of our subscriptions and usage-based minimum commitments are primarily one year in duration. Our customers have no obligation to renew after the expiration of the applicable term. In order for us to maintain or improve our results of operations, it is important that our customers enter into relationships with us that increase in value over time, and renew and expand their subscriptions with us, including through the use of our offering for additional use cases and applications. Although we seek to increase our revenue through expanded use of our offering by customers in additional use cases, we may not be successful in such efforts. Our dollar-based net retention rate has historically declined or fluctuated, and may further decline or fluctuate, as a result of a number of factors, including loss of one or more customers, the timing and size of any such losses, business strength or weakness of our customers, customer usage of our offering, customer satisfaction with the capabilities of our offering and our level of customer support, our prices, the capabilities and prices of competing products, decisions by customers to use open source alternatives, mergers and acquisitions affecting our customer base, the effects of global economic conditions, or reductions in our customers' spending on IT solutions or their spending levels generally. In addition, as some customers transition from Confluent Platform to Confluent Cloud, our dollar-based net retention rate may decline or fluctuate, at least in the short term, as those customers replace subscriptions to Confluent Platform with usage-based minimum commitments. Historically, some of our customers have elected not to renew their subscriptions with us for a variety of reasons, including as a result of competing products, internally developed or managed solutions, including those based on Apache Kafka or other open source alternatives, and global economic conditions. These factors may also be exacerbated if our customer base of larger enterprises continues to grow, which may require increasingly sophisticated and costly sales efforts, and if large enterprises further develop internal capabilities. If our customers do not renew their subscriptions and/or usage-based minimum commitments, expand their use of our offering, and purchase additional products from us, our revenue may decline and our business, financial condition, and results of operations may be harmed.

***If we or any of our partners fail to offer high-quality support, our reputation could suffer.***

Our customers rely on our or our channel partners' support personnel to resolve issues and realize the full benefits that our offering provides. High-quality support is also important for the continuation and expansion of our relationships with existing customers. The importance of these support functions will increase as we expand our business and pursue new customers. In certain cases when we provide our offering for sale by channel partners as part of their value-added offerings, our partners may be responsible for providing support and support personnel for our customers. We often have limited to no control or visibility in such cases. If we or such partners do not help our customers quickly resolve issues and provide effective ongoing support, our ability to maintain and expand our sales to existing and new customers could suffer, and our reputation with existing or potential customers could suffer.

***The loss of one or more of our key customers, or a failure to renew our agreements with one or more of our key customers, could negatively affect our ability to market our offering.***

We rely on our reputation and recommendations from key customers in order to promote our offering. The loss of any of our key customers, or a failure of some of them to renew, could have a significant impact on our revenue, reputation, and our ability to obtain new customers. In addition, acquisitions of our customers could lead to cancellation of our subscriptions and usage-based commitments with those customers or by the acquiring companies, thereby reducing the number of our existing and potential customers. Acquisitions of our partners could also result in a decrease in the number of our current and potential customers, as our partners may no longer facilitate the adoption of our offering.

***Incorrect implementation or use of our offering, or our customers' failure to update Confluent Platform, could result in customer dissatisfaction and negatively affect our reputation, business, operations, financial results, and growth prospects.***

Our offering is often used for and within large scale, complex IT environments. Our customers and some partners require education and experience in the proper use of and the benefits that can be derived from our offering to maximize their potential. If users of our offering do not implement, use, or update our offering correctly or as intended, then inadequate performance and/or security vulnerabilities may result. Because our customers rely on our offering to manage a wide range of operations, the incorrect implementation or use of our offering, or our self-managed customers' failure to update Confluent Platform, or our failure to train customers on how to use our offering productively may result in customer dissatisfaction, and negative publicity, and may adversely affect our reputation and brand. Our failure to effectively provide education and implementation services to our customers could result in lost opportunities for follow-on sales to these customers and decrease subscriptions by new customers, which would adversely affect our business and growth prospects.

***Indemnity provisions in various agreements to which we are party potentially expose us to substantial liability for infringement, misappropriation, or other violation of intellectual property rights, data protection, and other losses.***

Certain of our agreements with our customers and other third parties include indemnification provisions under which we agree to indemnify or otherwise be liable to them for losses suffered or incurred as a result of claims of infringement, misappropriation or other violation of intellectual property rights, data protection, compliance with laws, damages caused by us to property or persons, or other liabilities relating to or arising from our software, services, platform, our acts or omissions under such agreements, or other contractual obligations. From time to time, our customers and other third parties have requested, and may in the future request, us to indemnify them for such claims or liabilities. In certain circumstances, our agreements provide for uncapped indemnity liability for certain intellectual property infringement claims. Large indemnity payments could harm our business, financial condition, and results of operations. Although we attempt to contractually limit our liability with respect to such indemnity obligations, we are not always successful and may still incur substantial liability related to them, and we may be required to cease use of or modify certain functions of our offering as a result of any such claims. Any dispute with a customer or other third party with respect to such obligations could have adverse effects on our relationship with such customer or other third party and other existing or prospective customers, reduce demand for our subscriptions and services and adversely affect our business, financial condition, and results of operations. In addition, although we carry general liability insurance, our insurance may not be adequate to indemnify us for all liability that may be imposed or otherwise protect us from liabilities or damages with respect to claims alleging unauthorized access to or disclosure of customer data, and any such coverage may not continue to be available to us on acceptable terms or at all.

***We typically provide service-level commitments under our customer agreements. If we fail to meet these commitments, we could face customer terminations, a reduction in renewals, and damage to our reputation, which would lower our revenue and harm our business, financial condition, and results of operations.***

Our agreements with our customers contain uptime and response service-level commitments. If we fail to meet these commitments, we could face customer terminations or a reduction in renewals, which could significantly affect both our current and future revenue. Any service-level commitment failures could also damage our reputation. In addition, if we are unable to meet the stated uptime requirements described in our Confluent Cloud agreements, we may be contractually obligated to provide these customers with service credits, which could significantly affect our revenue in the periods in which the failure occurs and the credits are applied. Any of these outcomes or failures could also adversely affect our business, financial condition, and results of operations.

**Risks Related to Our Intellectual Property**

***We use third-party open source software in our offering, which could negatively affect our ability to sell our offering or subject us to litigation or other actions.***

We use third-party open source software in our offering, most significantly Apache Kafka, and we expect to continue to incorporate such open source software in our offering in the future. Many open source software licenses, including the Apache License, Version 2.0, state that any work of authorship licensed under it may be reproduced and distributed provided that certain conditions are met. However, we may be subject to suits by parties claiming ownership rights in what we believe to be permissively licensed open source software or claiming non-compliance with the applicable open source licensing terms. It is possible that a court would hold the Apache License, Version 2.0 to be unenforceable or that someone could assert a claim for proprietary rights in a program developed and distributed under it. Any ruling by a court that this license is not enforceable, or that open source components of our offering may not be reproduced or distributed, may negatively impact our distribution or development of all or a portion of our offering.

In addition, some open source licenses require end-users who distribute or make available across a network software and services that include open source software to make available all or part of such software, which in some circumstances could include valuable proprietary code. While we employ practices designed to monitor our compliance with the licenses of third-party open source software and protect our valuable proprietary source code, we may inadvertently use third-party open source software in a manner that is inconsistent with our applicable policies, or that exposes us to claims of non-compliance with the terms of their licenses, including claims of intellectual property rights infringement or breach of contract. Furthermore, there exists today an increasing number of types of open source software licenses, almost none of which have been tested in courts of law to provide guidance of their proper legal interpretations. From time to time, there have been claims challenging the ownership rights in open source software against companies that incorporate it into their offerings, and the licensors of such open source software provide no warranties or indemnities with respect to such claims. As a result, we and our customers could be subject to lawsuits or threats of lawsuits by parties claiming ownership rights in what we believe to be permissively licensed open source software. Resulting litigation could be costly for us to defend and harm our reputation, business, financial condition, and results of operations. If our activities were determined to be out of compliance with the terms of any applicable “copyleft” open source licenses, we may be required to publicly release certain portions of our proprietary source code for no cost, we could face an injunction for our offering, and we could also be required to expend substantial time and resources to re-engineer some or all of our software.

We also regularly contribute source code under open source licenses and have made some of our own software available under open source or source-available licenses, and we include third-party open source software in our offering. Because the source code for any software we contribute to open source projects, including Apache Kafka, or distribute under open source or source-available licenses is publicly available, our ability to protect our intellectual property rights with respect to such source code may be limited or lost entirely, and we may be limited in our ability to prevent our competitors or others from using such contributed source code. While we have policies in place that govern such submissions, there is a risk that employees may submit proprietary source code or source code embodying our intellectual property, in either case, not intended to be distributed in such a manner, to such open source projects. In addition, the use of third-party open source software may expose us to greater risks than the use of third-party commercial software because open source licensors generally do not provide warranties or controls on the functionality or origin of the software. Use of open source software may also present additional security risks because the public availability of such software may publicize vulnerabilities or otherwise make it easier for hackers and other third parties to determine how to compromise our platform or the systems of our customers who are running our offering. Any of the foregoing could be harmful to our business, results of operations or financial condition, and could help our competitors develop products and services that are similar to or better than ours.

***Our offering has evolved from Apache Kafka and other open source software, which are widely available, and therefore, we do not own the exclusive rights to the use of Apache Kafka and other open source software, nor are we able to control the evolution, enhancement, and maintenance of Apache Kafka and other open source software.***

The technology underlying our offering has evolved from certain open source software, such as Apache Kafka, and as a result we cannot exclude other companies from adopting and modifying certain common elements of our software and that of such open source software. With open source software, competitors can also develop competing products without the amount of overhead and lead time required for traditional proprietary software development. In addition, if competing products are also based on or compatible with Apache Kafka, existing customers may also be able to easily transfer their applications to competing products. Competitors with greater resources than ours or members of the Apache Kafka community may create similar or superior offerings, or modify Apache Kafka with different, superior features, and could make such products available to the public free of charge. Our competitors or members of the open source community may also develop a new open source project or a closed-source proprietary product that is similar to and superior to Apache Kafka in terms of features or performance, in turn gaining popularity or replacing Apache Kafka as the new standard for data-in-motion technology among developers and other users. As a result, the future of Apache Kafka and other open source software could change dramatically and such change in trajectory, use and acceptance in the marketplace and resulting competitive pressure could result in reductions in the prices we charge for our offering, loss of market share, and adversely affect our business operations and financial outlook. Additionally, the development and growth of our proprietary offering may result in the perception within the open source community of a diminution of our commitment to Apache Kafka and other open source platforms. Such perceptions may negatively affect our reputation within the developer community, which may adversely affect market acceptance and future sales of our offering.

***Any failure to obtain, maintain, protect, or enforce our intellectual property and proprietary rights could impair our ability to protect our proprietary technology and our brand.***

Our success depends to a significant degree on our ability to obtain, maintain, protect and enforce our intellectual property rights, including our proprietary technology, know-how, and our brand. We rely on a combination of trademarks, trade secret laws, patents, copyrights, service marks, contractual restrictions, and other intellectual property laws and confidentiality procedures to establish and protect our proprietary rights. However, the steps we take to obtain, maintain, protect, and enforce our intellectual property rights may be inadequate. We will not be able to protect our intellectual property rights if we are unable to enforce our rights or if we do not detect unauthorized use of our intellectual property rights. If we fail to protect our intellectual property rights adequately, our competitors may gain access to our proprietary technology and develop and commercialize substantially identical products, services, or technologies. In addition, defending our intellectual property rights might entail significant expense. Any patents, trademarks or other intellectual property rights that we have or may obtain may be challenged or circumvented by others or invalidated or held unenforceable through administrative process, including re-examination, *inter partes* review, interference and derivation proceedings, and equivalent proceedings in foreign jurisdictions (e.g., opposition proceedings), or litigation.

We have a limited patent portfolio. Even if we continue to seek patent protection in the future, we may be unable to obtain or maintain patent protection for our technology. In addition, our issued patents or any patents issued from future patent applications or licensed to us in the future may not provide us with competitive advantages or may be successfully challenged by third parties. There may be issued patents of which we are not aware, held by third parties that, if found to be valid and enforceable, could be alleged to be infringed by our current or future technologies or offerings. There also may be pending patent applications of which we are not aware that may result in issued patents, which could be alleged to be infringed by our current or future technologies or offerings. Furthermore, legal standards relating to the validity, enforceability, and scope of protection of intellectual property rights are uncertain. Despite our precautions, it may be possible for unauthorized third parties to copy our offering and use information that we regard as proprietary to create products that compete with ours. Patent, trademark, copyright, and trade secret protection may not be available to us in every country in which our offering is available.

The value of our intellectual property could diminish if others assert rights in or ownership of our trademarks and other intellectual property rights, or trademarks that are similar to our trademarks. We may be unable to successfully resolve these types of conflicts to our satisfaction. In some cases, litigation or other actions may be necessary to protect or enforce our trademarks and other intellectual property rights. Furthermore, third parties may assert intellectual property claims against us, and we may be subject to liability, required to enter into costly license agreements, or required to rebrand our offering or prevented from selling our offering if third parties successfully oppose or challenge our trademarks or successfully claim that we infringe, misappropriate or otherwise violate their trademarks or other intellectual property rights. In addition, the laws of some foreign countries may not be as protective of intellectual property rights as those in the United States, and mechanisms for enforcement of intellectual property rights may be inadequate. As we expand our international activities, our exposure to unauthorized copying and use of our offering and proprietary information will likely increase. Moreover, policing unauthorized use of our technologies, trade secrets, and intellectual property may be difficult, expensive, and time-consuming, particularly in foreign countries where the laws may not be as protective of intellectual property rights as those in the United States and where mechanisms for enforcement of intellectual property rights may be weak. Accordingly, despite our efforts, we may be unable to prevent third parties from infringing upon, misappropriating or otherwise violating our intellectual property rights.

We enter into confidentiality and invention assignment agreements with our employees and consultants and enter into confidentiality agreements with other third parties, including suppliers and other partners. However, we cannot guarantee that we have entered into such agreements with each party that has or may have had access to our proprietary information, know-how, and trade secrets. Moreover, no assurance can be given that these agreements will be effective in controlling access to, distribution, use, misuse, misappropriation, reverse engineering, or disclosure of our proprietary information, know-how, and trade secrets. Further, these agreements may not prevent our competitors from independently developing technologies that are substantially equivalent or superior to our offering and platform capabilities. These agreements may be breached, and we may not have adequate remedies for any such breach. Additionally, as a result of the Codecov Breach, certain of our proprietary data and information, including source code, was exfiltrated. This and any future similar incidents may lead to unauthorized use of our intellectual property rights by third parties. Third parties with access to our exfiltrated source code may also glean insights into our proprietary architecture by examining structural elements of the source code. Due to the nature of this incident, our ability to enforce our rights against such unauthorized users may be limited or not possible.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect such rights. Litigation may be necessary in the future to enforce our intellectual property rights and to protect our trade secrets. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming, and distracting to management, and could result in the impairment or loss of portions of our intellectual property. Further, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims, and countersuits attacking the validity and enforceability of our intellectual property rights, and if such defenses, counterclaims, or countersuits are successful, we could lose valuable intellectual property rights. Our inability to protect our proprietary technology against unauthorized copying or use, as well as any costly litigation or diversion of our management's attention and resources, could delay further sales or the implementation of our offering and platform capabilities, impair the functionality of our offering and platform capabilities, delay introductions of new solutions, result in our substituting inferior or more costly technologies into our offering, or injure our reputation.

***We may become subject to intellectual property disputes, which are costly and may subject us to significant liability and increased costs of doing business.***

We may become subject to intellectual property disputes. Our success depends, in part, on our ability to develop and commercialize our offering without infringing, misappropriating or otherwise violating the intellectual property rights of third parties. However, we may not be aware that our offering is infringing, misappropriating or otherwise violating third-party intellectual property rights, and such third parties may bring claims alleging such infringement, misappropriation or violation. Lawsuits are time-consuming and expensive to resolve, and they divert management's time and attention. The software industry is characterized by the existence of a large number of patents, copyrights, trademarks, trade secrets, and other intellectual and proprietary rights. Companies in the software industry are often required to defend against litigation claims based on allegations of infringement, misappropriation or other violations of intellectual property rights. Our technologies may not be able to withstand any third-party claims against their use. In addition, many companies have the capability to dedicate substantially greater resources to enforce their intellectual property rights and to defend claims that may be brought against them. We do not currently have a large patent portfolio, which could prevent us from deterring patent infringement claims through our own patent portfolio, and our competitors and others may now and in the future have significantly larger and more mature patent portfolios than we have. Any litigation may also involve patent holding companies or other adverse patent owners that have no relevant product revenue, and therefore, our patent applications may provide little or no deterrence as we would not be able to assert them against such entities or individuals. If a third party is able to obtain an injunction preventing us from accessing such third-party intellectual property rights, or if we cannot license or develop alternative technology for any infringing aspect of our business, we would be forced to limit or stop sales of our offering or cease business activities related to such intellectual property. Although we carry general liability insurance, our insurance may not cover potential claims of this type or may not be adequate to indemnify us for all liability that may be imposed. We cannot predict the outcome of lawsuits and cannot ensure that the results of any such actions will not have an adverse effect on our business, financial condition or results of operations. Any intellectual property litigation to which we might become a party, or for which we are required to provide indemnification, may require us to do one or more of the following:

- cease selling or using offerings that incorporate the intellectual property rights that we allegedly infringe, misappropriate or violate;
- make substantial payments for legal fees, settlement payments, or other costs or damages;
- obtain a license, which may not be available on reasonable terms or at all, to sell or use the relevant technology; or
- redesign the allegedly infringing offerings to avoid infringement, misappropriation or violation, which could be costly, time-consuming, or impossible.

Even if the claims do not result in litigation or are resolved in our favor, these claims, and the time and resources necessary to resolve them, could divert the resources of our management and harm our business and results of operations. Moreover, there could be public announcements of the results of hearings, motions or other interim proceedings or developments, and if securities analysts or investors perceive these results to be negative, it could have a substantial adverse effect on the price of our Class A common stock. We expect that the occurrence of infringement claims is likely to grow as the market for our platform for data in motion and our offering grows. Accordingly, our exposure to damages resulting from infringement claims could increase, and this could further exhaust our financial and management resources.



## Risks Related to Our Dependence on Third Parties

***We rely on third-party providers of cloud-based infrastructure to host Confluent Cloud. Any failure to adapt our offering to evolving network architecture technology, disruption in the operations of these third-party providers, limitations on capacity or use of features, or interference with our use could adversely affect our business, financial condition, and results of operations.***

We outsource all of the infrastructure relating to Confluent Cloud to AWS, Azure, and GCP, as selected by our customers. Customers of our Confluent Cloud service need to be able to access our service at any time, without interruption or degradation of performance, and we provide them with service-level commitments with respect to uptime. Our Confluent Cloud service depends on the ability of the cloud infrastructure hosted by these third-party providers to allow for our customers' configuration, architecture, features, and interconnection specifications, as well as secure the information stored in these virtual data centers, which is transmitted through third-party internet service providers. Any limitation on the capacity of our third-party hosting providers, including due to technical failures, natural disasters, fraud, or security attacks, could impede our ability to onboard new customers or expand the usage of our existing customers, which could adversely affect our business, financial condition, and results of operations. In addition, our third-party cloud service providers run their own platforms that we access, and we are, therefore, vulnerable to service interruptions at these providers. Any incident affecting our providers' infrastructure, including any incident that may be caused by cyber-attacks, natural disasters, fire, flood, severe storm, earthquake, power loss, telecommunications failures, terrorist or other attacks, and other similar events beyond our control could negatively affect our Confluent Cloud service. In some instances, we may not be able to identify the cause or causes of these performance problems within a period of time acceptable to our customers. A prolonged service disruption affecting our service for any of the foregoing reasons would negatively impact our ability to serve our customers and could damage our reputation with current and potential customers, expose us to liability, cause us to lose customers or otherwise harm our business. We may also incur significant costs for using alternative equipment or taking other actions in preparation for, or in reaction to, events that damage the third-party cloud services we use. Features and functionality for Confluent Cloud may also not be available on the same basis or at all on one or more infrastructure platforms, which may hinder adoption of Confluent Cloud, reduce usage, and harm our brand, business, and results of operations. Any of the above circumstances or events may harm our reputation, cause customers to stop using our products, impair our ability to increase revenue from existing customers, impair our ability to grow our customer base, and otherwise harm our business, results of operations, and financial condition.

In the event that our service agreements with our third-party cloud service providers are terminated or amended, or there is a lapse of service, elimination of services or features that we utilize, interruption of internet service provider connectivity or damage to such facilities, access to Confluent Cloud could be interrupted and result in significant delays and additional expense as we arrange or create new facilities and services or re-architect our Confluent Cloud service for deployment on a different cloud infrastructure service provider, which could adversely affect our business, financial condition, and results of operations. To the extent that we do not effectively anticipate capacity demands, upgrade our systems as needed, and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business and results of operations may be adversely affected.

***If we are unable to develop and maintain successful relationships with partners to distribute our products and generate sales opportunities, our business, results of operations, and financial condition could be harmed.***

We have established, and intend to continue seeking opportunities for, partnership arrangements with certain channel partners to distribute our products and generate sales opportunities, particularly internationally. We believe that continued growth in our business is dependent upon identifying, developing, and maintaining strategic relationships with our existing and potential channel partners that can drive revenue growth in more geographies and market segments, particularly for government customers, and provide additional features and functionality to our customers. Our agreements with our existing channel partners are non-exclusive, meaning our channel partners may offer customers the products of several different companies, including products that compete with ours. They may also cease marketing our products with limited or no notice and with little or no penalty. We expect that any additional channel partners we identify and develop will be similarly non-exclusive and not bound by any requirement to continue to market our products. As our channel partnerships come to an end or terminate, we may be unable to renew or replace them on comparable terms, or at all. In addition, winding down channel partnerships can result in additional costs, litigation, and negative publicity. If we fail to identify additional channel partners in a timely and cost-effective manner, or at all, or are unable to assist our current and future channel partners in independently distributing and deploying our products, our business, results of operations, and financial condition could be harmed. When we enter into channel partnerships, our partners may be required to undertake some portion of sales, marketing, implementation services, engineering services, support services, or software configuration that we would otherwise provide, including due to regulatory constraints. In such cases, our partner may be less successful than we would have otherwise been absent the arrangement and our ability to influence, or have visibility into, the sales, marketing, and related efforts of our partners may be limited. Further, if our channel partners do not effectively market and sell our products, or fail to meet the needs of our customers, our reputation and ability to grow our business may also be harmed.

***We depend and rely on SaaS technologies from third parties to operate our business, and interruptions or performance problems with these technologies may adversely affect our business and results of operations.***

We rely on hosted SaaS applications from third parties in order to operate critical functions of our business, including enterprise resource planning, order management, billing, project management, human resources, technical support, and accounting and other operational activities. If these services become unavailable due to extended outages, interruptions or because they are no longer available on commercially reasonable terms, our expenses could increase, our ability to manage finances could be interrupted and our processes for managing sales of our offering and supporting our customers could be impaired until equivalent services, if available, are identified, obtained, and implemented, all of which could adversely affect our business and results of operations.

#### **Risks Related to Our Employees and Culture**

***We rely on the performance of highly skilled personnel, including senior management and our engineering, services, sales and technology professionals. If we are unable to retain or motivate key personnel or hire, retain and motivate qualified personnel, our business will be harmed.***

We believe our success has depended, and continues to depend, on the efforts and talents of our senior management team, particularly Jay Kreps, our Chief Executive Officer and co-founder, as well as our other key employees in the areas of research and development and sales and marketing.

From time to time, there may be changes in our executive management team or other key employees resulting from the hiring or departure of these personnel. Our executive officers and certain other key employees are employed on an at-will basis, which means that these personnel could terminate their employment with us at any time. The loss of one or more of our executive officers, or the failure by our executive team to effectively work with our employees and lead our company, could harm our business. We also are dependent on the continued service of our existing software engineers because of the complexity of our offering.

In addition, to execute our growth plan, we must attract and retain highly qualified personnel. Competition for these personnel is intense, especially for engineers experienced in designing and developing cloud-based infrastructure products and for experienced sales professionals. If we are unable to attract such personnel at appropriate locations, we may need to hire in new regions, which may add to the complexity and costs of our business operations. From time to time, we have experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications. Many of the companies with which we compete for experienced personnel have greater resources than we have. If we hire employees from competitors or other companies, their former employers may attempt to assert that these employees or we have breached certain legal obligations, resulting in a diversion of our time and resources. In addition, prospective and existing employees often consider the value of the equity awards they receive in connection with their employment. If the perceived value of our equity awards declines, experiences significant volatility, or increases such that prospective employees believe there is limited upside to the value of our equity awards, it may adversely affect our ability to recruit and retain key employees. If we fail to attract new personnel or fail to retain and motivate our current personnel, our business and future growth prospects would be harmed.

***Our company values have contributed to our success. If we cannot maintain these values as we grow, we could lose certain benefits we derive from them, and our employee turnover could increase, which could harm our business.***

We believe that our company values have been and will continue to be a key contributor to our success. We have rapidly increased our workforce across all departments, and we expect to continue to hire aggressively across our business. Our anticipated headcount growth, combined with our transition from a privately-held to a publicly-traded company, may result in changes to certain employees' adherence to our core company values. If we do not continue to maintain our adherence to our company values as we grow, including through any future acquisitions or other strategic transactions, we may experience increased turnover in a portion of our current employee base and may not continue to be successful in hiring future employees. Moreover, many of our employees may be eligible to receive significant proceeds from the sale of Class A common stock in the public markets. This may lead to higher employee attrition rates. If we do not replace departing employees on a timely basis, our business and growth may be harmed.

### **Risks Related to Our International Operations**

***If we are not successful in expanding our operations and customer base internationally, our business and results of operations could be negatively affected.***

A component of our growth strategy involves the further expansion of our operations and customer base internationally. Customers outside the United States generated 36% of our revenue for the year ended December 31, 2021. We are continuing to adapt to and develop strategies to expand in international markets, but there is no guarantee that such efforts will have the desired effect. For example, we anticipate that we will need to establish relationships with new channel partners in order to expand into certain countries, and if we fail to identify, establish, and maintain such relationships, we may be unable to execute on our expansion plans. As of December 31, 2021, approximately 33% of our full-time employees were located outside of the United States, with 9% of our full-time employees located in the UK. We expect that our international activities will continue to grow for the foreseeable future as we continue to pursue opportunities in existing and new international markets, which will require significant dedication of management attention and financial resources. If we invest substantial time and resources to further expand our international operations and are unable to do so successfully and in a timely manner, our business and results of operations will suffer.

***We are subject to risks inherent in international operations that can harm our business, results of operations, and financial condition.***

Our current and future international business and operations involve a variety of risks, including:

- slower than anticipated availability and adoption of cloud infrastructure or cloud-native products by international businesses;
- changes in a specific country's or region's political or economic conditions, including in the UK as a result of Brexit;

- the need to adapt and localize our offering for specific countries;
- greater difficulty collecting accounts receivable and longer payment cycles;
- potential changes in trade relations, regulations, or laws;
- unexpected changes in laws, regulatory requirements, or tax laws;
- more stringent regulations relating to privacy, data security, and data localization requirements and the unauthorized use of, or access to, commercial and personal information;
- differing and potentially more onerous labor regulations, especially in Europe, where labor laws are generally more advantageous to employees as compared to the United States, including deemed hourly wage and overtime regulations in these locations;
- challenges inherent in efficiently managing, and the increased costs associated with, an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits, and compliance programs that are specific to each jurisdiction;
- potential changes in laws, regulations, and costs affecting our UK operations and local employees due to Brexit;
- difficulties in managing a business in new markets with diverse cultures, languages, customs, legal systems, alternative dispute systems, and regulatory systems;
- increased travel, real estate, infrastructure, and legal compliance costs associated with international operations;
- currency exchange rate fluctuations and the resulting effect on our revenue and expenses, and the cost and risk of entering into hedging transactions if we choose to do so in the future;
- limitations on our ability to reinvest earnings from operations in one country to fund the capital needs of our operations in other countries;
- laws and business practices favoring local competitors or general market preferences for local vendors;
- limited or insufficient intellectual property protection or difficulties obtaining, maintaining, protecting, or enforcing our intellectual property rights, including our trademarks and patents;
- political instability or terrorist activities;
- health epidemics or pandemics, such as the COVID-19 pandemic;
- exposure to liabilities under anti-corruption and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act, or FCPA, U.S. bribery laws, the UK Bribery Act, and similar laws and regulations in other jurisdictions; and
- adverse tax burdens and foreign exchange controls that could make it difficult to repatriate earnings and cash.

The occurrence of any one of these risks could harm our international business and, consequently, our results of operations. Additionally, operating in international markets requires significant management attention and financial resources. We cannot be certain that the investment and additional resources required to operate in other countries will produce desired levels of revenue or profitability.

***Legal, political, and economic uncertainty surrounding the exit of the UK from the EU may be a source of instability in international markets, create significant currency fluctuations, adversely affect our operations in the UK and pose additional risks to our business, financial condition, and results of operations.***

Following the result of a referendum in 2016, the UK left the EU on January 31, 2020, commonly referred to as Brexit. Following the end of the transitional period on December 31, 2020, during which period EU rules continued to apply in the UK, an agreement outlining the future trading relationship between the EU and the UK, referred to as the Trade and Cooperation Agreement, became effective. The Trade and Cooperation Agreement, which was formally ratified by the parties and became fully effective on May 1, 2021, does not cover financial services in any meaningful way. Notwithstanding the Trade and Cooperation Agreement, uncertainty concerning the UK's legal, political, and economic relationship with the EU may continue to be a source of instability in the international markets, create significant currency fluctuations, or otherwise adversely affect trading agreements or similar cross-border co-operation arrangements (whether economic, tax, fiscal, legal, regulatory, or otherwise).

These developments have had and may continue to have a significant adverse effect on global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity and limit the ability of key market participants to operate in certain financial markets. In particular, it could also lead to a period of considerable uncertainty in relation to the UK financial and banking markets, as well as on the regulatory process in Europe. Asset valuations, currency exchange rates, and credit ratings may also be subject to increased market volatility. The long-term effects of Brexit will depend on any further agreements, in particular on financial services (or lack thereof), between the UK and the EU.

Such a withdrawal from the EU is unprecedented, and it is unclear how the UK's access to the European single market for goods, capital, services, and labor within the EU, or single market, and the wider commercial, legal, and regulatory environment, will impact our UK operations and customers. Our UK operations service customers in the UK as well as in other countries in the EU and EEA, and these operations could be disrupted by Brexit.

We may also face new regulatory costs and challenges as a result of Brexit that could have an adverse effect on our operations. For example, the UK could lose the benefits of global trade agreements negotiated by the EU on behalf of its members, which, if not replicated by the UK, may result in increased trade barriers. There may continue to be economic uncertainty surrounding the consequences of Brexit that adversely impact customer confidence resulting in customers reducing their spending budgets on our offering, which could harm our business.

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

Our subscriptions and services are billed in U.S. dollars, and therefore, our revenue is not subject to foreign currency risk. However, a strengthening of the U.S. dollar could increase the real cost of our offering to our customers outside of the United States, which could adversely affect our results of operations. In addition, an increasing portion of our operating expenses are incurred outside the United States. These operating expenses are denominated in foreign currencies and are subject to fluctuations due to changes in foreign currency exchange rates. While we do not currently hedge against the risks associated with currency fluctuations, if our foreign currency risk increases in the future and we are not able to successfully hedge against the risks associated with currency fluctuations, our results of operations could be adversely affected.

#### **Risks Related to Our Tax, Legal, and Regulatory Environment**

***We are subject to governmental export and import controls that could impair our ability to compete in international markets or subject us to liability if we violate the controls.***

Our offering is subject to U.S. export controls, including the Export Administration Regulations, and we incorporate encryption technology into our offering. Our offering and the underlying technology may be exported outside of the United States only with the required export authorizations, including by license, a license exception, or other appropriate government authorizations, including the filing of an encryption classification request or self-classification report, as applicable.

Furthermore, we are required to comply with economic and trade sanctions laws and regulations administered by governments where our offering is provided, including the U.S. government (including regulations administered and enforced by the Office of Foreign Assets Control of the U.S. Treasury Department and the U.S. Department of State). These economic and trade sanctions prohibit or restrict the shipment of most products and services to embargoed jurisdictions or sanctioned parties, unless required export authorizations are obtained. Obtaining the necessary export license or other authorization for a particular sale may be time-consuming and may result in the delay or loss of sales opportunities.

While we have taken certain precautions to prevent our offering from being provided in violation of export control and sanctions laws, and are in the process of enhancing our policies and procedures relating to export control and sanctions compliance, our products may have been in the past, and could in the future be, provided inadvertently in violation of such laws. Violations of U.S. sanctions or export control regulations can result in significant fines or penalties and possible incarceration for responsible employees and managers.

If our channel partners fail to obtain appropriate import, export, or re-export licenses or permits, we may also be adversely affected through reputational harm, as well as other negative consequences, including government investigations and penalties.

Also, various countries, in addition to the United States, regulate the import and export of certain encryption and other technology, including import and export licensing requirements, and have enacted laws that could limit our ability to distribute our offering or could limit our end-customers' ability to implement our offering in those countries. Changes in our offering or future changes in export and import regulations may create delays in the introduction of our offering in international markets, prevent our end-customers with international operations from deploying our offering globally or, in some cases, prevent the export or import of our offering to certain countries, governments or persons altogether. From time to time, various governmental agencies have proposed additional regulation of encryption technology. Any change in export or import regulations, economic sanctions or related legislation, increased export and import controls, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our offering by, or in our decreased ability to export or sell our offering to, existing or potential end-customers with international operations. Any decreased use of our offering or limitation on our ability to export or sell our offering would adversely affect our business, results of operations, and growth prospects.

***We are subject to anti-corruption, anti-bribery, anti-money laundering, and similar laws, and non-compliance with such laws can subject us to criminal or civil liability and harm our business, financial condition, and results of operations.***

We are subject to the FCPA, U.S. domestic bribery laws, the UK Bribery Act, and other anti-corruption and anti-money laundering laws in the countries in which we conduct activities. Anti-corruption and anti-bribery laws have been enforced aggressively in recent years and are interpreted broadly to generally prohibit companies, their employees, and their third-party intermediaries from authorizing, offering, or providing, directly or indirectly, improper payments or benefits to recipients in the public or private sector. As we increase our international sales and business and sales to the public sector, we may engage with business partners and third-party intermediaries to market our offering and to obtain necessary permits, licenses, and other regulatory approvals. In addition, we or our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities. We can be held liable for the corrupt or other illegal activities of these third-party intermediaries, our employees, representatives, contractors, partners, and agents, even if we do not explicitly authorize such activities.

While we have policies and procedures to address compliance with such laws, our employees and agents may take actions in violation of our policies and applicable law, for which we may be ultimately held responsible. As we increase our international sales and business, our risks under these laws may increase.

Detecting, investigating and resolving actual or alleged violations of anti-corruption laws can require a significant diversion of time, resources, and attention from senior management. In addition, noncompliance with anti-corruption, anti-bribery or anti-money laundering laws could subject us to whistleblower complaints, investigations, sanctions, settlements, prosecution, enforcement actions, fines, damages, other civil or criminal penalties or injunctions, suspension, or debarment from contracting with certain persons, reputational harm, adverse media coverage, and other collateral consequences. If any subpoenas or investigations are launched, or governmental or other sanctions are imposed, or if we do not prevail in any possible civil or criminal proceeding, our business, financial condition, and results of operations could be harmed. In addition, responding to any action will likely result in a materially significant diversion of management's attention and resources and significant defense costs and other professional fees.

***Changes in laws and regulations related to the internet or changes in the internet infrastructure itself may diminish the demand for our software, and could have a negative impact on our business.***

The future success of our business, and particularly Confluent Cloud, depends upon the continued use of the internet as a primary medium for commerce, communication, and business applications. Federal, state or foreign government bodies or agencies have in the past adopted, and may in the future adopt, laws or regulations affecting the use of the internet as a commercial medium. Changes in these laws or regulations could require us to modify our software in order to comply with these changes. In addition, government agencies or private organizations may begin to impose taxes, fees or other charges for accessing the internet or commerce conducted via the internet. These laws or charges could limit the growth of internet-related commerce or communications generally, resulting in reductions in the demand for internet-based solutions such as ours.

In addition, the use of the internet as a business tool could be adversely affected due to delays in the development or adoption of new standards and protocols to handle increased demands of internet activity, security, reliability, cost, ease of use, accessibility, and quality of service. The performance of the internet and its acceptance as a business tool have been adversely affected by "ransomware," "viruses," "worms," "malware," "phishing attacks," "data breaches," and similar malicious programs, behavior, and events, and the internet has experienced a variety of outages and other delays as a result of damage to portions of its infrastructure. If the use of the internet is adversely affected by these issues, demand for our subscription offering and related services could suffer.

***Changes in tax laws or tax rulings could harm our financial position and results of operations.***

The tax regimes we are subject to or operate under, including income and non-income taxes, are unsettled and may be subject to significant change. Changes in tax laws, regulations, or rulings, or changes in interpretations of existing laws and regulations, could materially affect our financial position and results of operations. For example, the 2017 Tax Cuts and Jobs Act, or the Tax Act, made broad and complex changes to the U.S. tax code, including changes to U.S. federal tax rates, additional limitations on the deductibility of interest, both positive and negative changes to the utilization of future net operating loss, or NOL, carryforwards, allowing for the expensing of certain capital expenditures, and putting into effect the migration from a "worldwide" system of taxation to a territorial system. The issuance of additional regulatory or accounting guidance related to the Tax Act could materially affect our tax obligations and effective tax rate in the period issued. In addition, many countries in Europe, as well as a number of other countries and organizations (including the Organization for Economic Cooperation and Development and the European Commission), have recently proposed, recommended, or (in the case of countries) enacted or otherwise become subject to changes to existing tax laws or new tax laws that could significantly increase our tax obligations in the countries where we do business or require us to change the manner in which we operate our business. These proposals, recommendations and enactments include changes to the existing framework in respect of income taxes, as well as new types of non-income taxes (such as taxes based on a percentage of revenue or taxes applicable to digital services) which could apply to our business.

Due to the large and expanding scale of our international business activities, these types of changes to the taxation of our activities could increase our worldwide effective tax rate, increase the amount of taxes imposed on our business, and harm our financial position. Such changes may also apply retroactively to our historical operations and result in taxes greater than the amounts estimated and recorded in our financial statements. Any of these outcomes could harm our financial position and results of operations.

***We could be required to collect additional sales taxes or be subject to other tax liabilities that may increase the costs our customers would have to pay for our offering and adversely affect our results of operations.***

An increasing number of states have considered or adopted laws that impose tax collection obligations on out-of-state companies. Online sellers can be required to collect sales and use tax despite not having a physical presence in the buyer's state. States or local governments may interpret existing laws, or have adopted or may adopt new laws, requiring us to calculate, collect and remit taxes on sales in their jurisdictions. A successful assertion by one or more taxing jurisdictions requiring us to collect taxes where we presently do not do so, or to collect more taxes in a jurisdiction in which we currently do collect some taxes, could result in substantial tax liabilities, including taxes on past sales, as well as penalties and interest. The imposition by state or local governments of sales tax collection obligations on out-of-state sellers also could create additional administrative burdens for us, put us at a competitive disadvantage if they do not impose similar obligations on our competitors, and decrease our future sales, which could have a material adverse effect on our business and results of operations.

***Our ability to use our net operating losses to offset future taxable income may be subject to certain limitations.***

As of December 31, 2021, we had net operating loss (NOL) carryforwards for federal and state income tax purposes of \$1,096.7 million and \$559.6 million, respectively, which may be available to offset taxable income in the future. A portion of the NOLs begin to expire in various years beginning in 2034 for federal purposes and 2025 for state purposes if not utilized. The remaining portion of these federal NOLs are carried forward indefinitely. Of the federal net operating loss carryforwards, approximately 96% can be carried forward indefinitely, but are limited to 80% of annual taxable income. In addition, as of December 31, 2021, we had foreign NOL carryforwards of \$59.1 million which can be carried forward indefinitely. A lack of future taxable income would adversely affect our ability to utilize these NOLs before they expire.

In general, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an "ownership change" (as defined under Section 382 of the Code and applicable Treasury Regulations) is subject to limitations on its ability to utilize its pre-change NOLs to offset future taxable income. We may experience a future ownership change under Section 382 of the Code that could affect our ability to utilize the NOLs to offset our income. Furthermore, our ability to utilize NOLs of companies that we have acquired or may acquire in the future may be subject to limitations. There is also a risk that due to regulatory changes, such as suspensions on the use of NOLs or other unforeseen reasons, our existing NOLs could expire or otherwise be unavailable to reduce future income tax liabilities, including for state tax purposes. For these reasons, we may not be able to utilize a material portion of the NOLs reflected on our balance sheet, even if we attain profitability, which could potentially result in increased future tax liability to us and could adversely affect our results of operations and financial condition.

***Changes in our effective tax rate or tax liability may have an adverse effect on our results of operations.***

We are subject to income taxes in the United States and various foreign jurisdictions. The determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment by management, and there are many transactions where the ultimate tax determination is uncertain. We believe that our provision for income taxes is reasonable, but the ultimate tax outcome may differ from the amounts recorded in our consolidated financial statements and may materially affect our financial results in the period or periods in which such outcome is determined.

Our effective tax rate could increase due to several factors, including:

- changes in the relative amounts of income before taxes in the various jurisdictions in which we operate that have differing statutory tax rates;
- changes in tax laws, tax treaties, and regulations or the interpretation of them, including the Tax Act;
- changes to our assessment about our ability to realize our deferred tax assets that are based on estimates of our future results, the prudence and feasibility of possible tax planning strategies, and the economic and political environments in which we do business;



- the outcome of current and future tax audits, examinations or administrative appeals; and
- limitations or adverse findings regarding our ability to do business in some jurisdictions.

Any of these developments could adversely affect our results of operations.

#### **Risks Related to Our Accounting Policies and Internal Controls**

***Our reported financial results may be adversely affected by changes in generally accepted accounting principles (“GAAP”) in the United States.***

GAAP are subject to interpretation by the Financial Accounting Standards Board, 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 could affect the reporting of transactions already completed before the announcement of a change.

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

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes appearing elsewhere in this Annual Report on Form 10-K. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in the section titled “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates.” The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Significant estimates and judgments involve revenue recognition, deferred contract costs, and the valuation of our stock-based compensation awards, among others. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of securities analysts and investors, resulting in a decline in the market price of our Class A common stock.

***As a result of being a public company, we are obligated to develop and maintain proper and effective internal control over financial reporting, and any failure to maintain the adequacy of these internal controls may adversely affect investor confidence in our company and, as a result, the value of our Class A common stock.***

We are required, pursuant to Section 404 of the Sarbanes-Oxley Act, or Section 404, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting for the year ending December 31, 2022. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. In addition, our independent registered public accounting firm will be required to attest to the effectiveness of our internal control over financial reporting in our first annual report required to be filed with the SEC following the date we are no longer an “emerging growth company.” We have recently commenced the costly and challenging process of compiling the system and processing documentation necessary to perform the evaluation needed to comply with Section 404, but we may not be able to complete our evaluation, testing and any required remediation in a timely fashion once initiated. Our compliance with Section 404 will require that we incur substantial expenses and expend significant management efforts. We have only recently established an internal audit group, and as we continue to grow, we may hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge and compile the system and process documentation necessary to perform the evaluation needed to comply with Section 404.

During the evaluation and testing process of our internal controls, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to certify that our internal control over financial reporting is effective. We cannot assure you that there will not be material weaknesses in our internal control over financial reporting in the future. Failure to maintain internal control over financial reporting, including historical or future control deficiencies, could severely inhibit our ability to accurately report our financial condition or results of operations. If we are unable to conclude that our internal control over financial reporting is effective, or if our independent registered public accounting firm determines we have a material weakness in our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of our Class A common stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.

### **Risks Related to Ownership of Our Class A Common Stock**

***The dual class structure of our common stock as contained in our amended and restated certificate of incorporation has the effect of concentrating voting control with those stockholders who held our stock prior to the IPO, including our executive officers, employees, and directors and their affiliates, and limiting your ability to influence corporate matters, which could adversely affect the trading price of our Class A common stock.***

Our Class B common stock has 10 votes per share, and our Class A common stock has one vote per share. As of December 31, 2021, stockholders who hold shares of Class B common stock, including our executive officers and directors and their affiliates, together hold approximately 93.0% of the voting power of our outstanding capital stock, and our Chief Executive Officer, Mr. Kreps, beneficially owns approximately 10.5% of our outstanding classes of common stock as a whole, but controls approximately 16.9% of the voting power of our outstanding common stock. As a result, our executive officers, directors, and other affiliates and potentially our Chief Executive Officer on his own have significant influence over our management and affairs and over all matters requiring stockholder approval, including election of directors and significant corporate transactions, such as a merger or other sale of the company or our assets, for the foreseeable future. Even if Mr. Kreps is no longer employed with us, he will continue to have the same influence over matters requiring stockholder approval.

In addition, the holders of Class B common stock collectively will continue to be able to control all matters submitted to our stockholders for approval even if their stock holdings represent less than 50% of the outstanding shares of our common stock. Because of the 10-to-1 voting ratio between our Class B common stock 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 even when the shares of Class B common stock represent as little as 10% of all outstanding shares of our Class A common stock and Class B common stock. This concentrated control will limit your ability to influence corporate matters for the foreseeable future, and, as a result, the market price of our Class A common stock could be adversely affected.

Future transfers or voluntary conversions by holders of shares of Class B common stock will generally result in those shares converting to shares of Class A common stock, which will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term. Certain permitted transfers, as specified in our amended and restated certificate of incorporation, will not result in shares of Class B common stock automatically converting to shares of Class A common stock, including certain estate planning transfers as well as transfers to our founders or our founders' estates or heirs upon death or incapacity of such founder. If, for example, Mr. Kreps (or family trusts to which he were to transfer shares of Class B common stock) retain a significant portion of his holdings of Class B common stock for an extended period of time, he (or such trusts) could, in the future, control a majority of the combined voting power of our Class A common stock and Class B common stock. As a board member, Mr. Kreps owes a fiduciary duty to our stockholders and must act in good faith in a manner he reasonably believes to be in the best interests of our stockholders. As a stockholder, Mr. Kreps is entitled to vote his shares in his own interests, which may not always be in the interests of our stockholders generally.

FTSE Russell and Standard & Poor's do not allow most newly public companies utilizing dual or multi-class capital structures to be included in their indices. Affected indices include the Russell 2000 and the S&P 500, S&P MidCap 400, and S&P SmallCap 600, which together make up the S&P Composite 1500. Also, in 2017, MSCI, a leading stock index provider, opened public consultations on its treatment of no-vote and multi-class structures and temporarily barred new multi-class listings from certain of its indices; however, in October 2018, MSCI announced its decision to include equity securities "with unequal voting structures" in its indices and to launch a new index that specifically includes voting rights in its eligibility criteria. Under the announced policies, our dual class capital structure makes us ineligible for inclusion in certain indices, and as a result, mutual funds, exchange-traded funds, and other investment vehicles that attempt to passively track these indices will not be investing in our stock. In addition, we cannot assure you that other stock indices will not take similar actions. Given the sustained flow of investment funds into passive strategies that seek to track certain indices, exclusion from certain stock indices would likely preclude investment by many of these funds and would make our Class A common stock less attractive to other investors. As a result, the trading price, volume, and liquidity of our Class A common stock could be adversely affected.

***Our stock price may be volatile, and the value of our Class A common stock may decline.***

The market price of our Class A common stock may be highly volatile and may fluctuate or decline substantially as a result of a variety of factors, some of which are beyond our control, including:

- actual or anticipated fluctuations in our financial condition or results of operations, including due to fluctuations in usage of Confluent Cloud;
- variance in our financial performance, including sales growth and operating margins, from our forecasts or the expectations of securities analysts;
- changes in our revenue mix;
- changes in the pricing of our offering;
- changes in our projected operating and financial results;
- changes in laws or regulations applicable to our offering;
- seasonality in sales, customer implementations, results of operations, and RPO;
- announcements by us or our competitors of significant business developments, acquisitions, or new offerings;
- significant data breaches, disruptions to or other incidents involving our offering;
- our involvement in litigation or regulatory actions;
- future sales of our Class A common stock and Class B common stock by us or our stockholders;
- changes in senior management or key personnel;
- the trading volume of our Class A common stock;
- financial results, changes in operating performance and stock market valuations of technology companies in our industry segment, including our partners and competitors;
- changes in the anticipated future size and growth rate of our market; and
- general economic and market conditions, including effects of inflationary pressures.

Broad market and industry fluctuations, as well as general economic, political, regulatory and market conditions, may also negatively impact the market price of our Class A common stock. In addition, technology stocks have historically experienced high levels of volatility. In the past, companies that have experienced volatility in the market price of their securities have been subject to securities class action litigation. We may be the target of this type of litigation in the future, which could result in substantial expenses and divert our management's attention.

***We have broad discretion in the use of the net proceeds to us from our IPO and our convertible notes offering and may not use them effectively.***

We have broad discretion in the application of the net proceeds to us from our IPO and our convertible notes offering. Because of the number and variability of factors that will determine our use of the net proceeds from our IPO and convertible notes offering, our ultimate use may vary substantially from our currently intended use. Investors will need to rely on the judgment of our management with respect to the use of proceeds. Pending use, we may invest the net proceeds from our IPO and our convertible notes offering in short-term, investment-grade, interest-bearing securities, such as money market funds, corporate notes and bonds, certificates of deposit, commercial paper, and guaranteed obligations of the U.S. government that may not generate a high yield for our stockholders. If we do not use the net proceeds that we received in our IPO or convertible notes offering effectively, our business, financial condition, results of operations, and prospects could be harmed, and the market price of our Class A common stock could decline.

***Future sales of our Class A common stock in the public market could cause the market price of our Class A common stock to decline.***

Sales of a substantial number of shares of our Class A common stock in the public market, or the perception that these sales might occur, could depress the market price of our Class A common stock and could impair our ability to raise capital through the sale of additional equity securities. Many of our equity holders who held our capital stock prior to completion of the IPO have substantial unrecognized gains on the value of the equity they hold based on recent market prices of our shares of Class A common stock, and therefore, they may take steps to sell their shares or otherwise secure the unrecognized gains on those shares. We are unable to predict the timing of or the effect that such sales may have on the prevailing market price of our Class A common stock.

Additionally, the conversion of some or all of the notes may dilute the ownership interests of our stockholders. Upon conversion of the notes, we have the option to pay or deliver, as the case may be, cash, shares of our Class A common stock, or a combination of cash and shares of our Class A common stock. If we elect to settle our conversion obligation in shares of our Class A common stock or a combination of cash and shares of our Class A common stock, any sales in the public market of our Class A common stock issuable upon such conversion could adversely affect prevailing market prices of our Class A common stock. In addition, the existence of the notes may encourage short selling by market participants because the conversion of the notes could be used to satisfy short positions, or anticipated conversion of the notes into shares of our Class A common stock could depress the price of our Class A common stock.

In addition, as of December 31, 2021, up to 65,399,423 shares of our Class B common stock and up to 2,961,468 shares of our Class A common stock may be issued upon exercise of outstanding stock options or vesting and settlement of outstanding RSUs, and 37,959,820 shares of our Class A common stock are available for future issuance under our 2021 Plan and our 2021 ESPP, and will become eligible for sale in the public market to the extent permitted by the provisions of various vesting schedules, exercise limitations and Rule 144 and Rule 701 under the Securities Act. We have registered all of the shares of Class A common stock and Class B common stock issuable upon exercise of outstanding options and all of the shares of Class A common stock issuable upon vesting and settlement of restricted stock units, as well as other equity incentive awards we may grant in the future for public resale under the Securities Act. Shares of Class A common stock will become eligible for sale in the public market to the extent such options are exercised and restricted stock units settle, subject to compliance with applicable securities laws. Our 0% convertible senior notes due 2027 will also become convertible at the option of the holders, subject to certain limitations and restrictions prior to October 15, 2026. If these additional shares of Class A common stock are sold, or if it is perceived that they will be sold, in the public market, the trading price of our Class A common stock could decline.

Further, certain holders of our outstanding common stock, including our founders and entities affiliated with our founders and certain of our directors, have rights, subject to some conditions, to require us to file registration statements covering the sale of their shares or to include their shares in registration statements that we may file for ourselves or other stockholders.

***Our issuance of additional capital stock in connection with financings, acquisitions, investments, our equity incentive plans or otherwise will dilute all other stockholders.***

We expect to issue additional capital stock in the future that will result in dilution to all other stockholders. We expect to grant equity awards to employees, officers and directors under our equity incentive plans. We may also raise capital through equity financings in the future. As part of our business strategy, we may acquire or make investments in companies, products or technologies and issue equity securities to pay for any such acquisition or investment. Any such issuances of additional capital stock may cause stockholders to experience significant dilution of their ownership interests and the per share value of our Class A common stock to decline.

***We do not intend to pay dividends for the foreseeable future and, as a result, your ability to achieve a return on your investment will depend on appreciation in the price of our Class A common stock.***

We have never declared or paid any cash dividends on our capital stock, and we do not intend to pay any cash dividends in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors. Accordingly, you may need to rely on sales of our Class A common stock after price appreciation, which may never occur, as the only way to realize any future gains on your investment.

***We are an “emerging growth company,” and we cannot be certain if the reduced reporting and disclosure requirements applicable to emerging growth companies will make our Class A common stock less attractive to investors.***

We are an “emerging growth company,” as defined in the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies,” including the auditor attestation requirements of Section 404, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. Pursuant to Section 107 of the JOBS Act, as an emerging growth company, we have elected to use the extended transition period for complying with new or revised accounting standards, which allows us to delay adoption until those standards would otherwise apply to private companies. As a result, our consolidated financial statements may not be comparable to the financial statements of issuers who are required to comply with the effective dates for new or revised accounting standards that are applicable to public companies, which may make our Class A common stock less attractive to investors. In addition, when we cease to be an emerging growth company, we will no longer be able to use the extended transition period for complying with new or revised accounting standards.

We will remain an emerging growth company until the first to occur of: (1) the last day of the year following the fifth anniversary of the IPO; (2) the last day of the first year in which our annual gross revenue is \$1.07 billion or more; (3) the date on which we have, during the previous rolling three-year period, issued more than \$1.0 billion in non-convertible debt securities; and (4) the date we qualify as a “large accelerated filer,” with at least \$700 million of equity securities held by non-affiliates as of the preceding June 30 and upon such time that we have been subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, for at least 12 months.

We cannot predict if investors will find our Class A common stock less attractive if we choose to rely on these exemptions. For example, if we do not adopt a new or revised accounting standard, our future results of operations may not be as comparable to the results of operations of certain other companies in our industry that adopted such standards. If some investors find our Class A common stock less attractive as a result, there may be a less active trading market for our Class A common stock, and our stock price may be more volatile.

***We incur significant costs as a result of operating as a public company, and our management is required to devote substantial time to compliance with our public company responsibilities and corporate governance practices.***

As a public company, we incur significant legal, accounting, and other expenses that we did not incur as a private company, which we expect to further increase after we are no longer an “emerging growth company.” The Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of the Nasdaq Global Select Market, and other applicable securities rules and regulations impose various requirements on public companies. Our management and other personnel devote a substantial amount of time to compliance with these requirements. Moreover, these rules and regulations have increased our legal and financial compliance costs and will make some activities more time-consuming and costly. We cannot predict or estimate the amount of additional costs we will incur as a public company or the specific timing of such costs.

***Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our Class A common stock.***

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws may have the effect of preventing a change of control or changes in our management. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- authorize our board of directors to issue, without further action by the stockholders, shares of undesignated preferred stock with terms, rights, and preferences determined by our board of directors that may be senior to our Class A common stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders can be called only by our board of directors, the chairperson of our board of directors, our chief executive officer, or our president (in the absence of a chief executive officer);
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;
- establish that our board of directors is divided into three classes, with each class serving three-year staggered terms;
- prohibit cumulative voting in the election of directors;
- provide that our directors may be removed for cause only upon the vote of the holders of at least a majority of our outstanding shares of voting stock;
- provide that vacancies on our board of directors may be filled only by the affirmative vote of a majority of directors then in office, even though less than a quorum, or by a sole remaining director; and
- require the approval of our board of directors or the holders of at least 66 2/3% of the voting power of our outstanding shares of voting stock to amend our bylaws and certain provisions of our certificate of incorporation.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally, subject to certain exceptions, prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any “interested” stockholder for a period of three years following the date on which the stockholder became an “interested” stockholder. Any of the foregoing provisions could limit the price that investors might be willing to pay in the future for shares of our Class A common stock, and they could deter potential acquirers of our company, thereby reducing the likelihood that holders of our Class A common stock would receive a premium for their shares of our Class A common stock in an acquisition.

***Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware and the federal district courts of the United States of America as the exclusive forums for certain disputes between us and our stockholders, which restricts our stockholders’ ability to choose the judicial forum for disputes with us or our directors, officers, or employees.***

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware (or, if and only if the Court of Chancery of the State of Delaware lacks subject matter jurisdiction, any state court located within the State of Delaware or, if and only if all such state courts lack subject matter jurisdiction, the federal district court for the District of Delaware) is the sole and exclusive forum for the following types of actions or proceedings under Delaware statutory or common law: (i) any derivative action or proceeding brought on our behalf; (ii) any action or proceeding asserting a claim of breach of a fiduciary duty owed by any of our current or former directors, officers, or other employees to us or our stockholders, or any action asserting a claim for aiding and abetting such breach of fiduciary duty; (iii) any action or proceeding asserting a claim against us or any of our current or former directors, officers or other employees arising out of or pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws; (iv) any action or proceeding to interpret, apply, enforce or determine the validity of our amended and restated certificate of incorporation or our amended and restated bylaws (including any right, obligation, or remedy thereunder); (v) any action or proceeding as to which the Delaware General Corporation Law confers jurisdiction to the Court of Chancery of the State of Delaware; and (vi) any action or proceeding asserting a claim against us or any of our current or former directors, officers, or other employees that is governed by the internal affairs doctrine, in all cases to the fullest extent permitted by law and subject to the court’s having personal jurisdiction over the indispensable parties named as defendants. This provision does not apply to suits brought to enforce a duty or liability created by the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction. In addition, to prevent having to litigate claims in multiple jurisdictions and the threat of inconsistent or contrary rulings by different courts, among other considerations, our amended and restated certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, to the fullest extent permitted by law, the federal district courts of the United States of America are the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act, including all causes of action asserted against any defendant named in such complaint. For the avoidance of doubt, this provision is intended to benefit and may be enforced by us, our officers and directors, the underwriters to any offering giving rise to such complaint, and any other professional entity whose profession gives authority to a statement made by that person or entity and who has prepared or certified any part of the documents underlying the offering. However, as Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder, there is uncertainty as to whether a court would enforce such provision. Our amended and restated certificate of incorporation further provides that any person or entity holding, owning or otherwise acquiring any interest in any of our securities shall be deemed to have notice of and consented to these provisions. Investors also cannot waive compliance with the federal securities laws and the rules and regulations thereunder.

These choice of forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees. While the Delaware courts have determined that such choice of forum provisions are facially valid, a stockholder may nevertheless seek to bring such a claim arising under the Securities Act against us, our directors, officers, or other employees in a venue other than in the federal district courts of the United States of America. In such instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provisions of our amended and restated certificate of incorporation. This may require significant additional costs associated with resolving such action in other jurisdictions and we cannot assure you that the provisions will be enforced by a court in those other jurisdictions. If a court were to find either exclusive-forum provision in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur further significant additional costs associated with resolving the dispute in other jurisdictions, all of which could harm our business.

#### **Risks Related to Our Convertible Senior Notes**

***We may not have the ability to raise the funds necessary to settle conversions of the notes in cash or to repurchase the notes upon a fundamental change, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the notes.***

Holders of the notes have the right, subject to certain conditions and limited exceptions, to require us to repurchase all or a portion of their notes upon the occurrence of a fundamental change at a fundamental change repurchase price equal to 100% of the principal amount of the notes to be repurchased, plus accrued and unpaid special interest. In addition, upon conversion of the notes, unless we elect to deliver solely shares of our Class A common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the notes being converted. However, we may not have enough available cash or be able to obtain financing at the time we are required to make repurchases of notes surrendered therefor or pay cash with respect to notes being converted. In addition, our ability to repurchase the notes or to pay cash upon conversions of the notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase notes at a time when the repurchase is required by the indenture or to pay any cash payable on future conversions of the notes as required by the indenture would constitute a default under the indenture. A default under the indenture governing the notes or the fundamental change itself could also lead to a default under agreements governing our future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the notes or make cash payments upon conversions thereof.

***The conditional conversion feature of the notes, if triggered, may adversely affect our financial condition and operating results.***

In the event the conditional conversion feature of the notes is triggered, holders of notes will be entitled to convert their notes at any time during specified periods at their option. If one or more holders elect to convert their notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our Class A common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.



***Certain provisions in the indenture governing the notes may delay or prevent an otherwise beneficial takeover attempt of us.***

Certain provisions in the indenture governing the notes may make it more difficult or expensive for a third party to acquire us. For example, the indenture governing the notes generally requires us to repurchase the notes for cash upon the occurrence of a fundamental change and, in certain circumstances, to increase the conversion rate for a holder that converts its notes in connection with a make-whole fundamental change. A takeover of us may trigger the requirement that we repurchase the notes and/or increase the conversion rate, which could make it costlier for a potential acquirer to engage in such takeover. Such additional costs may have the effect of delaying or preventing a takeover of us that would otherwise be beneficial to investors.

**General Risk Factors**

***Any future litigation against us could be costly and time-consuming to defend.***

We may become subject to legal proceedings and claims that arise in the ordinary course of business, such as intellectual property claims, including trade secret misappropriation and breaches of confidentiality terms, alleged breaches of non-competition or non-solicitation terms, or employment claims made by our current or former employees. Litigation might result in substantial costs and may divert management's attention and resources, which might seriously harm our business, financial condition, and results of operations. Insurance might not cover such claims, might not provide sufficient payments to cover all the costs to resolve one or more such claims, and might not continue to be available on terms acceptable to us. A claim brought against us that is uninsured or underinsured could result in unanticipated costs, potentially harming our business, financial position, and results of operations.

***If securities or industry analysts do not publish research or publish unfavorable or inaccurate research about our business, the market price and trading volume of our Class A common stock could decline.***

The market price and trading volume of our Class A common stock is heavily influenced by the way analysts interpret our financial information and other disclosures. We do not have control over these analysts. If industry analysts cease coverage of us, our stock price would be negatively affected. If securities or industry analysts do not publish research or reports about our business, downgrade our Class A common stock, or publish negative reports about our business, our stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our Class A common stock could decrease, which might cause our stock price to decline and could decrease the trading volume of our Class A common stock.

***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 malfunction, cyber-attack, war, or terrorist attack, explosion, or pandemic could impact our business. In particular, our corporate headquarters are located in the San Francisco Bay Area, a region known for seismic activity, and are thus vulnerable to damage in an earthquake. Our insurance coverage may not compensate us for losses that may occur in the event of an earthquake or other significant natural disaster. Additionally, we rely on third-party cloud providers and enterprise applications, technology systems, and our website for our development, marketing, operational support, hosted services, and sales activities. In the event of a catastrophic event, we may be unable to continue our operations and may endure system interruptions, reputational harm, delays in our product development, lengthy interruptions in our services, and breaches of data security, all of which could have an adverse effect on our future results of operations. If we are unable to develop adequate plans to ensure that our business functions continue to operate during and after a disaster and to execute successfully on those plans in the event of a disaster or emergency, our business would be harmed.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Our headquarters are located in Mountain View, California, where we lease approximately 75,475 square feet pursuant to a lease which expires in 2029. We also lease other offices including in Austin, Texas, London, England, and Dubai, United Arab Emirates. Additionally, we hold many short-term office service memberships in numerous other locations globally. We do not own any real property. We believe that our facilities are adequate to meet our current needs.

**Item 3. Legal Proceedings**

From time to time, we are involved in various legal proceedings arising from activities in the normal course of business. We are not presently a party to any litigation the outcome of which, we believe, if determined adversely to us, would individually or taken together have a material adverse effect on our business, results of operations, cash flows or financial condition. Defending any legal proceedings is costly and can impose a significant burden on management and employees. 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 4. Mine Safety Disclosures**

None.

**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities****Market Information**

Our Class A common stock has been listed on the Nasdaq Global Select Market under the symbol “CFLT” since June 24, 2021. Prior to that date, there was no public trading market for our Class A common stock.

**Holders of Record**

As of February 10, 2022, there were 90 stockholders of record of our Class A common stock and 57 stockholders of record of our Class B common stock. The actual number of holders of our Class A common stock is greater than the number of record holders and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers or other nominees. The number of holders of record presented here also does not include stockholders whose shares may be held in trust by other entities.

**Dividends**

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain all available funds and future earnings, if any, to fund the development and expansion of our business, and we do not anticipate paying any cash dividends in the foreseeable future. Any future determination regarding the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on then-existing conditions, including our financial condition, operating results, contractual restrictions, capital requirements, business prospects, and other factors our board of directors may deem relevant. In addition, our ability to pay dividends may be restricted by agreements we may enter into in the future.

**Recent Sales of Unregistered Securities**

- From January 1, 2021 to June 24, 2021 (the date of the filing of our registration statement on Form S-8, File No. 333-257338), we granted to certain directors, officers, employees, consultants, and other service providers options to purchase an aggregate of 17,189,295 shares of our Class B common stock under our Amended and Restated 2014 Stock Plan, or our 2014 Plan, at exercise prices ranging from \$12.90 to \$22.77 per share.
- From January 1, 2021 to June 24, 2021 (the date of the filing of our registration statement on Form S-8, File No. 333-257338), we granted to certain employees an aggregate of 4,084,219 restricted stock units to be settled in shares of Class B common stock under the 2014 Plan.
- From January 1, 2021 to June 24, 2021 (the date of the filing of our registration statement on Form S-8, File No. 333-257338), we issued to certain directors, officers, employees, consultants, and other service providers an aggregate of 10,627,793 shares of our Class B common stock upon the exercise of options under the 2014 Plan at exercise prices ranging from \$0.04 to \$19.95 per share, for an aggregate purchase price of \$36.8 million.

None of the foregoing transactions involved any underwriters, underwriting discounts or commissions, or any public offering. Unless otherwise stated, the sales of the above securities were deemed to be exempt from registration under the Securities Act in reliance on Section 4(a)(2) of the Securities Act (and Regulation D or Regulation S promulgated thereunder) or Rule 701 promulgated under Section 3(b) of the Securities Act as transactions by an issuer not involving any public offering or pursuant to benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof, and appropriate legends were placed on the share certificates issued in these transactions. All recipients had adequate access, through their relationships with us, to information about us. The sales of these securities were made without any general solicitation or advertising.

#### **Use of Proceeds**

On June 28, 2021, we closed our IPO of 23,000,000 shares of Class A common stock at an offering price of \$36.00 per share, resulting in aggregate gross proceeds to us of \$828.0 million, before deducting underwriting discounts and commissions and offering expenses. All of the shares issued and sold in our IPO were registered under the Securities Act pursuant to a registration statement on Form S-1, as amended (File No. 333-256693), which was declared effective by the SEC on June 23, 2021. There has been no material change in the planned use of proceeds from our IPO from those disclosed in our final prospectus for our IPO dated as of June 23, 2021 and filed with the SEC pursuant to Rule 424(b)(4) on June 25, 2021.

#### **Issuer Purchases of Equity Securities**

None.

### Stock Performance Graph

The following shall not be deemed “soliciting material” or to be “filed” with the SEC, for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any of our filings under the Securities Act.

The performance graph below compares the cumulative total return on our Class A common stock from June 24, 2021 (the date our Class A common stock commenced trading on the Nasdaq Global Select Market) through December 31, 2021 with (i) the Nasdaq Composite Index and (ii) the Nasdaq Computer Index, assuming the investment of \$100 in our Class A common stock and in both of the other indices on June 24, 2021 and the reinvestment of dividends. The performance graph uses the closing market price on June 24, 2021 of \$45.02 per share as the initial value of our Class A common stock. The stock price performance on this performance graph is not necessarily indicative of future stock price performance.



Item 6. Reserved

## Item 7. 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 consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. This discussion, particularly information with respect to our future results of operations or financial condition, business strategy and plans, and objectives of management for future operations, includes forward-looking statements that involve risks and uncertainties as described under the heading “Special Note About Forward-Looking Statements” in this Annual Report on Form 10-K. You should review the disclosure under the heading “Risk Factors” in this Annual Report on Form 10-K for a discussion of important factors that could cause our actual results to differ materially from those anticipated in these forward-looking statements. Unless the context otherwise requires, all references in this Annual Report on Form 10-K to “we,” “us,” “our,” “our company,” and “Confluent” refer to Confluent, Inc. and its consolidated subsidiaries. Unless otherwise indicated, references to our “common stock” include our Class A common stock and Class B common stock.*

*A discussion regarding our financial condition and results of operations for the year ended December 31, 2021 compared to the year ended December 31, 2020 is presented below. A discussion regarding our financial condition and results of operations for the year ended December 31, 2020 compared to the year ended December 31, 2019 can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the final prospectus for our initial public offering (“IPO”) dated as of June 23, 2021 and filed with the Securities and Exchange Commission (“SEC”) pursuant to Rule 424(b)(4) on June 25, 2021.*

### Overview

Confluent is on a mission to set data in motion. We were founded in 2014 to pioneer this fundamentally new category of data infrastructure designed to connect all the applications, systems, and data layers of a company around a real-time central nervous system. This new data infrastructure software has emerged as one of the most strategic parts of the next-generation technology stack, and using this stack to harness data in motion is critical to the success of every modern company as they strive to compete and win in the digital-first world. Prior to Confluent, our founders created the open source software project Apache Kafka, a technology that has been central to enabling data in motion. Since our founding, we have heavily invested in product development to build a complete, cloud-native platform for data in motion.

Confluent is designed to act as the nexus of real-time data, from every source, allowing it to stream across the organization and enabling applications to harness it to power real-time customer experiences and data-driven business operations. Our offering enables organizations to deploy production-ready applications that span across cloud environments and data centers, while scaling elastically with enhanced features for security, compliance, and governance. Our platform provides the capabilities to fill the structural, operational, and engineering gaps required for businesses to fully realize the power of data in motion. We enable software developers to easily build their initial applications to harness data in motion, and enable large, complex enterprises to make data in motion core to everything they do. As organizations mature in their adoption cycle, we enable them to quickly, securely, and reliably build more and more applications that take advantage of data in motion. The results have a dual effect: businesses continuously improve their ability to provide better customer experiences and concurrently drive data-driven business operations. We believe that Confluent, over time, will become the central nervous system for modern digital enterprises, providing ubiquitous real-time connectivity and powering real-time applications across the enterprise.

We generate our revenue primarily from the sale of subscriptions to our offering that can be deployed in two different ways. Confluent Platform is an enterprise-ready, self-managed software offering that can be deployed in our customers' on-premise, private cloud, and public cloud environments. Confluent Cloud is a fully-managed, cloud-native software-as-a-service ("SaaS") offering available on all of the leading cloud providers. These two core offerings can be leveraged independently or together, spanning the various public cloud, private cloud, and on-premise environments in which our customers operate.

Confluent Platform customers receive access to our proprietary features and various tiers of customer support. Our Confluent Platform subscriptions primarily have one-year terms and are generally billed annually in advance. Confluent Cloud customers may purchase subscriptions either without a minimum commitment contract on a month-to-month basis, which we refer to as pay-as-you-go, or under a usage-based minimum commitment contract of at least one year in duration, in which customers commit to a fixed minimum monetary amount at specified per-usage rates. Pay-as you-go customers are billed, and revenue from them is recognized, based on usage. Customers with usage-based minimum commitments are billed annually in advance or monthly in arrears, and we recognize revenue from such subscriptions based on usage by the customer. As a result, our revenue may fluctuate from period to period due to varying patterns of customer consumption.

We are focused on the acquisition of new customers and expanding within our current customers. Our go-to-market model benefits from our self-service motions driven by our cloud-native platform offerings, our widespread mindshare among developers through Apache Kafka, community downloads, and our enterprise sales force. We are able to acquire new customers through seamless and frictionless self-service cloud adoption and free cloud trials, as well as community downloads. For example, after users get started with our free cloud trial, they can easily convert online to become paying customers either on a pay-as-you-go model or with a minimum commitment contract. Once customers see the benefits of our platform for their initial use cases, they often expand into other use cases and lines of business, divisions, and geographies. Our deep technical expertise, coupled with our product capabilities and laser focus on customer outcomes, enable us to form strategic partnerships with our customers to guide and accelerate this journey. This expansion often generates a natural network effect in which the value of our platform to a customer increases as more use cases are adopted, more users and teams are onboarded, more applications and systems are connected, and more data is added. We had approximately 3,470, 2,100, and 820 customers as of December 31, 2021, 2020, and 2019, respectively. We have experienced significant growth, with revenue increasing from \$236.6 million for the year ended December 31, 2020 to \$387.9 million for the year ended December 31, 2021, representing year-over-year growth of 64%, and from \$149.8 million for the year ended December 31, 2019 to \$236.6 million for the year ended December 31, 2020, representing year-over-year growth of 58%.

## Impact of COVID-19

The ongoing COVID-19 pandemic has caused general business disruption worldwide. The full extent to which the COVID-19 pandemic, including any new variants, will directly or indirectly impact our business, results of operations, cash flows, and financial condition will depend on certain developments, including the duration and spread of the pandemic, related public health measures, how national, state, and local governments continue to respond, rate of COVID-19 vaccinations, emergence of new variant strains of the virus and their resistance to vaccines, and the pandemic's impact on the global economy generally and our customers specifically, all of which remain highly uncertain and cannot be accurately predicted.

Since the pandemic began, we have experienced, and may continue to experience in future periods, an adverse impact on certain parts of our business as a result of governmental restrictions and other measures to mitigate the spread of COVID-19, including delays in delivery of professional services and education services to customers and a lengthening in the sales cycle for some prospective customers. If our customers or partners experience new or continued downturns or uncertainty in their own business operations or revenue resulting from the ongoing COVID-19 pandemic, they may decrease or delay their spending, request pricing discounts, or seek renegotiations of their contracts, any of which may result in decreased revenue, dollar-based net retention rate ("NRR"), and cash receipts for us.

Despite the adverse impacts described above, the pandemic has caused more of our existing and potential customers to accelerate their digital transformation efforts. As a result, we believe the value of our offering is becoming even more evident, which may result in a positive impact on our business over the long term. In addition, during the years ended December 31, 2021 and 2020, we saw slower growth in certain operating expenses due to reduced business travel and the virtualization or cancellation of customer, partner, and employee events. While slower growth in operating expenses had a short-term benefit to our results of operations for the years ended December 31, 2021 and 2020, we expect expenses related to travel, in-person events, real estate and facilities to increase in 2022.

We adopted several measures in response to the COVID-19 pandemic to focus on maintaining business continuity and preparing for the long-term success of our business, including temporarily requiring employees to work remotely, suspending non-essential travel by our employees, requiring events to be held virtually, and temporarily reducing the pace of our employee hiring across all functions in the second and third quarters of 2020. In particular, the reduction in employee hiring for our sales and marketing organization has negatively impacted our near- to medium-term growth rate and revenue. Furthermore, as a government contractor, we are subject to the federal government vaccination mandate, which requires federal contractor employees, except in certain limited circumstances, to be vaccinated against COVID-19 by January 4, 2022. While the vaccination mandate remains subject to the interpretation of various government agencies and other entities, and questions remain regarding the specific application of the vaccination mandate, we have developed and implemented certain protocols to voluntarily comply with the vaccination mandate. As of and for the year ended December 31, 2021, the vaccination mandate has not had a material impact on our employees or operations. We may take further actions as may be required by government authorities or that we determine are in the best interests of our business, employees, customers, and business partners. The global impact of COVID-19 continues to rapidly evolve, and while the broader implications of the ongoing COVID-19 pandemic remain uncertain, we will continue to monitor the situation and the effects on our business and operations.



## Key Factors Affecting Our Performance

### *Developing Innovative, Market-Leading Offerings and Expanding Developer Mindshare*

We are focused on delivering market-leading offerings. We believe it is critical for us to maintain our product leadership position and further increase the strength of our brand and reputation to drive revenue growth. We developed Confluent Cloud, our cloud-native SaaS offering, in 2017 to capitalize on the existing demand for a fully-managed cloud service for Apache Kafka. Confluent Cloud has grown rapidly since launch, as organizations have been making significant investments in digital infrastructure with the goal of both driving efficiencies across their businesses, and better leveraging the data that powers their processes and customer experiences. In addition, we continue to release new product enhancements and features to simplify application development and real-time analytics and enhance security and data governance. We intend to continue investing in our engineering capabilities and marketing activities to maintain our strong position within the developer community. Our results of operations may fluctuate as we make these investments to drive increased customer adoption and usage.

### *Increasing Adoption of Confluent Cloud*

We believe our cloud-native Confluent Cloud offering represents an important growth opportunity for our business. Organizations are increasingly looking for a fully-managed offering to seamlessly leverage data in motion across a variety of environments. In some cases, customers that have been self-managing deployments through Confluent Platform subsequently have become Confluent Cloud customers. We offer customers a free cloud trial and a pay-as-you-go arrangement to encourage adoption and usage over time. We will continue to leverage our cloud-native differentiation to drive our growth. We expect Confluent Cloud's contribution to our subscription revenue to increase over time. Our Confluent Cloud revenue increased from \$31.4 million for the year ended December 31, 2020 to \$94.2 million for the year ended December 31, 2021, representing year-over-year growth of 200%, and from \$14.4 million for the year ended December 31, 2019 to \$31.4 million for the year ended December 31, 2020, representing year-over-year growth of 117%.

### *Growing Our Customer Base and Extending Our Global Reach*

We are intensely focused on continuing to grow our customer base. We have invested and will continue to invest in our sales and marketing efforts and developer community outreach, which are critical to driving customer acquisition. We historically focused on large enterprise customers with significant expansion opportunities and built a go-to-market motion around this approach. As we grew our cloud offering and created more self-serve opportunities, we have significantly broadened our reach of customers and are able to attract a greater array of customers. This is evidenced by our significant increase in customer count in recent years, driven by Confluent Cloud customers. Our ability to attract new customers will depend on a number of factors, including our success in recruiting and scaling our sales and marketing organization, our ability to accelerate ramp time of our sales force, the impact of marketing efforts to enhance our brand, and competitive dynamics in our target markets. We had approximately 3,470, 2,100, and 820 customers as of December 31, 2021, 2020, and 2019, respectively, spanning organizations of all sizes and industries. Our customer count treats affiliated entities with the same parent organization as a single customer and includes pay-as-you-go customers. During the years ended December 31, 2021, 2020, and 2019, 36%, 34%, and 32% of our total revenue came from outside of the United States, respectively.

### *Retaining and Expanding Revenue from Existing Customers*

Our business model is driven by customer renewals and increasing existing customer subscriptions over time, referred to as land-and-expand. We believe we have significant opportunities to increase our revenue as customers expand their use of our offering in connection with migrating more data to the public cloud, identifying new use cases, and realizing the benefits of data in motion. Our ability to retain and expand revenue from existing customers will depend on a number of factors, including the impact of existing customers becoming a larger portion of our overall customer base, large initial deal sizes that incorporate potential growth, the impact of the COVID-19 pandemic, the initial impact of existing customers transitioning to our usage-based Confluent Cloud offering, customer satisfaction with our subscriptions and services, loss of large customers including the timing of any such loss, and the mix of commercial and enterprise customers, among other things.

### ***Investing in Growth and Scaling our Business***

We believe our market opportunity is significant, and we are focused on continuing to make substantial investments in our long-term revenue and profitability potential. We believe it is critical to scale across all organizational functions, including our sales and marketing organization, in order to capture this opportunity. Any investments we make in our sales and marketing organization will occur in advance of experiencing the benefits from such investments, and it may be difficult for us to determine if we are efficiently allocating resources within the organization. We intend to continue to invest to grow our business to take advantage of our expansive market opportunity rather than optimize for profitability, margins, or cash flow in the near future.

### **Key Business Metrics**

We monitor the key business metrics set forth below to help us evaluate our business and growth trends, establish budgets, measure our performance, and make strategic decisions. The calculation of the key metrics discussed below may differ from other similarly titled metrics used by other companies, securities analysts, or investors.

#### ***Remaining Performance Obligations (“RPO”)***

RPO represents the amount of contracted future revenue that has not yet been recognized as of the end of each period, including both deferred revenue that has been invoiced and non-cancelable committed amounts that will be invoiced and recognized as revenue in future periods. RPO excludes pay-as-you-go arrangements.

RPO as a metric is not necessarily indicative of future revenue growth because it does not account for the timing of customers’ consumption or future expansion. RPO may also fluctuate due to a number of factors, including the timing of renewals, average contract terms, seasonality, and dollar amount of customer contracts. Due to these factors, it is important to review RPO in conjunction with revenue and other financial measures disclosed elsewhere in this Annual Report on Form 10-K. Our RPO was \$500.6 million, \$261.7 million, and \$159.6 million as of December 31, 2021, 2020, and 2019, respectively.

#### ***Customers with \$100,000 or Greater in Annual Recurring Revenue (“ARR”)***

We define ARR as the revenue customers contractually committed to over the following 12 months assuming no increases or reductions in their subscriptions. ARR excludes services and pay-as-you-go arrangements. Similar to RPO, ARR as a metric is not necessarily indicative of future revenue growth because it does not account for the timing of customers’ consumption or future expansion. Large customer relationships lead to scale and operating leverage in our business model. Compared with smaller customers, large customers present a greater opportunity for us because they have larger budgets, greater potential for migrating more applications over time, and a wider range of potential use cases for data in motion. As a measure of our ability to scale with our customers and attract large enterprises to our offering, we count the number of customers that contributed \$100,000 or greater in ARR as of period end. Our customer count may also fluctuate due to acquisitions, consolidations, spin-offs, and other market activity. We had 734, 513, and 337 customers with \$100,000 or greater in ARR as of December 31, 2021, 2020, and 2019, respectively.

From time to time, we may refine our methodology of calculating ARR. We have included, and continue to include, annualized overages in our calculation of ARR. Customers are contractually committed to pay overages plus the minimum contractually committed amount. Beginning in the third quarter of 2021, we refined our methodology of calculating ARR to only include overages above the contractually committed ARR, to align with how our management assesses ARR internally. This change in methodology had an immaterial impact to historical amounts presented, which have not been retroactively adjusted.

### ***Dollar-Based Net Retention Rate (“NRR”)***

We calculate our dollar-based NRR as of a period end by starting with the ARR from the cohort of all customers as of 12 months prior to such period end, or Prior Period Value. We then calculate the ARR from these same customers as of the current period end, or Current Period Value, which includes any growth in the value of subscriptions and is net of contraction or attrition over the prior 12 months. Services and pay-as-you-go arrangements are excluded from the calculation of ARR. We then divide the Current Period Value by the Prior Period Value to arrive at our dollar-based NRR. The dollar-based NRR includes the effect, on a dollar-weighted value basis, of our subscriptions that expand, renew, contract, or attrit, but excludes ARR from new customers in the current period. Our dollar-based NRR is subject to adjustments for acquisitions, consolidations, spin-offs, and other market activity. We believe that our dollar-based NRR provides useful information about the evolution of our existing customers and our future growth prospects. Our dollar-based NRR was over 130% as of December 31, 2021, demonstrating our ability to expand within existing customers.

### **Components of Results of Operations**

#### ***Revenue***

We derive revenue primarily from subscriptions and, to a lesser extent, services.

*Subscription Revenue.* Our subscription revenue consists of revenue from term-based licenses and post-contract customer support, maintenance, and upgrades, referred to together as PCS, which we refer to as Confluent Platform, and our SaaS offering, which we refer to as Confluent Cloud. We recognize a portion of the revenue from our term-based license subscriptions at a point in time, upon delivery and transfer of control of the underlying license to the customer, which is typically the effective start date. Revenue from PCS, which represents a substantial majority of the revenue from our term-based license subscriptions, is recognized ratably over the contract term. The majority of our revenue from Confluent Cloud for the years ended December 31, 2021 and 2020 was based on usage-based minimum commitments and is recognized on a usage basis, as usage represents a direct measurement of the value to the customer of the subscription transferred as of a particular date relative to the total value to be delivered over the term of the contract. During the year ended December 31, 2019, the majority of our revenue from Confluent Cloud was derived from contracts that are not usage-based, with revenue from these contracts recognized ratably over the non-cancelable term of the subscription for such contracts, as our usage-based offering for Confluent Cloud became available in late 2019. Our subscriptions primarily have one-year terms, and are generally non-cancelable and non-refundable. We also provide pay-as-you-go arrangements, which consist of month-to-month SaaS contracts. These arrangements have historically represented an immaterial portion of our subscription revenue.

*Services Revenue.* Services revenue consists of revenue from professional services and education services, which are generally sold on a time-and-materials basis. Revenue for professional services and education services is recognized as these services are delivered.

We expect our total revenue may vary from period to period based on, among other things, the timing and size of new subscriptions, the rate of customer renewals and expansions, fluctuations in customer consumption of our usage-based offering, delivery of professional services, ramp time and productivity of our salesforce, the impact of significant transactions, and seasonality.

#### ***Cost of Revenue***

*Cost of Subscription Revenue.* Cost of subscription revenue primarily includes personnel-related costs, including salaries, bonuses, benefits, and stock-based compensation, for employees associated with customer support and maintenance, third-party cloud infrastructure costs, amortization of internal-use software, and allocated overhead costs for information technology, facilities, and recruiting. We expect our cost of subscription revenue to increase in absolute dollars as our subscription revenue increases.

*Cost of Services Revenue.* Cost of services revenue primarily includes personnel-related costs, including salaries, bonuses, benefits, and stock-based compensation, for employees associated with our professional services and education services, costs of third-party contractors, and allocated overhead. We expect our cost of services revenue to increase in absolute dollars as our services revenue increases.

### ***Gross Profit and Gross Margin***

*Gross Profit.* Gross profit represents revenue less cost of revenue.

*Gross Margin.* Gross margin, or gross profit as a percentage of revenue, has been and will continue to be affected by a variety of factors, including the average sales price of our subscriptions and services, changes in our revenue mix, including the mix of revenue between our Confluent Platform, Confluent Cloud, and service offerings, timing and amount of usage of third-party cloud infrastructure resources, and infrastructure optimization. We expect our gross margin to fluctuate over time depending on the factors described above.

### ***Operating Expenses***

Our operating expenses consist of research and development, sales and marketing, and general and administrative expenses. Personnel-related costs are the most significant component of each category of operating expenses. Operating expenses also include allocated overhead costs.

*Research and Development.* Research and development expenses consist primarily of personnel-related costs, including salaries, bonuses, benefits, and stock-based compensation, net of capitalized amounts, third-party cloud infrastructure expenses incurred in developing our platform, software and subscription services dedicated for use by our research and development organization, contractor and professional services fees, and allocated overhead. We expect our research and development expenses will continue to increase in absolute dollars as our business grows and we continue to invest in our offering.

*Sales and Marketing.* Sales and marketing expenses consist primarily of personnel-related costs, including salaries, sales commissions, bonuses, benefits, and stock-based compensation, costs related to marketing programs, amortization of deferred contract acquisition costs, which consist of sales commissions and the associated payroll taxes, travel-related costs, and allocated overhead. Marketing programs consist of advertising, events, corporate communications, and brand-building and developer-community activities. We expect our sales and marketing expenses will increase in absolute dollars over time and continue to be our largest operating expense for the foreseeable future as we expand our sales force, increase our marketing resources, and expand into new markets.

*General and Administrative.* General and administrative expenses consist primarily of personnel-related costs, including salaries, bonuses, benefits, and stock-based compensation for administrative functions including finance, human resources, and legal, professional fees, software and subscription services dedicated for use by our general and administrative functions, and allocated overhead.

As a result of our IPO, we have incurred and expect to continue to incur additional expenses to operate as a public company, including costs to comply with the rules and regulations applicable to companies listed on a national securities exchange, costs related to compliance and reporting obligations, and increased expenses for investor relations and professional services. As discussed in Note 10 to our consolidated financial statements, we also recognized non-cash expense of \$13.3 million related to the charitable donation of our Class A common stock to Confluent.org in June 2021. We expect that our general and administrative expenses will increase in absolute dollars as our business grows.

### ***Interest Income***

Interest income consists primarily of interest earned on our cash equivalents and marketable securities.

**Other Income (Expense), Net**

Other income (expense), net consists primarily of amortization of premiums and accretion of discounts on marketable securities, interest expense from amortization of debt issuance costs, gains and losses from foreign currency transactions, and realized gains and losses on marketable securities.

**Provision for (Benefit from) Income Taxes**

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

**Results of Operations**

The following table sets forth our consolidated statements of operations data for the periods presented:

	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
	<b>(in thousands)</b>		
<b>Revenue:</b>			
Subscription	\$ 347,099	\$ 208,633	\$ 130,206
Services	40,765	27,944	19,599
Total revenue	<u>387,864</u>	<u>236,577</u>	<u>149,805</u>
<b>Cost of revenue:</b>			
Subscription <sup>(1)(2)</sup>	94,860	49,283	28,395
Services <sup>(1)(2)</sup>	42,432	26,193	20,974
Total cost of revenue	<u>137,292</u>	<u>75,476</u>	<u>49,369</u>
Gross profit	<u>250,572</u>	<u>161,101</u>	<u>100,436</u>
<b>Operating expenses:</b>			
Research and development <sup>(1)(2)</sup>	161,925	105,399	58,090
Sales and marketing <sup>(1)(2)</sup>	319,331	166,361	115,792
General and administrative <sup>(1)(2)</sup>	108,936	122,516	24,662
Total operating expenses	<u>590,192</u>	<u>394,276</u>	<u>198,544</u>
Operating loss	<u>(339,620)</u>	<u>(233,175)</u>	<u>(98,108)</u>
Interest income	2,020	4,113	2,494
Other (expense) income, net	<u>(2,027)</u>	<u>(973)</u>	<u>567</u>
Loss before income taxes	<u>(339,627)</u>	<u>(230,035)</u>	<u>(95,047)</u>
Provision for (benefit from) income taxes	3,174	(207)	(5)
Net loss	<u>\$ (342,801)</u>	<u>\$ (229,828)</u>	<u>\$ (95,042)</u>

<sup>(1)</sup> Includes stock-based compensation expense as follows:

	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
	<b>(in thousands)</b>		
Cost of revenue - subscription	\$ 12,571	\$ 2,572	\$ 1,161
Cost of revenue - services	5,418	1,745	994
Research and development	49,051	33,755	6,268
Sales and marketing	55,506	14,734	6,545
General and administrative	33,078	90,535	3,649
Total stock-based compensation expense	<u>\$ 155,624</u>	<u>\$ 143,341 *</u>	<u>\$ 18,617</u>

\*In connection with a tender offer and secondary sales of our common stock and convertible founder stock, stock-based compensation expense for the year ended December 31, 2020 included \$111.9 million of expense related to the amount paid in excess of the estimated fair value of common stock as of the date of the transactions. See Note 10 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further details.

<sup>(2)</sup> Includes employer taxes on employee stock transactions as follows:

	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
	<b>(in thousands)</b>		
Cost of revenue - subscription	\$ 636	\$ 9	\$ -
Cost of revenue - services	377	16	1
Research and development	2,278	81	20
Sales and marketing	4,266	271	64
General and administrative	2,532	143	21
Total employer taxes on employee stock transactions	<u>\$ 10,089</u>	<u>\$ 520</u>	<u>\$ 106</u>

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

	Year Ended December 31,		
	2021	2020	2019
<b>Revenue:</b>			
Subscription	89 %	88 %	87 %
Services	11	12	13
Total revenue	100	100	100
<b>Cost of revenue:</b>			
Subscription	24	21	19
Services	11	11	14
Total cost of revenue	35	32	33
Gross profit	65	68	67
<b>Operating expenses:</b>			
Research and development	42	45	39
Sales and marketing	82	70	77
General and administrative	28	52	16
Total operating expenses	152	167	132
Operating loss	(87)	(99)	(65)
Interest income	1	2	2
Other (expense) income, net	(1)	0	0
Loss before income taxes	(87)	(97)	(63)
Provision for (benefit from) income taxes	1	0	0
Net loss	(88)%	(97)%	(63)%

### Comparison of the Years Ended December 31, 2021 and 2020

#### Revenue

	Year Ended December 31,		Change	
	2021	2020	\$	%
	(in thousands, except percentages)			
Subscription	\$ 347,099	\$ 208,633	\$ 138,466	66%
Services	40,765	27,944	12,821	46%
Total revenue	\$ 387,864	\$ 236,577	\$ 151,287	64%

Subscription revenue increased by \$138.5 million during the year ended December 31, 2021 compared to the year ended December 31, 2020. The increase in revenue was primarily from sales to existing customers and the remaining increase was attributable to sales to new customers. Sales to new customers represent the revenue recognized from customers acquired in the 12 months prior to each quarter end within the year ended December 31, 2021. A further indication of our ability to expand from existing customers is through our dollar-based net retention rate of over 130% as of December 31, 2021. Confluent Platform and Confluent Cloud contributed 73% and 27% of our subscription revenue during the year ended December 31, 2021, respectively, compared to 85% and 15% during the year ended December 31, 2020, respectively.

Services revenue increased by \$12.8 million during the year ended December 31, 2021 compared to the year ended December 31, 2020. This was primarily due to an increase in delivery of professional services as we expanded our professional services organization to help our customers further realize the benefits of our offering.

**Cost of Revenue, Gross Profit, and Gross Margin**

	Year Ended December 31,		Change	
	2021	2020	\$	%
	(in thousands, except percentages)			
Cost of revenue				
Subscription	\$ 94,860	\$ 49,283	\$ 45,577	92%
Services	42,432	26,193	16,239	62%
Total cost of revenue	\$ 137,292	\$ 75,476	\$ 61,816	82%
Gross profit	\$ 250,572	\$ 161,101	\$ 89,471	56%

	Year Ended December 31,	
	2021	2020
Gross margin		
Subscription	73%	76%
Services	(4)%	6%
Total gross margin	65%	68%

Cost of subscription revenue increased by \$45.6 million during the year ended December 31, 2021 compared to the year ended December 31, 2020. This increase was primarily due to an increase of \$15.7 million in personnel-related costs (excluding stock-based compensation expense) and allocated overhead costs driven by increased headcount, an increase of \$14.1 million in third-party cloud infrastructure costs, and an increase of \$10.0 million in stock-based compensation expense. The increase in stock-based compensation expense was primarily due to increased headcount, equity awards granted to existing employees, and to a lesser extent, the 2021 Employee Stock Purchase Plan (the "2021 ESPP"), which became effective in connection with our IPO.

Cost of services revenue increased by \$16.2 million during the year ended December 31, 2021 compared to the year ended December 31, 2020. This increase was primarily due to an increase of \$8.1 million in personnel-related costs (excluding stock-based compensation expense) and allocated overhead costs driven by increased headcount, and an increase of \$3.7 million in stock-based compensation expense. The increase in stock-based compensation expense was primarily due to increased headcount, equity awards granted to existing employees, and to a lesser extent, the 2021 ESPP. The increase in cost of services revenue was also due to an increase of \$3.5 million in third-party contractors who supplemented our services delivery team.

Our subscription gross margin decreased primarily due to higher stock-based compensation expense, higher personnel-related costs, and the change in our revenue mix, partially offset by economies of scale resulting from increased efficiency and optimization of our infrastructure. Our services gross margin decreased primarily due to higher stock-based compensation expense and higher third-party contractor expense.

**Research and Development**

	Year Ended December 31,		Change	
	2021	2020	\$	%
	(in thousands, except percentages)			
Research and development	\$ 161,925	\$ 105,399	\$ 56,526	54%
Percentage of revenue	42%	45%		



Research and development expenses increased by \$56.5 million during the year ended December 31, 2021 compared to the year ended December 31, 2020. This increase was primarily due to an increase of \$32.4 million in personnel-related costs (excluding stock-based compensation expense) and allocated overhead costs driven by increased headcount, and an increase of \$15.3 million in stock-based compensation expense, net of amounts capitalized. The increase in stock-based compensation expense, net of amounts capitalized, was due to increased headcount, equity awards granted to existing employees, and to a lesser extent, the 2021 ESPP, partially offset by \$23.9 million of stock-based compensation expense related to a tender offer and a secondary sale of our common and convertible founder stock that occurred during the year ended December 31, 2020. In the tender offer and secondary sales transactions, we facilitated sales by directors, employees, and non-employees to existing and new investors at a per share purchase price in excess of estimated fair value. See Note 10 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further details. The increase in research and development expenses was also due to an increase of \$3.6 million of third-party cloud infrastructure expenses incurred in developing our platform, and an increase of \$2.2 million of employer taxes on employee stock transactions.

### Sales and Marketing

	Year Ended December 31,		Change	
	2021	2020	\$	%
	(in thousands, except percentages)			
Sales and marketing	\$ 319,331	\$ 166,361	\$ 152,970	92%
Percentage of revenue	82%	70%		

Sales and marketing expenses increased by \$153.0 million during the year ended December 31, 2021 compared to the year ended December 31, 2020. This increase was primarily due to an increase of \$71.9 million in personnel-related costs (excluding stock-based compensation expense) and allocated overhead costs driven by increased headcount, and an increase of \$40.8 million in stock-based compensation expense. The increase in stock-based compensation expense was primarily due to increased headcount, equity awards granted to existing employees, and to a lesser extent, the 2021 ESPP, partially offset by \$3.5 million of stock-based compensation expense related to the tender offer that occurred during the year ended December 31, 2020 described under “—Research and Development.” The increase in sales and marketing expenses was also due to an increase of \$16.3 million in advertising costs and marketing programs, an increase of \$10.7 million of amortization of deferred contract acquisition costs, and an increase of \$4.0 million of employer taxes on employee stock transactions.

### General and Administrative

	Year Ended December 31,		Change	
	2021	2020	\$	%
	(in thousands, except percentages)			
General and administrative	\$ 108,936	\$ 122,516	\$ (13,580)	(11)%
Percentage of revenue	28%	52%		

General and administrative expenses decreased by \$13.6 million during the year ended December 31, 2021 compared to the year ended December 31, 2020. This decrease was primarily due to an overall decrease of \$57.5 million of stock-based compensation expense as a result of \$83.9 million of stock-based compensation expense related to the tender offer and secondary sales that occurred during the year ended December 31, 2020 described under “—Research and Development,” partially offset by increases in stock-based compensation expense due to increased headcount, equity awards granted to existing employees, and to a lesser extent, the 2021 ESPP, as well as \$3.8 million of stock-based compensation expense related to performance-based options, for which the performance-based vesting condition was satisfied upon the effectiveness of the IPO. The decrease in general and administrative expenses was partially offset by an increase of \$19.1 million in personnel-related costs (excluding stock-based compensation expense) and allocated overhead costs driven by increased headcount, an increase of \$13.3 million associated with the charitable donation of our Class A common stock upon the consummation of the IPO, an increase of \$5.9 million in professional services fees and other expenses to operate as a public company, and an increase of \$2.4 million of employer taxes on employee stock transactions.

**Interest Income**

	Year Ended December 31,		Change	
	2021	2020	\$	%
	(in thousands, except percentages)			
Interest income	\$ 2,020	\$ 4,113	\$ (2,093)	(51)%

Interest income decreased by \$2.1 million during the year ended December 31, 2021 compared to the year ended December 31, 2020 primarily due to lower returns on marketable securities.

**Other Income (Expense), Net**

	Year Ended December 31,		Change	
	2021	2020	\$	%
	(in thousands, except percentages)			
Other expense, net	\$ (2,027)	\$ (973)	\$ (1,054)	108%

Other expense, net increased by \$1.1 million during the year ended December 31, 2021 compared to the year ended December 31, 2020 primarily due to losses from foreign currency transactions and interest expense from amortization of debt issuance costs.

**Provision for (Benefit from) Income Taxes**

	Year Ended December 31,		Change	
	2021	2020	\$	%
	(in thousands, except percentages)			
Loss before income taxes	\$ (339,627)	\$ (230,035)	\$ (109,592)	(48)%
Provision for (benefit from) income taxes	\$ 3,174	\$ (207)	\$ 3,381	1633%
Effective tax rate	(0.9)%	0.1%		

The provision for income taxes during the year ended December 31, 2021 compared to the year ended December 31, 2020 was primarily due to an increase in foreign taxes as we continued our global expansion and the establishment of the U.K. valuation allowance. During the year ended December 31, 2021, based on the weight of positive and negative evidence, we established a valuation allowance on its U.K. net deferred tax assets resulting in a tax expense of \$1.1 million.

We maintain a full valuation allowance on our U.S. and U.K. deferred tax assets. The most significant component of our recorded tax expense is current cash taxes in various foreign jurisdictions. The cash tax expenses are impacted by each jurisdiction's individual tax rates, laws on the timing of recognition of income and deductions, and availability of net operating losses and tax credits. Our effective tax rate might fluctuate to the extent earnings are lower in countries that have lower statutory rates or higher in countries that have higher statutory rates.

**Liquidity and Capital Resources**

To date, we have financed operations primarily through proceeds received from issuances of equity and debt securities and payments received from our customers. In June 2021, we completed our IPO, which resulted in proceeds of \$786.6 million, net of underwriting discounts and commissions.

In December 2021, we issued \$1.1 billion aggregate principal amount of 0% convertible senior notes due 2027 (the "2027 Notes"), including the exercise in full of the initial purchasers' option to purchase up to an additional \$100.0 million principal amount of the 2027 Notes, in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The net proceeds from the issuance of the 2027 Notes, after deducting the initial purchasers' discounts and commissions and debt issuance costs, were \$1,080.5 million. See Note 6, *Convertible Senior Notes*, to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further information.

As of December 31, 2021, our principal sources of liquidity were cash, cash equivalents, and marketable securities totaling \$2,016.0 million. Our cash and cash equivalents primarily consist of bank deposits, U.S. treasury securities, money market funds, and commercial paper. Our marketable securities consist of corporate notes and bonds, commercial paper, U.S. agency obligations, U.S. treasury securities, and municipal bonds. We believe that existing cash, cash equivalents, marketable securities, and cash flow from operations will be sufficient to fund our short-term and long-term operating and capital needs, including our purchase obligations primarily related to our non-cancelable agreements for third-party cloud infrastructure, and operating lease commitments, net of sublease receipts, primarily related to our office space.

We have generated significant operating losses and negative cash flows from operations. As of December 31, 2021, we had an accumulated deficit of \$748.9 million. We expect to continue to incur operating losses and negative cash flows from operations in the future and may require additional capital resources to execute strategic initiatives to grow our business. Our future capital requirements will depend on many factors including our growth rate, the timing and extent of spending to support development efforts, the expansion of sales and marketing and international operations, and the continuing market acceptance of our subscriptions and services. 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 would be adversely affected.

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

	Year Ended December 31,		
	2021	2020	2019
	(in thousands)		
Net cash used in operating activities	\$ (105,060)	\$ (82,057)	\$ (68,834)
Net cash (used in) provided by investing activities	\$ (400,583)	\$ (176,859)	\$ 35,641
Net cash provided by financing activities	\$ 1,844,514	\$ 276,758	\$ 13,432

### ***Cash Flows from Operating Activities***

We generally invoice our customers annually in advance for our term-based licenses and either annually in advance or monthly in arrears for our SaaS offering. Our largest source of operating cash is payments received from our customers. We have in the past and expect in the future to experience seasonality, with the fourth quarter historically being our strongest quarter for new customer sales, renewals, and expansion as a result of large enterprise buying patterns. Accordingly, the operating cash flow benefit from increased collections from our customers generally occurs in the subsequent one to two quarters after billing. We expect seasonality, timing of billings, and collections from our customers to have a material impact on our cash flow from operating activities from period to period. Our primary uses of cash from operating activities are for personnel-related expenses, third-party cloud infrastructure costs, sales and marketing expenses, and overhead expenses.

Cash used in operating activities of \$105.1 million for the year ended December 31, 2021 primarily consisted of our net loss of \$342.8 million, adjusted for non-cash charges of \$215.9 million, and net cash inflows of \$21.9 million from changes in our operating assets and liabilities. Our non-cash charges included \$155.6 million of stock-based compensation expense, net of amounts capitalized, \$26.7 million of amortization of deferred contract acquisition costs, \$13.3 million of Class A common stock charitable donation expense, and \$11.0 million of non-cash operating lease costs. The main drivers of the changes in operating assets and liabilities were an \$87.3 million increase in deferred revenue corresponding with our increased sales and a \$61.1 million increase in accrued expenses and other liabilities due to timing of payments, increased headcount, growth in our business, and employee contributions under the 2021 ESPP, partially offset by a \$57.9 million increase in deferred contract acquisition costs due to our increased sales, a \$32.5 million increase in accounts receivable due to overall growth of our sales and our expanding customer base, and a \$31.4 million increase in prepaid expenses and other assets primarily driven by prepaid third-party cloud infrastructure costs and prepaid insurance as a result of becoming a public company.

Cash used in operating activities of \$82.1 million for the year ended December 31, 2020 primarily consisted of our net loss of \$229.8 million, adjusted for non-cash charges of \$173.5 million, and net cash outflows of \$25.7 million from changes in our operating assets and liabilities. Our non-cash charges included \$143.3 million of stock-based compensation expense (\$111.9 million of which related to a tender offer and secondary sales transactions involving purchase prices in excess of estimated fair value of the shares sold), net of amounts capitalized, \$16.0 million of amortization of deferred contract acquisition costs, and \$11.9 million of non-cash operating lease costs. The main drivers of the changes in operating assets and liabilities were a \$41.6 million increase in accounts receivable due to our increased sales and expanding customer base, and a \$38.1 million increase in deferred contract acquisition costs due to our increased sales. These amounts were partially offset by a \$64.1 million increase in deferred revenue corresponding with our increased sales.

***Cash Flows from Investing Activities***

Cash used in investing activities of \$400.6 million for the year ended December 31, 2021 was primarily due to purchases of marketable securities of \$663.6 million, capitalized internal-use software development costs of \$5.3 million, and purchases of property and equipment of \$3.6 million, partially offset by maturities of marketable securities of \$271.9 million.

Cash used in investing activities of \$176.9 million for the year ended December 31, 2020 was primarily due to purchases of marketable securities of \$329.6 million, capitalized internal-use software development costs of \$3.6 million, and purchases of property and equipment of \$1.0 million, partially offset by sales and maturities of marketable securities totaling \$157.4 million.

***Cash Flows from Financing Activities***

Cash provided by financing activities of \$1,844.5 million for the year ended December 31, 2021 was primarily due to \$1,081.3 million in proceeds from the issuance of the 2027 Notes, net of issuance costs, \$786.6 million in proceeds from our IPO, net of underwriting discounts and commissions, and \$70.7 million in proceeds from the issuance of common stock upon exercises of stock options, net of repurchases, partially offset by \$91.0 million used to purchase capped calls and \$3.1 million of payments of deferred offering costs.

Cash provided by financing activities of \$276.8 million for the year ended December 31, 2020 was primarily due to \$259.8 million in net proceeds from the issuance of our Series E redeemable convertible preferred stock and \$17.1 million in proceeds from the issuance of common stock upon exercises of stock options, net of repurchases.

## Contractual Obligations and Commitments

*Convertible Senior Notes.* As of December 31, 2021, we had \$1.1 billion outstanding principal associated with our 2027 Notes. See Note 6, *Convertible Senior Notes*, to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further information.

*Operating Leases.* Our operating lease commitments, net of sublease receipts, relate primarily to our office space. As of December 31, 2021, we had fixed lease payment obligations of \$44.9 million, with \$10.5 million expected to be paid within 12 months and the remainder thereafter. See Note 7, *Commitments and Contingencies*, to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further information.

*Purchase Obligations.* As of December 31, 2021, our purchase obligations were \$471.3 million, with \$71.0 million expected to be paid within 12 months and the remainder thereafter. Our purchase obligations primarily relate to non-cancelable agreements for third-party cloud infrastructure agreements, under which we are granted access to use certain cloud services. See Note 7, *Commitments and Contingencies*, to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for further information.

In January 2022, we entered into an amended third-party cloud infrastructure agreement that includes a non-cancelable commitment of \$150.0 million over the next five years through January 2027.

## Critical Accounting Policies and Estimates

Our consolidated financial statements and the related notes thereto included elsewhere in this Annual Report on Form 10-K are prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from the estimates made by management. To the extent that there are differences between our estimates and actual results, our financial condition, results of operations, and cash flows will be affected.

We believe that the accounting policies described below involve a greater degree of judgment and complexity. Accordingly, these are the policies we believe are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations.

### Revenue Recognition

We generate revenue from the sale of subscriptions and services. Subscription revenue consists of revenue from term-based licenses that include post-contract customer support, maintenance, and upgrades, referred to together as PCS, which we refer to as Confluent Platform, and our SaaS offering, which we refer to as Confluent Cloud. Confluent Cloud customers may purchase subscriptions either without a minimum commitment contract on a month-to-month basis, which we refer to as pay-as-you-go, or under a usage-based minimum commitment contract of at least one year in duration, in which customers commit to a fixed minimum monetary amount at specified per-usage rates. Our pay-as-you-go arrangements have historically represented an immaterial portion of revenue. We primarily enter into subscription contracts with one-year terms, and subscription contracts are generally non-cancelable and non-refundable, although customers can terminate for breach if we materially fail to perform. Services revenue consists of revenue from professional services and education services. We generate sales of our subscriptions and services through our sales teams, self-service channel, and partner ecosystem, including the major cloud provider marketplaces.

The consolidated financial statements reflect our accounting for revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers*, or ASC 606. Under ASC 606, we recognize revenue when customers obtain control of promised subscriptions or services in an amount that reflects the consideration that we expect to receive in exchange for those subscriptions or services. In determining the appropriate amount of revenue to be recognized as we fulfill our obligations under each of our agreements, the following steps are performed:

*(i) identification of the contract with a customer*

We generally contract with customers through order forms, which are governed by master sales agreements, and through cloud provider marketplaces. We determine that we have a contract with a customer when the contract is approved, each party's rights regarding the subscriptions or services to be transferred and the payment terms for the services can be identified, we have determined the customer has the ability and intent to pay, and the contract has commercial substance. We apply judgment in determining the customer's ability and intent to pay, which is based on a variety of factors, including the customer's historical payment experience or, in the case of a new customer, credit, reputation, and financial or other information pertaining to the customer.

When a contract is entered into, we evaluate whether the contract is part of a larger arrangement and should be accounted for with other contracts, and whether the combined or single contract includes more than one performance obligation.

*(ii) identification of the performance obligations in the contract*

Performance obligations are identified based on the subscriptions and services that will be transferred to the customer that are both (1) capable of being distinct, whereby the customer can benefit from the subscriptions or services either on their own or together with other resources that are readily available from third parties or from us, and (2) are distinct in the context of the contract, whereby the transfer of the subscriptions and services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised subscriptions or services, we apply judgment to determine whether promised subscriptions or services are capable of being distinct and distinct in the context of the contract. If these criteria are not met, or if performance obligations follow the same pattern of recognition, the promised subscriptions or services are accounted for as a combined performance obligation. We have concluded that our contracts with customers do not contain warranties that give rise to a separate performance obligation.

*(iii) measurement of the transaction price*

The transaction price is the total amount of consideration we expect to be entitled to in exchange for the subscriptions and services in a contract. The transaction price in a usage-based SaaS contract is typically equal to the minimum commitment in the contract, less any discounts provided. Variable consideration is included in the transaction price if, in our judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Our contracts do not contain a significant financing component.

*(iv) allocation of the transaction price to the performance obligations*

If a contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. For contracts that contain multiple performance obligations, we allocate the transaction price using a relative standalone selling price, or SSP, allocation based on the SSPs of each performance obligation. Determining the relative SSP for contracts that contain multiple performance obligations is a critical accounting estimate. We establish SSP based on multiple factors, including prices at which we separately sell standalone subscriptions and services. In cases where directly observable standalone sales are not available, such as when license and PCS are not sold on a standalone basis, we establish the SSP by using information such as the historical selling price of performance obligations in similar transactions, market conditions, and our pricing practices, which can require significant judgment and are subject to change based on continuous reevaluation. There is typically more than one SSP for individual subscriptions and services due to the stratification of subscription support tiers and services. We also consider if there are any additional material rights inherent in a contract, and if so, we allocate revenue to the material right as a performance obligation.

*(v) recognition of revenue when we satisfy each performance obligation*

We recognize revenue at the time the related performance obligation is satisfied, in an amount that reflects the consideration we expect to be entitled to in exchange for those subscriptions or services. We record revenue net of any withholding, value added, or sales tax, as well as any discounts or marketing development funds.

### *Subscription Revenue*

Our subscription revenue includes revenue from Confluent Platform for licenses sold in conjunction with PCS. The license provides the right to use licensed proprietary software features, which represents significant standalone functionality and is therefore deemed a distinct performance obligation. License revenue is recognized at a point in time, upon delivery and transfer of control of the underlying license to the customer, which is typically the effective start date. Revenue from PCS is based on its continuous pattern of transfer to the customer and therefore is recognized ratably over the contract term.

Our subscription revenue also includes revenue from Confluent Cloud for our usage-based minimum commitment and pay-as-you-go offering, which is recognized on a usage basis, as usage represents a direct measurement of the value to the customer of the subscription transferred as of a particular date relative to the total value to be delivered over the term of the contract. For contracts that are not usage-based, revenue from Confluent Cloud is recognized ratably over the non-cancelable contractual term of the arrangement, generally beginning on the date that the service is made available to the customer.

### *Services Revenue*

Our services revenue includes revenue from professional services and education services, which are generally sold on a time-and-materials basis. We recognize the associated revenue as services are delivered.

### *Deferred Contract Acquisition Costs*

Sales commissions earned by our sales force and the associated payroll taxes are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions for new revenue contracts, including incremental sales to existing customers, are deferred and then amortized over an estimated period of benefit, which we have determined to be five years. To determine the period of benefit, we consider our technology development cycle, the cadence of software releases, the nature of our customer contracts, the duration of customer relationships, and the expected renewal period. Sales commissions for renewal contracts (which are not considered commensurate with sales commissions for new revenue contracts and incremental sales to existing customers) are deferred and then amortized over the renewal contract term. Amortization of deferred contract acquisition costs are included in sales and marketing expenses in the consolidated statements of operations. We periodically review the carrying amount of deferred contract acquisition costs to determine whether events or changes in circumstances have occurred that could impact the period of benefit of these deferred costs.

### *Stock-Based Compensation*

We record stock-based compensation expense in connection with all stock-based awards, including stock options and restricted stock units (“RSUs”) granted to employees and non-employees and stock purchase rights granted under the ESPP to employees, based on the fair value of the awards granted. The fair value of each stock option and ESPP right is estimated on the grant date using the Black-Scholes option-pricing model. For awards that vest based only on continuous service, stock-based compensation expense is recognized on a straight-line basis over the requisite service period. Prior to our IPO, we also granted certain awards that had both a service-based and a performance-based vesting condition. Stock-based compensation expense for such awards is recognized using the accelerated attribution method over the requisite service period when it is probable the performance-based vesting condition will be achieved. The performance-based vesting condition was satisfied upon the sale of our common stock in a firm commitment underwritten public offering. If an award contains a provision whereby vesting is accelerated upon a change in control, we recognize stock-based compensation expense on a straight-line basis, as a change in control is considered to be outside of our control and is not considered probable until it occurs. Forfeitures are accounted for as they occur.

The Black-Scholes option-pricing model requires the input of highly subjective assumptions, including the fair value of the underlying common stock, the expected term of the option, the expected volatility of the price of our common stock, risk-free interest rates, and the expected dividend yield of our common stock. The assumptions used in our option-pricing model represent management's best estimates. These estimates involve inherent uncertainties and the application of management's judgment. If factors change and different assumptions are used, our stock-based compensation expense could be materially different in the future.

These assumptions are estimated as follows:

- *Fair value of the underlying common stock.* Prior to our IPO, our board of directors considered numerous objective and subjective factors to determine the fair value of our common stock at each meeting in which awards were approved. After our IPO, the fair value of our common stock is determined by the closing price of our common stock on the date of grant, which is traded on the Nasdaq Global Select Market.
- *Expected term.* We determine the expected term for stock options that have only service-based vesting conditions based on the period the stock options are expected to be outstanding using the simplified method, calculated as the average of the time-to-vesting and the contractual life of the options. For other option grants, we estimate the expected term using historical data on employee exercises and post-vesting employment termination behavior, considering the contractual life of the award.
- *Expected volatility.* We derive the expected volatility at the grant date from the average historical volatilities of public companies within our industry over a period equal to the expected term of the options.
- *Risk-free interest rate.* We use the implied yield available on U.S. Treasury zero-coupon notes with maturities equivalent to the option's expected term.
- *Expected dividend yield.* We utilize a dividend yield of zero, as we do not currently issue dividends, nor do we expect to do so in the future.

The following table summarizes the weighted-average assumptions used to estimate the fair value of stock options granted during the periods presented:

	Year Ended December 31,		
	2021	2020	2019
Expected term (in years)	6.17	6.17	6.04
Expected volatility	66.3 %	68.3 %	59.0 %
Risk-free interest rate	1.1 %	0.5 %	1.8 %
Expected dividend yield	0 %	0 %	0 %

#### **Common Stock Valuations**

Prior to the IPO, the fair value of the common stock underlying our stock-based awards was determined by our board of directors, with input from management and contemporaneous independent third-party valuations. We believe that our board of directors had the relevant experience and expertise to determine the fair value of our common stock. Given the absence of a public trading market of our common stock, and in accordance with the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held Company Equity Securities Issued as Compensation, our board of directors exercised reasonable judgment and considered numerous objective and subjective factors to determine the best estimate of the fair value of our common stock at each grant date. These factors include:

- the prices, rights, preferences, and privileges of our redeemable convertible preferred stock relative to those of our common stock;



- the prices paid for common or redeemable convertible preferred stock sold to third-party investors by us and prices paid in tender offers or secondary transactions;
- lack of marketability of our common stock;
- our operating and financial performance;
- current business conditions and projections;
- hiring of key personnel and the experience of our management;
- the history of the company and the introduction of new products;
- our stage of development;
- likelihood of achieving a liquidity event, such as an initial public offering, a merger, or acquisition of our company given prevailing market conditions;
- the market performance of comparable publicly traded companies; and
- U.S. and global capital market conditions.

The fair value of our common stock was determined using various valuation methods, including a combination of the income and market approach. The income approach estimated value based on the expectation of future cash flows that we would generate. These future cash flows were discounted to their present values using a discount rate that was derived from an analysis of the cost of capital of comparable publicly traded companies in our industry or those with similar business operations and was adjusted to reflect the risks inherent in our cash flows. The market approach estimated value based on a comparison of our company to comparable public companies in a similar line of business. From the comparable companies, a representative market value multiple was determined and then applied to our financial forecasts to estimate the value of our company.

For each valuation, the fair value, or equity value, of our business determined by the income and market approaches was then allocated to the common stock using either the option-pricing method, or OPM, or a hybrid of the probability-weighted expected return method, or PWERM, and OPM methods. Our valuations prior to December 31, 2020 were allocated based on the OPM. Beginning December 31, 2020, our valuations were allocated based on a hybrid method of the PWERM and the OPM.

Application of these approaches and methodologies involves the use of estimates, judgments, and assumptions that are highly complex and subjective, such as those regarding our expected future revenue, expenses, and future cash flows, discount rates, market multiples, the selection of comparable public companies, and the probability of and timing associated with possible future events.

## **Recent Accounting Pronouncements**

See Note 2, *Basis of Presentation and Summary of Significant Accounting Policies*, to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for recently adopted accounting pronouncements and accounting pronouncements not yet adopted.

## **Jumpstart Our Business Startups (“JOBS”) Act Accounting Election**

We are an emerging growth company, as defined in the JOBS Act. The JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. This provision allows an emerging growth company to delay the adoption of some accounting standards until those standards would otherwise apply to private companies. We have elected to use the extended transition period under the JOBS Act for the adoption of certain accounting standards until the earlier of the date we (i) are no longer an emerging growth company or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our consolidated financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

## **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. We have operations both within the United States and internationally, and we are exposed to market risk in the ordinary course of our business.

### ***Interest Rate Risk***

As of December 31, 2021, we had \$2,016.0 million of cash, cash equivalents, and marketable securities in a variety of securities, including money market funds, corporate notes and bonds, commercial paper, U.S. agency obligations, U.S. treasury securities, and municipal bonds. In addition, we had \$0.8 million of restricted cash as of December 31, 2021 in support of letters of credit in connection with non-cancelable operating lease agreements for our office spaces. Our cash, cash equivalents, and marketable securities are held for working capital purposes. We do not enter into investments for trading or speculative purposes. The effect of a hypothetical 10% relative change in interest rates would not have a material impact on the fair value of our cash equivalents and marketable securities as of December 31, 2021.

In December 2021, we issued \$1.1 billion aggregate principal amount of 0% convertible senior notes due 2027 (the “2027 Notes”), including the exercise in full of the initial purchasers’ option to purchase up to an additional \$100.0 million principal amount of the 2027 Notes, in a private placement. The fair values of the 2027 Notes are subject to market risk and other factors due to the conversion feature. The fair value of the 2027 Notes will generally increase as our Class A common stock price increases, and will generally decrease as our Class A common stock price declines. The market value changes affect the fair value of the 2027 Notes, but do not impact our financial position, cash flows or results of operations due to the fixed nature of the debt obligation. Additionally, we carry the 2027 Notes at face value less unamortized debt issuance costs on our consolidated balance sheet, and we present the fair value for required disclosure purposes only.

### ***Foreign Currency Risk***

Our reporting currency and the functional currency of our wholly-owned foreign subsidiaries is the U.S. dollar. All of our sales contracts are denominated in U.S. dollars, and therefore our revenue is not currently subject to significant foreign currency risk. A portion of our operating expenses is incurred outside the United States and denominated in foreign currencies and is subject to fluctuations due to changes in foreign exchange rates. Additionally, fluctuations in foreign exchange rates may cause us to recognize additional transaction gains and losses in our consolidated statements of operations. The effect of a hypothetical 10% relative change in foreign exchange rates would not have a material impact on our financial condition, results of operations, or cash flows for the periods presented. Given that the impact of foreign exchange rates has not been material to our historical results of operations, we have not entered into derivative or hedging transactions, but we may do so in the future if our exposure to foreign currency should become more significant. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in foreign exchange rates.

**Item 8. Financial Statements and Supplementary Data**

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of Confluent, Inc.

***Opinion on the Financial Statements***

We have audited the accompanying consolidated balance sheets of Confluent, Inc. and its subsidiaries (the “Company”) as of December 31, 2021 and 2020, and the related consolidated statements of operations, of comprehensive loss, of redeemable convertible preferred stock and stockholders’ equity (deficit) and of cash flows for each of the three years in the period ended December 31, 2021, including the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021 in conformity with accounting principles generally accepted in the United States of America.

***Change in Accounting Principle***

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2020.

***Basis for Opinion***

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ PricewaterhouseCoopers LLP  
San Francisco, California  
February 24, 2022

We have served as the Company’s auditor since 2018.

**Confluent, Inc.**  
**Consolidated Balance Sheets**  
*(in thousands, except share and per share data)*

	December 31, 2021	December 31, 2020
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,375,932	\$ 36,789
Marketable securities	640,085	251,756
Accounts receivable, net of allowance	137,491	105,971
Deferred contract acquisition costs	27,646	14,403
Prepaid expenses and other current assets	44,919	18,775
Total current assets	2,226,073	427,694
Property and equipment, net	14,428	6,718
Operating lease right-of-use assets	37,281	48,273
Deferred contract acquisition costs, non-current	51,178	33,196
Other assets, non-current	13,769	10,238
Total assets	\$ 2,342,729	\$ 526,119
<b>LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED STOCK, AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable	\$ 7,591	\$ 1,646
Accrued expenses and other liabilities	98,974	33,711
Operating lease liabilities	9,236	10,492
Deferred revenue	220,920	142,901
Liability for early exercise of unvested stock options	11,467	5,049
Total current liabilities	348,188	193,799
Operating lease liabilities, non-current	31,645	40,440
Deferred revenue, non-current	25,557	16,292
Convertible senior notes, net	1,080,701	-
Other liabilities, non-current	6,357	7,203
Total liabilities	1,492,448	257,734
Commitments and contingencies (Note 7)		
Redeemable convertible preferred stock, par value \$0.00001 per share; 0 and 115,277,850 shares authorized as of December 31, 2021 and December 31, 2020, respectively; 0 and 115,277,850 shares issued and outstanding as of December 31, 2021 and December 31, 2020, respectively; aggregate liquidation preference of \$0 and \$575,085 as of December 31, 2021 and December 31, 2020, respectively	-	574,634

	December 31, 2021	December 31, 2020
Stockholders' equity (deficit):		
Preferred stock, par value of \$0.00001 per share; 10,000,000 and 0 shares authorized as of December 31, 2021 and December 31, 2020, respectively; 0 shares issued and outstanding as of December 31, 2021 and December 31, 2020	-	-
Common stock, par value of \$0.00001 per share; 0 and 323,000,000 shares authorized as of December 31, 2021 and December 31, 2020, respectively; 0 and 109,447,843 shares issued and outstanding as of December 31, 2021 and December 31, 2020, respectively	-	1
Convertible founder stock, par value of \$0.00001 per share; 0 and 635,818 shares authorized December 31, 2021 and December 31, 2020, respectively; 0 and 635,818 shares issued and outstanding as of December 31, 2021 and December 31, 2020, respectively	-	-
Class A common stock, par value of \$0.00001 per share; 1,000,000,000 and 0 shares authorized as of December 31, 2021 and December 31, 2020, respectively; 116,728,968 and 0 shares issued and outstanding as of December 31, 2021 and December 31, 2020, respectively	1	-
Class B common stock, par value of \$0.00001 per share; 500,000,000 and 0 shares authorized as of December 31, 2021 and December 31, 2020, respectively; 155,072,914 and 0 shares issued and outstanding as of December 31, 2021 and December 31, 2020, respectively	2	-
Additional paid-in capital	1,599,962	99,575
Accumulated other comprehensive (loss) income	(830)	228
Accumulated deficit	(748,854)	(406,053)
Total stockholders' equity (deficit)	850,281	(306,249)
Total liabilities, redeemable convertible preferred stock, and stockholders' equity (deficit)	<u>\$ 2,342,729</u>	<u>\$ 526,119</u>

*See accompanying notes to the consolidated financial statements.*

**Confluent, Inc.**  
**Consolidated Statements of Operations**  
*(in thousands, except share and per share data)*

	Year Ended December 31,		
	2021	2020	2019
<b>Revenue:</b>			
Subscription	\$ 347,099	\$ 208,633	\$ 130,206
Services	40,765	27,944	19,599
Total revenue	387,864	236,577	149,805
<b>Cost of revenue:</b>			
Subscription	94,860	49,283	28,395
Services	42,432	26,193	20,974
Total cost of revenue	137,292	75,476	49,369
Gross profit	250,572	161,101	100,436
<b>Operating expenses:</b>			
Research and development	161,925	105,399	58,090
Sales and marketing	319,331	166,361	115,792
General and administrative	108,936	122,516	24,662
Total operating expenses	590,192	394,276	198,544
Operating loss	(339,620)	(233,175)	(98,108)
Interest income	2,020	4,113	2,494
Other (expense) income, net	(2,027)	(973)	567
Loss before income taxes	(339,627)	(230,035)	(95,047)
Provision for (benefit from) income taxes	3,174	(207)	(5)
Net loss	\$ (342,801)	\$ (229,828)	\$ (95,042)
Net loss per share, basic and diluted	\$ (1.82)	\$ (2.21)	\$ (0.99)
Weighted-average shares used to compute net loss per share, basic and diluted	188,627,720	104,218,082	96,067,380

*See accompanying notes to the consolidated financial statements.*



**Confluent, Inc.**  
**Consolidated Statements of Comprehensive Loss**  
*(in thousands)*

	<b>Year Ended December 31,</b>		
	<b>2021</b>	<b>2020</b>	<b>2019</b>
Net loss	\$ (342,801)	\$ (229,828)	\$ (95,042)
Other comprehensive (loss) income, net of tax:			
Unrealized (loss) gain on marketable securities	(1,058)	31	271
Other comprehensive (loss) income	(1,058)	31	271
Total comprehensive loss	\$ (343,859)	\$ (229,797)	\$ (94,771)

*See accompanying notes to the consolidated financial statements.*

**Confluent, Inc.**  
**Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)**  
*(in thousands, except share data)*

	Redeemable Convertible Preferred Stock		Convertible Founder Stock		Common Stock		Class A and Class B Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount				
<b>Balances as of January 1, 2019</b>	90,624,091	\$ 205,784	7,920,000	\$ -	89,575,902	\$ 1	-	\$ -	\$ 18,182	\$ (74)	\$ (81,183)	\$ (63,074)
Issuance of common stock upon early exercise of unvested options, net of repurchases	-	-	-	-	3,759,821	-	-	-	-	-	-	-
Vesting of early exercised options	-	-	-	-	-	-	-	-	3,927	-	-	3,927
Issuance of common stock upon exercise of vested options	-	-	-	-	5,300,756	-	-	-	4,467	-	-	4,467
Stock-based compensation	-	-	-	-	-	-	-	-	18,686	-	-	18,686
Other comprehensive income	-	-	-	-	-	-	-	-	-	271	-	271
Net loss	-	-	-	-	-	-	-	-	-	-	(95,042)	(95,042)
<b>Balances as of December 31, 2019</b>	90,624,091	205,784	7,920,000	-	98,636,479	1	-	-	45,262	197	(176,225)	(130,765)
Issuance of common stock upon early exercise of unvested options, net of repurchases	-	-	-	-	1,400,335	-	-	-	-	-	-	-
Vesting of early exercised options	-	-	-	-	-	-	-	-	7,030	-	-	7,030
Issuance of common stock upon exercise of vested options	-	-	-	-	9,411,029	-	-	-	12,430	-	-	12,430
Stock-based compensation	-	-	-	-	-	-	-	-	143,888	-	-	143,888
Issuance of Series E redeemable convertible preferred stock, net of issuance costs	17,369,577	259,815	-	-	-	-	-	-	-	-	-	-
Conversion of convertible founder stock for Series E redeemable convertible preferred stock	7,284,182	109,035	(7,284,182)	-	-	-	-	-	(109,035)	-	-	(109,035)
Other comprehensive income	-	-	-	-	-	-	-	-	-	31	-	31
Net loss	-	-	-	-	-	-	-	-	-	-	(229,828)	(229,828)
<b>Balances as of December 31, 2020</b>	115,277,850	574,634	635,818	-	109,447,843	1	-	-	99,575	228	(406,053)	(306,249)
Issuance of common stock upon early exercise of unvested options, net of repurchases	-	-	-	-	2,447,573	-	1,104	-	-	-	-	-
Vesting of early exercised options	-	-	-	-	-	-	-	-	10,235	-	-	10,235
Issuance of common stock upon exercise of vested options	-	-	-	-	7,072,147	-	13,021,053	1	51,792	-	-	51,793
Vesting of restricted stock units	-	-	-	-	-	-	648,494	-	-	-	-	-
Stock-based compensation	-	-	-	-	-	-	-	-	158,249	-	-	158,249
Reclassification of common stock to Class B common stock upon initial public offering	-	-	-	-	(118,967,563)	(1)	118,967,563	1	-	-	-	-
Conversion of redeemable convertible preferred and founder stock to Class B common stock upon initial public offering	(115,277,850)	(574,634)	(635,818)	-	-	-	115,913,668	1	574,633	-	-	574,634
Issuance of Class A common stock upon initial public offering, net of underwriting discounts and commissions and other issuance costs	-	-	-	-	-	-	23,000,000	-	783,158	-	-	783,158
Issuance of Class A common stock pursuant to charitable donation	-	-	-	-	-	-	250,000	-	13,290	-	-	13,290
Purchase of capped calls	-	-	-	-	-	-	-	-	(90,970)	-	-	(90,970)
Other comprehensive loss	-	-	-	-	-	-	-	-	-	(1,058)	-	(1,058)
Net loss	-	-	-	-	-	-	-	-	-	-	(342,801)	(342,801)
<b>Balances as of December 31, 2021</b>	-	\$ -	-	\$ -	-	\$ -	271,801,882	\$ 3	\$ 1,599,962	\$ (830)	\$ (748,854)	\$ 850,281

*See accompanying notes to the consolidated financial statements.*

**Confluent, Inc.**  
**Consolidated Statements of Cash Flows**  
*(in thousands)*

	Year Ended December 31,		
	2021	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss	\$ (342,801)	\$ (229,828)	\$ (95,042)
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation and amortization	3,632	1,567	1,202
Net amortization (accretion) of premiums (discounts) on marketable securities	2,270	1,294	(787)
Amortization of debt issuance costs	187	-	-
Amortization of deferred contract acquisition costs	26,697	16,029	8,864
Non-cash operating lease costs	10,990	11,911	-
Common stock charitable donation expense	13,290	-	-
Stock-based compensation, net of amounts capitalized	155,624	143,341	18,617
Deferred income taxes	1,335	(1,335)	(394)
Other	1,828	710	322
Changes in operating assets and liabilities:			
Accounts receivable	(32,516)	(41,612)	(27,117)
Deferred contract acquisition costs	(57,924)	(38,129)	(19,671)
Prepaid expenses and other assets	(31,366)	(14,368)	(5,926)
Accounts payable	6,143	(327)	1,511
Accrued expenses and other liabilities	61,132	15,837	8,604
Operating lease liabilities	(10,866)	(11,224)	-
Deferred revenue	87,285	64,077	40,983
Net cash used in operating activities	<u>(105,060)</u>	<u>(82,057)</u>	<u>(68,834)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Capitalization of internal-use software costs	(5,342)	(3,610)	(975)
Purchases of marketable securities	(663,595)	(329,616)	(65,978)
Sales of marketable securities	-	4,988	33,104
Maturities of marketable securities	271,942	152,419	71,144
Purchases of property and equipment	(3,600)	(1,040)	(1,954)
Other	12	-	300
Net cash (used in) provided by investing activities	<u>(400,583)</u>	<u>(176,859)</u>	<u>35,641</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from initial public offering, net of underwriting discounts and commissions	786,600	-	-
Proceeds from issuance of common stock upon exercise of vested options	51,737	12,376	4,467
Proceeds from issuance of common stock upon early exercise of unvested options, net of repurchases	18,972	4,678	8,965
Proceeds from issuance of redeemable convertible preferred stock, net of issuance costs	-	259,815	-
Payments of deferred offering costs	(3,125)	(111)	-
Proceeds from convertible senior notes, net of issuance costs	1,081,300	-	-
Payment for purchase of capped calls	(90,970)	-	-
Net cash provided by financing activities	<u>1,844,514</u>	<u>276,758</u>	<u>13,432</u>
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	5	(7)	(85)
Net increase (decrease) in cash, cash equivalents, and restricted cash	<u>1,338,876</u>	<u>17,835</u>	<u>(19,846)</u>
Cash, cash equivalents, and restricted cash at beginning of period	<u>37,806</u>	<u>19,971</u>	<u>39,817</u>
Cash, cash equivalents, and restricted cash at end of period	<u>\$ 1,376,682</u>	<u>\$ 37,806</u>	<u>\$ 19,971</u>

	Year Ended December 31,		
	2021	2020	2019
<b>Reconciliation of cash, cash equivalents, and restricted cash within the consolidated balance sheets to the amounts shown above:</b>			
Cash and cash equivalents	\$ 1,375,932	\$ 36,789	\$ 18,954
Restricted cash included in other assets, current and non-current	750	1,017	1,017
Total cash, cash equivalents, and restricted cash	<u>\$ 1,376,682</u>	<u>\$ 37,806</u>	<u>\$ 19,971</u>
<b>Supplementary cash flow disclosures:</b>			
Cash paid for:			
Income taxes	\$ 2,168	\$ 960	\$ 436
Non-cash investing and financing activities:			
Stock-based compensation capitalized as internal-use software costs	\$ 2,625	\$ 547	\$ 69
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 813	\$ -	\$ -
Property and equipment included in accounts payable and accrued expenses and other liabilities	\$ -	\$ 203	\$ 60
Issuance of common stock upon exercise of vested options included in prepaid expenses and other current assets	\$ 55	\$ 54	\$ -
Vesting of early exercised stock options	\$ 10,235	\$ 7,030	\$ 3,927
Conversion of convertible founder stock for Series E redeemable convertible preferred stock	\$ -	\$ 109,035	\$ -
Unpaid deferred offering costs	\$ -	\$ 36	\$ -
Convertible senior notes issuance costs included in accrued expenses and other liabilities	\$ 786	\$ -	\$ -

*See accompanying notes to the consolidated financial statements.*

**Confluent, Inc.**  
**Notes to Consolidated Financial Statements**

## **1. Organization and Description of Business**

### ***Description of Business***

Confluent, Inc. (“Confluent” or the “Company”) created a data infrastructure platform focused on data in motion. Confluent’s platform allows customers to connect their applications, systems, and data layers and can be deployed either as a self-managed software offering, Confluent Platform, or as a fully-managed cloud-native software-as-a-service (“SaaS”) offering, Confluent Cloud. Confluent also offers professional services and education services. The Company was incorporated in the state of Delaware in September 2014 and is headquartered in California with various other global office locations.

### ***Initial Public Offering***

In June 2021, the Company completed its initial public offering (“IPO”), in which the Company issued and sold 23,000,000 of its Class A common stock at a public offering price of \$36.00 per share, resulting in net proceeds of \$786.6 million after deducting underwriting discounts and commissions. Immediately prior to the closing of the IPO, all shares of common stock then outstanding were reclassified as Class B common stock, all 115,277,850 shares of the Company’s outstanding redeemable convertible preferred stock automatically converted into an equal number of shares of Class B common stock, and all 635,818 shares of the Company’s outstanding convertible founder stock automatically converted into an equal number of shares of Class B common stock.

Prior to the IPO, deferred offering costs, which consist of direct incremental legal, accounting, consulting, and other fees relating to the IPO, were capitalized in other assets, non-current on the consolidated balance sheets. Upon the consummation of the IPO, \$3.4 million of deferred offering costs, net of reimbursement received from the underwriters, were reclassified into stockholders’ equity as an offset against the IPO proceeds. The Company had \$0.1 million of capitalized deferred offering costs as of December 31, 2020.

## **2. Basis of Presentation and Summary of Significant Accounting Policies**

### **Basis of Presentation**

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (“GAAP”) and include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

### **Use of Estimates**

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Such estimates include, but are not limited to, the standalone selling price (“SSP”) for each distinct performance obligation included in customer contracts, deferred contract acquisition costs and their period of benefit, valuation of stock-based awards, the fair value of the Company’s common stock prior to its IPO in June 2021, capitalization and estimated useful life of internal-use software, the incremental borrowing rate used to measure operating lease liabilities, and accounting for income taxes.

The Company bases its estimates on historical and anticipated results, trends, and various other assumptions that it believes are reasonable under the circumstances. Estimates and assumptions about future events and their effects, including the impact of the COVID-19 pandemic, cannot be determined with certainty and therefore require the exercise of judgment. Actual results could differ from those estimates and any such differences may be material to the Company’s consolidated financial statements.

## **Functional Currency**

The reporting currency of the Company is the U.S. dollar. The U.S. dollar is the functional currency for all subsidiaries, and therefore, foreign currency denominated monetary assets and liabilities are remeasured into U.S. dollars at exchange rates at the balance sheet date, and foreign currency denominated non-monetary assets and liabilities are remeasured into U.S. dollars at historical exchange rates. Gains or losses from foreign currency remeasurement and settlements are included in other income (expense), net in the consolidated statements of operations. Net foreign exchange gains and losses were not material for the years ended December 31, 2021, 2020, and 2019.

## **Cash and Cash Equivalents**

The Company considers all highly liquid investments, including money market funds, U.S. treasury securities, and commercial paper with remaining maturities at the date of purchase of three months or less, to be cash equivalents.

## **Marketable Securities**

The Company's marketable securities consist of corporate notes and bonds, commercial paper, U.S. agency obligations, U.S. treasury securities, and municipal bonds. The Company determines the appropriate classification of its marketable securities at the time of purchase and reevaluates such determination at each balance sheet date. The Company has classified and accounted for its marketable securities as available-for-sale securities. 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 marketable securities within current assets.

Available-for-sale securities are adjusted for amortization of premiums and accretion of discounts to maturity and such amortization and accretion are included in other income (expense), net in the consolidated statements of operations. Changes in fair value considered to be temporary are recorded as unrealized gains or losses in accumulated other comprehensive income (loss) on the consolidated balance sheets.

Realized gains and losses are determined based on the specific identification method and are reported in other income (expense), net in the consolidated statements of operations. The Company periodically evaluates its marketable securities to assess whether those with unrealized loss positions are other-than-temporarily impaired. If the Company determines that the decline in an investment's fair value is other-than-temporary, the difference is recognized as an impairment loss in the consolidated statements of operations. During the years ended December 31, 2021, 2020, and 2019, the Company did not record any other-than-temporary impairment charges in its consolidated statements of operations.

## **Restricted Cash**

Restricted cash represents cash deposits with financial institutions in support of letters of credit outstanding in favor of certain landlords related to non-cancelable operating lease agreements to leased office spaces. Restricted cash is presented in prepaid expenses and other current assets for leases that expire within one year and in other assets, non-current for leases that expire more than one year from the balance sheet date.

## **Fair Value of Financial Instruments**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants on the measurement date. The accounting guidance establishes a three-tiered hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value as follows:

- Level 1 Inputs: Observable inputs such as unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 Inputs: Observable inputs other than quoted prices included in Level 1, such as quoted prices in less active markets or model-derived valuations that are observable either directly or indirectly.
- Level 3 Inputs: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company's financial instruments consist of cash equivalents, marketable securities, accounts receivable, accounts payable, accrued expenses, and convertible senior notes. Cash equivalents are stated at amortized cost, which approximates fair value at the balance sheet dates, due to the short period of time to maturity. Marketable securities are recorded at fair value. Accounts receivable, accounts payable, and accrued expenses are stated at their carrying value, which approximates fair value due to the short time to the expected receipt or payment date. See Note 4 for further details regarding the fair value of the Company's convertible senior notes.

## **Accounts Receivable and Allowance for Doubtful Accounts**

Accounts receivable on the consolidated balance sheets consists of trade accounts receivable and unbilled receivables, net of an allowance for doubtful accounts. Trade accounts receivable are stated at the invoiced amount and consist of amounts currently due from customers. Unbilled receivables represent revenue recognized in excess of invoiced amounts for the Company's unconditional right to consideration in exchange for goods or services that the Company has transferred to the customer, such that only the passage of time is required before payment of consideration is due. The unbilled receivables balance was \$32.3 million and \$17.6 million as of December 31, 2021 and 2020, respectively.

Accounts receivable are reduced by an allowance for doubtful accounts due to collection risk related to these receivables. The Company determines the need for an allowance for doubtful accounts based upon various factors, including past collection experience, age of the receivable balance, and specific circumstances arising with individual customers. Accounts receivable deemed uncollectible are written off against the allowance for doubtful accounts when identified and the Company no longer actively pursues collection of the receivable. The Company's allowance for doubtful accounts was not material as of December 31, 2021, 2020, and 2019. Additions to and write-offs against the allowance for doubtful accounts were not material for the years ended December 31, 2021, 2020, and 2019.

## **Concentration of Risks**

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents, restricted cash, marketable securities, and accounts receivable. The primary focus of the Company's investment strategy is to preserve capital and meet liquidity requirements. The Company invests its excess cash in highly rated money market funds and in marketable securities. The Company extends credit to customers in the normal course of business. The Company maintains an allowance for doubtful accounts on customers' accounts when deemed necessary.

No customer represented 10% or greater of total revenue for the years ended December 31, 2021, 2020, and 2019. No customer represented 10% or greater of gross accounts receivable as of December 31, 2021 and 2020.

## Deferred Contract Acquisition Costs

Sales commissions earned by the Company's sales force and the associated payroll taxes are considered incremental and recoverable costs of obtaining a contract with a customer. Sales commissions for new revenue contracts, including incremental sales to existing customers, are deferred and then amortized over an estimated period of benefit, which the Company has determined to be five years. To determine the period of benefit, the Company has considered its technology development cycle, the cadence of software releases, the nature of its customer contracts, the duration of customer relationships, and the expected renewal period. Sales commissions for renewal contracts (which are not considered commensurate with sales commissions for new revenue contracts and incremental sales to existing customers) are deferred and then amortized over the renewal contract term. Amortization of deferred contract acquisition costs is included in sales and marketing expenses in the consolidated statements of operations. The Company periodically reviews the carrying amount of deferred contract acquisition costs to determine whether events or changes in circumstances have occurred that could impact the period of benefit of these deferred costs. The Company did not recognize any impairment of deferred contract acquisition costs during the years ended December 31, 2021, 2020, and 2019.

## Capitalized Software Costs

Software development costs for software to be sold, leased, or otherwise marketed are expensed as incurred until the establishment of technological feasibility, at which time those costs are capitalized until the product is available for general release to customers and amortized over the estimated life of the product. Technological feasibility is established upon the completion of a working prototype that has been certified as having no critical bugs and is a release candidate. Costs to develop software that is marketed externally have not been capitalized as the current software development process is essentially completed concurrently with the establishment of technological feasibility and were not material for the periods presented. As such, all related software development costs are expensed as incurred and included in research and development expenses in the consolidated statements of operations.

Costs related to software acquired, developed, or modified solely to meet the Company's internal requirements are capitalized. Costs incurred during the preliminary planning and evaluation stage of the project and during the post-implementation operational stage are expensed as incurred. Costs incurred during the application development stage of the project are capitalized within property and equipment, net on the consolidated balance sheets. Amortization is computed using the straight-line method over the estimated useful life of the capitalized software asset, which is generally 3 years. The amortization of internal-use software costs is included in cost of revenue in the consolidated statements of operations. The Company evaluates the useful life of these assets on a periodic basis and tests for impairment whenever events or changes in circumstances occur that could impact the recoverability of these assets. The Company did not recognize any impairment of capitalized internal-use software costs during the years ended December 31, 2021, 2020, and 2019.

## Property and Equipment, Net

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. The estimated lives of the Company's assets are as follows:

	<b>Useful Lives</b>
Computers and equipment	3 years
Furniture and fixtures	5 years
Purchased software	3 years
Leasehold improvements	Shorter of the remaining lease term or useful life
Internal-use software	3 years



Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation and amortization are removed from the consolidated financial statements and any resulting gain or loss is reflected in the consolidated statements of operations. There were no material gains or losses incurred as a result of retirement or sale during the years ended December 31, 2021, 2020, and 2019.

## **Leases**

Effective January 1, 2020, the consolidated financial statements reflect the adoption of ASC 842, Leases, using the modified retrospective method.

Leases arise from contractual obligations that convey the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. The Company determines if a contract is, or contains, a lease at contract inception. All of the Company's leases are operating leases and are included in operating lease right-of-use assets, operating lease liabilities, and operating lease liabilities, non-current on the consolidated balance sheets.

The Company accounts for lease components and non-lease components as a single lease component for all leases. The Company has elected an accounting policy to not recognize short-term leases, which have a lease term of twelve months or less, on the consolidated balance sheets.

Operating lease right-of-use assets and operating lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term discounted using the Company's incremental borrowing rate. Operating lease right-of-use assets also include any lease payments made and exclude lease incentives. As the Company's leases do not provide an implicit rate, the incremental borrowing rate used is estimated based on what the Company would have to pay on a collateralized basis in the currency in which the arrangement is denominated over a similar term as the lease. Lease payments include fixed payments and variable payments based on an index or rate, if any, and are recognized as lease expense on a straight-line basis over the term of the lease. The lease term includes options to extend or terminate the lease when it is reasonably certain they will be exercised. Variable lease payments not based on a rate or index are expensed as incurred.

## **Impairment of Long-Lived Assets**

The Company evaluates the recoverability of long-lived assets, including property and equipment and operating lease right-of-use assets, for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be fully recoverable. 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 comparison indicates that the carrying amount of long-lived assets is not recoverable, the carrying amount of such assets is reduced to fair value. There were no impairment charges related to long-lived assets during the years ended December 31, 2021, 2020, and 2019.

In addition to the recoverability assessment, the Company periodically reviews the remaining estimated useful lives of its property and equipment. If the estimated useful life assumption for any asset is changed due to new information, the remaining unamortized balance would be depreciated or amortized over the revised estimated useful life on a prospective basis.

## **Convertible Senior Notes**

The Company accounts for its convertible senior notes wholly as debt. Debt issuance costs incurred in connection with the issuance of the Company's convertible senior notes are reflected in the consolidated balance sheets as a direct deduction from the carrying amount of the outstanding convertible senior notes. These costs are amortized as interest expense using the effective interest rate method over the contractual term of the convertible senior notes and is included within other income (expense), net on the consolidated statement of operations.

## Deferred Revenue

Deferred revenue, which is a contract liability, primarily consists of customer billings or payments received in advance of revenue being recognized from the Company's subscription and services contracts. The Company generally invoices customers annually in advance for its term-based licenses and either annually in advance or monthly in arrears for its SaaS offering. Typical payment terms range from due upon receipt to net 60 days of the invoice date. Deferred revenue that is anticipated to be recognized during the succeeding twelve-month period is recorded as deferred revenue within current liabilities and the remaining portion is recorded as deferred revenue, non-current. The Company records deferred revenue upon the right to invoice or when payments have been received for subscriptions or services not delivered. Deferred revenue does not necessarily represent the total contract value of the related agreements.

## Revenue Recognition

The Company generates revenue from the sale of subscriptions and services. Subscription revenue consists of revenue from term-based licenses that include post-contract customer support, maintenance, and upgrades, referred to together as PCS, which the Company refers to as Confluent Platform, and the Company's SaaS offering, which the Company refers to as Confluent Cloud. Confluent Cloud customers may purchase subscriptions either without a minimum commitment contract on a month-to-month basis, which the Company refers to as pay-as-you-go, or under a usage-based minimum commitment contract of at least one year in duration, in which customers commit to a fixed minimum monetary amount at specified per-usage rates. Revenue from the Company's pay-as-you-go arrangements was not material during the years ended December 31, 2021, 2020, and 2019. The Company primarily enters into subscription contracts with one-year terms, and subscription contracts are generally non-cancelable and non-refundable, although customers can terminate for breach if the Company materially fails to perform. Services revenue consists of revenue from professional services and education services. The Company generates sales of its subscriptions and services through its sales teams, self-service channel, and partner ecosystem, including the major cloud provider marketplaces.

The consolidated financial statements reflect the Company's accounting for revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). Under ASC 606, the Company recognizes revenue when its customers obtain control of promised subscriptions or services in an amount that reflects the consideration that the Company expects to receive in exchange for those subscriptions or services. In determining the appropriate amount of revenue to be recognized as the Company fulfills its obligations under each of its agreements, the following steps are performed:

(i) *identification of the contract with a customer*

The Company generally contracts with customers through order forms, which are governed by master sales agreements, and through cloud provider marketplaces. The Company determines that it has a contract with a customer when the contract is approved, each party's rights regarding the subscriptions or services to be transferred and the payment terms for the services can be identified, the Company has determined the customer has the ability and intent to pay, and the contract has commercial substance. The Company applies judgment in determining the customer's ability and intent to pay, which is based on a variety of factors, including the customer's historical payment experience or, in the case of a new customer, credit, reputation, and financial or other information pertaining to the customer.

When a contract is entered into, the Company evaluates whether the contract is part of a larger arrangement and should be accounted for with other contracts and whether the combined or single contract includes more than one performance obligation.

(ii) *identification of the performance obligations in the contract*

Performance obligations are identified based on the subscriptions and services that will be transferred to the customer that are both (1) capable of being distinct, whereby the customer can benefit from the subscriptions or services either on their own or together with other resources that are readily available from third parties or from the Company, and (2) are distinct in the context of the contract, whereby the transfer of the subscriptions and services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised subscriptions or services, the Company applies judgment to determine whether promised subscriptions or services are capable of being distinct and distinct in the context of the contract. If these criteria are not met, or if performance obligations follow the same pattern of recognition, the promised subscriptions or services are accounted for as a combined performance obligation. The Company has concluded that its contracts with customers do not contain warranties that give rise to a separate performance obligation.

(iii) *measurement of the transaction price*

The transaction price is the total amount of consideration the Company expects to be entitled to in exchange for the subscriptions and services in a contract. The transaction price in a usage-based SaaS contract is typically equal to the minimum commitment in the contract, less any discounts provided. Variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. The Company's contracts do not contain a significant financing component.

(iv) *allocation of the transaction price to the performance obligations;*

If a contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. For contracts that contain multiple performance obligations, the Company allocates the transaction price using a relative standalone selling price, or SSP allocation based on the SSPs of each performance obligation. Determining the relative SSP for contracts that contain multiple performance obligations is a critical accounting estimate. The Company establishes each SSP based on multiple factors, including prices at which the Company separately sells standalone subscriptions and services. In cases where directly observable standalone sales are not available, such as when license and PCS are not sold on a standalone basis, the Company establishes SSP by using information such as historical selling price of performance obligations in similar transactions, market conditions, and the Company's pricing practices, which can require significant judgment and are subject to change based on continuous reevaluation. There is typically more than one SSP for individual subscriptions and services due to the stratification of subscription support tiers and services. The Company also considers if there are any additional material rights inherent in a contract, and if so, it allocates revenue to the material right as a performance obligation.

(v) *recognition of revenue when the Company satisfies each performance obligation;*

The Company recognizes revenue at the time the related performance obligation is satisfied, in an amount that reflects the consideration it expects to be entitled to in exchange for those subscriptions or services. The Company records its revenue net of any withholding, value added or sales tax, as well as any discounts or marketing development funds.

*Subscription Revenue*

The Company's subscription revenue includes revenue from Confluent Platform for licenses sold in conjunction with PCS. The license provides the right to use licensed proprietary software features, which represents significant standalone functionality and is therefore deemed a distinct performance obligation. License revenue is recognized at a point in time, upon delivery and transfer of control of the underlying license to the customer, which is typically the effective start date. Revenue from PCS is based on its continuous pattern of transfer to the customer and therefore is recognized ratably over the contract term.

The Company's subscription revenue also includes revenue from Confluent Cloud for its usage-based minimum commitment and pay-as-you-go offering, which is recognized on a usage basis, as usage represents a direct measurement of the value to the customer of the subscription transferred as of a particular date relative to the total value to be delivered over the term of the contract. For contracts that are not usage-based, revenue from Confluent Cloud is recognized ratably over the non-cancelable contractual term of the arrangement, generally beginning on the date that the service is made available to the customer.

#### *Services Revenue*

The Company's services revenue includes revenue from professional services and education services, which are generally sold on a time-and-materials basis. The Company recognizes the associated revenue as services are delivered.

#### **Cost of Revenue**

##### *Cost of Subscription Revenue*

Cost of subscription revenue primarily includes personnel-related costs, including salaries, bonuses, benefits, and stock-based compensation, for employees associated with customer support and maintenance, third-party cloud infrastructure costs, amortization of internal-use software, and allocated overhead.

##### *Cost of Services Revenue*

Cost of services revenue primarily includes personnel-related costs, including salaries, bonuses, benefits, and stock-based compensation, for employees associated with professional services and education services, costs for third-party contractors, and allocated overhead.

#### **Research and Development Costs**

Research and development costs are expensed as incurred and consist primarily of personnel-related costs, including salaries, bonuses, benefits, and stock-based compensation, net of amounts capitalized, third-party cloud infrastructure expenses incurred in developing the Company's platform, software and subscription services dedicated for use by the Company's research and development organization, contractor and professional services fees, and allocated overhead.

#### **Advertising Costs**

Advertising costs are expensed as incurred or when the advertising first takes place, based on the nature of the advertising, and are recorded in sales and marketing expenses in the consolidated statements of operations. Advertising expense was \$26.7 million, \$10.9 million, and \$8.4 million for the years ended December 31, 2021, 2020, and 2019, respectively.

#### **Stock-Based Compensation**

The Company records compensation expense in connection with all stock-based awards, including stock options and restricted stock units ("RSUs") granted to employees and non-employees and stock purchase rights granted under the Employee Stock Purchase Plan ("ESPP") to employees, based on the fair value of the awards granted. The Company uses the Black-Scholes option-pricing model to determine the fair value of stock options and ESPP rights on the dates of grant. Calculating the fair value of stock options and ESPP rights using the Black-Scholes model requires certain highly subjective inputs and assumptions including the fair value of the underlying common stock, the expected term of the stock option or ESPP right, and the expected volatility of the price of the Company's common stock.

For stock-based awards that vest based only on continuous service, stock-based compensation expense is recognized on a straight-line basis over the requisite service period, which is generally the vesting period of four years.

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The Company has also granted certain awards that have both a service-based and a performance-based vesting condition. The service-based vesting condition for these awards is generally satisfied by rendering service from the date of grant through the satisfaction of the performance-based vesting condition, as well as a four-year vesting period commencing with the satisfaction of the performance-based vesting condition.

The performance-based vesting condition was satisfied upon the sale of the Company's common stock in a firm commitment underwritten public offering. For awards with performance-based vesting conditions, stock-based compensation expense is recognized using the accelerated attribution method over the requisite service period when it is probable the performance-based vesting condition will be achieved. A sale of the Company's common stock in a firm commitment underwritten public offering is not deemed probable until consummated. Accordingly, no expense is recorded related to these awards until the performance-based vesting condition becomes probable of occurring. In connection with its IPO, the Company recorded stock-based compensation expense for these awards with performance-based vesting conditions for the service period rendered from the date of grant through the IPO date. The Company has also granted certain options containing a provision whereby vesting is accelerated upon a change in control; stock-based compensation expense for such options is recognized on a straight-line basis over a vesting period of generally four years, as a change in control is considered to be outside of the Company's control and is not considered probable until it occurs. Forfeitures are accounted for as they occur.

### **Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax law in effect for the years in which the temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in the period that includes the enactment date.

A valuation allowance is recorded for deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized. Accordingly, the need to establish such allowances is assessed periodically by considering matters such as future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and results of recent operations.

The Company evaluates and accounts for the benefits of uncertain tax positions using a two-step approach. Recognition, step one, occurs when the Company concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. Measurement, step two, determines the largest amount of benefit that is greater than 50% likely to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

### **Net Loss Per Share**

The Company computes basic and diluted net loss per share attributable to Class A and Class B common stockholders for the year ended December 31, 2021 and basic and diluted net loss per share attributable to common and convertible founder stockholders for the years ended December 31, 2020 and 2019 using the two-class method required for companies with participating securities. The Company considers all series of its outstanding redeemable convertible preferred stock and unvested common stock to be participating securities as the holders of such securities have non-forfeitable dividend rights in the event that a dividend is paid on common stock. Under the two-class method, net loss is not allocated to redeemable convertible preferred stock and unvested common stock as these securities do not have a contractual obligation to share in the Company's net losses.

Basic net loss per share is computed by dividing net loss by the weighted-average number of shares outstanding during the period, less unvested common stock that is subject to repurchase. Basic and diluted net loss per share were the same for the years ended December 31, 2021, 2020, and 2019, as the inclusion of all potentially dilutive shares was anti-dilutive due to the net loss reported for each period.

### **Segment and Geographic Information**

The Company operates its business as one operating and reportable segment as the Company's chief operating decision maker, the Company's Chief Executive Officer, reviews financial information on a consolidated basis for purposes of allocating resources and evaluating financial performance. As of December 31, 2021 and 2020, substantially all of the Company's long-lived assets, including property and equipment, net, and operating right-of-use assets were located in the United States. See Note 8 for revenue disaggregated by geographic markets.

## Recent Accounting Pronouncements

### Recently Adopted Accounting Pronouncements

**Convertible Instruments:** In August 2020, the Financial Accounting Standards Board ("FASB") issued ASU No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*, which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity. ASU 2020-06 reduces the number of accounting models for convertible debt instruments and convertible preferred stock, and enhances information transparency by making targeted improvements to the disclosures for convertible instruments and earnings per share guidance. The Company adopted this guidance as of January 1, 2021. The adoption did not have a material impact on its consolidated financial statements as the Company did not have any convertible instruments outstanding as of January 1, 2021.

### Recent Accounting Pronouncements Not Yet Adopted

**Credit Losses:** In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements*, which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost, which includes the Company's accounts receivable, certain financial instruments, and contract assets. ASU 2016-13 replaces the existing incurred loss impairment model with an expected loss methodology. Subsequently, the FASB issued multiple codification improvement amendments to ASU 2016-13. ASU 2016-13 and the applicable subsequent amendments are effective for the Company for the year beginning January 1, 2023, though early adoption is permitted. The Company plans to early adopt this guidance effective January 1, 2022 on a modified retrospective basis and does not expect the adoption to have a material impact on its consolidated financial statements.

## 3. Marketable Securities

The following tables summarize the fair values of the Company's marketable securities (in thousands):

	December 31, 2021			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. treasury securities	\$ 446,878	\$ -	\$ (443)	\$ 446,435
Corporate notes and bonds	125,845	5	(246)	125,604
U.S. agency obligations	54,122	-	(115)	54,007
Commercial paper	10,995	-	-	10,995
Municipal bonds	3,045	-	(1)	3,044
Total marketable securities	<u>\$ 640,885</u>	<u>\$ 5</u>	<u>\$ (805)</u>	<u>\$ 640,085</u>

  

	December 31, 2020			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate notes and bonds	\$ 155,401	\$ 360	\$ (21)	\$ 155,740
Commercial paper	63,503	27	(24)	63,506
U.S. agency obligations	32,520	-	(10)	32,510
Total marketable securities	<u>\$ 251,424</u>	<u>\$ 387</u>	<u>\$ (55)</u>	<u>\$ 251,756</u>

Realized gains and losses were not material for the years ended December 31, 2021, 2020, and 2019. Marketable securities in an unrealized loss position had a fair value of \$618.3 million and an immaterial amount of unrealized losses as of December 31, 2021, and a fair value of \$91.5 million and an immaterial amount of unrealized losses as of December 31, 2020. No marketable securities were in a continuous unrealized loss position for more than twelve months as of December 31, 2021 and 2020.

The following table summarizes the contractual maturities of the Company's marketable securities (in thousands):

	December 31, 2021		December 31, 2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	\$ 488,565	\$ 488,256	\$ 180,320	\$ 180,520
Due after one year through five years	152,320	151,829	71,104	71,236
Total	\$ 640,885	\$ 640,085	\$ 251,424	\$ 251,756

#### 4. Fair Value of Financial Instruments

The following tables summarize the Company's financial assets that are measured at fair value on a recurring basis (in thousands):

	December 31, 2021		
	Level 1	Level 2	Total
<b>Cash equivalents:</b>			
U.S. treasury securities	\$ -	\$ 69,999	\$ 69,999
Money market funds	23,857	-	23,857
Commercial paper	-	4,999	4,999
<b>Marketable securities:</b>			
U.S. treasury securities	-	446,435	446,435
Corporate notes and bonds	-	125,604	125,604
U.S. agency obligations	-	54,007	54,007
Commercial paper	-	10,995	10,995
Municipal bonds	-	3,044	3,044
Total	\$ 23,857	\$ 715,083	\$ 738,940

	December 31, 2020		
	Level 1	Level 2	Total
<b>Cash equivalents:</b>			
Money market funds	\$ 12,409	\$ -	\$ 12,409
<b>Marketable securities:</b>			
Corporate notes and bonds	-	155,740	155,740
Commercial paper	-	63,506	63,506
U.S. agency obligations	-	32,510	32,510
Total	\$ 12,409	\$ 251,756	\$ 264,165

The Company classifies its highly liquid money market funds within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets. The Company classifies its corporate notes and bonds, commercial paper, U.S. agency obligations, U.S. treasury securities, and municipal bonds within Level 2 of the fair value hierarchy because they are valued using inputs other than quoted prices that are directly or indirectly observable in the market, including readily available pricing sources for the identical underlying security that may not be actively traded. There were no transfers of financial assets between valuation levels during the years ended December 31, 2021, 2020, and 2019.

As of December 31, 2021, the total estimated fair value of the Company's 0% convertible senior notes due 2027 was \$1,206.7 million. The fair value was determined based on the quoted price of the convertible senior notes in an inactive market on the last trading day of the reporting period and is classified within Level 2 of the fair value hierarchy.

## 5. Balance Sheet Components

### *Property and Equipment, Net*

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

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Computers and equipment	\$ 4,541	\$ 2,640
Furniture and fixtures	1,322	1,360
Purchased software	26	26
Leasehold improvements	459	136
Internal-use software	8,024	4,016
Construction in progress	5,140	1,183
Property and equipment, at cost	\$ 19,512	\$ 9,361
Less: Accumulated depreciation and amortization	(5,084)	(2,643)
Property and equipment, net	<u>\$ 14,428</u>	<u>\$ 6,718</u>

Depreciation and amortization expense was \$3.6 million, \$1.6 million and \$1.2 million for the years ended December 31, 2021, 2020, and 2019, respectively.

### *Accrued Expenses and Other Liabilities*

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

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Accrued compensation and benefits	\$ 27,703	\$ 4,240
Employee contributions under ESPP	19,247	-
Accrued expenses	17,452	7,225
Accrued commissions	13,734	10,189
Accrued payroll taxes	8,681	6,756
Other liabilities	12,157	5,301
Total accrued expenses and other liabilities	<u>\$ 98,974</u>	<u>\$ 33,711</u>



## 6. Convertible Senior Notes

In December 2021, the Company issued \$1.1 billion aggregate principal amount of 0% convertible senior notes due 2027 (the “2027 Notes”), including the exercise in full of the initial purchasers’ option to purchase up to an additional \$100.0 million principal amount of the 2027 Notes, in a private placement to qualified institutional buyers pursuant to Rule 144A under the Securities Act. The 2027 Notes are general unsecured obligations of the Company and will mature on January 15, 2027, unless earlier converted, redeemed, or repurchased. The 2027 Notes do not bear regular interest, and the principal amount of the 2027 Notes will not accrete. Special interest, if any, will be payable semiannually in arrears on January 15 and July 15 of each year, beginning on July 15, 2022 (if and to the extent that special interest is then payable on the 2027 Notes). The total net proceeds from the offering, after deducting initial purchasers’ discounts and debt issuance costs, were \$1,080.5 million.

The initial conversion rate is 9.9936 shares of the Company’s Class A common stock per \$1,000 principal amount of 2027 Notes (equivalent to an initial conversion price of approximately \$100.06 per share of the Company’s Class A common stock), subject to adjustment as set forth in the indenture governing the 2027 Notes (the “Indenture”). The 2027 Notes are convertible at the option of the holders at any time prior to the close of business on the business day immediately preceding October 15, 2026, only under the following conditions:

- (1) during any calendar quarter commencing after the calendar quarter ending on March 31, 2022 (and only during such calendar quarter), if the last reported sale price of the Company’s Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price for the 2027 Notes on each applicable trading day;
- (2) during the five business day period after any ten consecutive trading day period (the “measurement period”) in which the trading price per \$1,000 principal amount of the 2027 Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company’s Class A common stock and the conversion rate for the 2027 Notes on each such trading day;
- (3) if the Company calls such 2027 Notes for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date, but only with respect to the 2027 Notes called (or deemed called) for redemption; or
- (4) upon the occurrence of specified corporate events as set forth in the Indenture.

On or after October 15, 2026, until the close of business on the second scheduled trading day immediately preceding the maturity date, holders of the 2027 Notes may convert all or any portion of their 2027 Notes at any time, at the option of the holder regardless of the foregoing conditions. Upon conversion, the Company may satisfy its conversion obligation by paying or delivering, as the case may be, cash, shares of Class A common stock or a combination of cash and shares of Class A common stock, at the Company’s election, in the manner and subject to the terms and conditions provided in the Indenture. In addition, following certain corporate events that occur prior to the maturity date of the 2027 Notes or if the Company delivers a notice of redemption in respect of the 2027 Notes, the Company will, under certain circumstances, increase the conversion rate of the 2027 Notes for a holder who elects to convert its 2027 Notes in connection with such a corporate event or convert its 2027 Notes called (or deemed called) for redemption in connection with such notice of redemption, as the case may be.

During the year ended December 31, 2021, the conditions allowing holders of the 2027 Notes to convert have not been met. The 2027 Notes were therefore not convertible during the year ended December 31, 2021 and were classified as long-term debt on the Company's consolidated balance sheets.

The Company may not redeem the 2027 Notes prior to January 20, 2025. The Company may redeem for cash all or any portion of the 2027 Notes (subject to the certain limitations described in the Indenture), at its option, on or after January 20, 2025, if the last reported sale price of the Company's Class A common stock has been at least 130% of the conversion price for the 2027 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 2027 Notes to be redeemed, plus accrued and unpaid special interest, if any, to, but excluding, the redemption date. If the Company redeems less than all of the outstanding 2027 Notes, at least \$100.0 million aggregate principal amount of 2027 Notes must be outstanding and not subject to redemption as of, and after giving effect to, delivery of the relevant notice of redemption. No sinking fund is provided for the 2027 Notes.

The Company incurred \$19.5 million of debt issuance costs related to the 2027 Notes. These costs are amortized to interest expense included within other income (expense), net on the consolidated statement of operations over the contractual term of the 2027 Notes at an effective interest rate of 0.35%. Amortization of debt issuance costs for the year ended December 31, 2021 was \$0.2 million.

The net carrying amount of the 2027 Notes was as follows (in thousands):

	<b>December 31, 2021</b>	
Principal	\$	1,100,000
Unamortized debt issuance costs		(19,299)
Net carrying amount	\$	<u>1,080,701</u>

### ***Capped Calls***

In connection with the pricing of the 2027 Notes and the exercise in full by the initial purchasers of their option to purchase additional 2027 Notes, the Company entered into capped call transactions with certain of the initial purchasers of the 2027 Notes or their respective affiliates and other financial institutions (the "Capped Calls"). The Capped Calls each have an initial strike price of approximately \$100.06 per share, subject to certain adjustments, which corresponds to the initial conversion price of the 2027 Notes. The Capped Calls have initial cap prices of \$138.02 per share, subject to certain adjustments. The Capped Calls associated with the 2027 Notes cover, subject to anti-dilution adjustments, approximately 11.0 million shares of the Company's Class A common stock. The Capped Calls are expected generally to reduce the potential dilution to the Company's Class A common stock upon any conversion of the 2027 Notes and/or offset any cash payments the Company is required to make in excess of the principal amount of converted 2027 Notes, as the case may be, with such reduction and/or offset subject to a cap based on the cap price. For accounting purposes, the Capped Calls are separate transactions and not part of the terms of the 2027 Notes. As these transactions meet certain accounting criteria, the Capped Calls are recorded in stockholders' equity and are not accounted for as derivatives. The cost of \$91.0 million incurred to purchase the Capped Calls was recorded as a reduction to additional paid-in capital and will not be remeasured.

## **7. Commitments and Contingencies**

### ***Leases***

The Company has entered into non-cancelable operating leases, primarily for the rent of office space expiring at various dates through 2029. Certain lease agreements contain an option for the Company to renew the lease for a term of up to three years or an option to terminate the lease early within three years of lease termination. The Company considers these options in determining the lease term on a lease-by-lease basis. None of the Company's lease agreements contain any material non-lease components, material residual value guarantees, or material restrictive covenants.

During the year ended December 31, 2019, the Company issued a letter of credit of \$8.2 million for its office space in Mountain View, California. No draws have been made under the letter of credit as of December 31, 2021 and 2020.

In addition, the Company subleases a portion of its unoccupied office space expiring at various dates through 2022. Sublease income is recorded as a reduction of lease expense and was \$2.7 million, \$2.9 million, and \$0.2 million for the years ended December 31, 2021, 2020, and 2019, respectively.

For the years ended December 31, 2021, 2020, and 2019, lease expense, net of sublease income of \$10.2 million, \$10.8 million, and \$8.6 million is included in operating expenses in the consolidated statements of operations, respectively. The Company did not have any material variable lease costs or short-term lease costs for the years ended December 31, 2021, 2020, and 2019.

As of December 31, 2021 and 2020, the weighted-average remaining lease term of the Company's operating leases was 4.5 and 5.2 years, respectively, and the weighted-average discount rate used to measure the present value of the operating lease liabilities was 4.1% and 4.0%, respectively.

The Company's future minimum lease payments under non-cancelable operating leases as of December 31, 2021 were as follows (in thousands):

<b>Year Ending December 31,</b>	<b>Minimum Lease Payments</b>	
2022	\$	10,480
2023		8,547
2024		8,216
2025		10,463
2026		7,231
Total minimum lease payments		44,937
Less: Imputed interest		(4,056)
Present value of future minimum lease payments	\$	40,881

### ***Purchase Obligations***

As of December 31, 2021, future payments under non-cancelable purchase obligations, primarily related to third-party cloud infrastructure agreements under which the Company is granted access to use certain cloud services, were as follows (in thousands):

<b>Year Ending December 31,</b>	<b>Purchase Obligations</b>	
2022	\$	71,019
2023		81,775
2024		89,000
2025		114,500
2026		115,000
Total	\$	471,294

### ***Legal Matters***

From time to time, the Company has become involved in claims and other legal matters arising in the ordinary course of business. The Company investigates these claims as they arise. As of December 31, 2021 and 2020, the Company is not aware of any matters that would individually or taken together have a material adverse effect on its results of operations, financial position, or cash flows.

**Indemnification**

The Company enters into indemnification provisions under its agreements with other companies in the ordinary course of business, including customers, business partners, landlords, and certain third-party vendors. Under these arrangements, the Company agrees to indemnify, hold harmless, and reimburse the indemnified party for certain losses suffered or incurred by the indemnified party resulting from certain Company activities. The terms of these indemnification agreements are generally perpetual. The maximum potential amount of future payments the Company could be required to make under these agreements is not determinable. The Company has not, as of December 31, 2021 and 2020, incurred material costs to defend lawsuits or settle claims related to these indemnification agreements. The Company maintained commercial general liability insurance and product liability insurance during the years ended December 31, 2021, 2020, and 2019 to offset certain of the Company's potential liabilities under these indemnification provisions.

The Company also indemnifies certain of its officers, directors, and certain key employees while they are serving in good faith in their respective capacities. As of December 31, 2021 and 2020, the Company has not incurred material costs to defend lawsuits or settle claims related to these indemnification agreements.

**8. Revenue****Disaggregation of Revenue**

The following table sets forth revenue disaggregated by geographic markets based on the location of the customer and by subscription and service categories (dollars in thousands):

	Year Ended December 31,					
	2021		2020		2019	
<b>Geographic markets:</b>						
United States	\$ 246,676	64 %	\$ 156,104	66 %	\$ 101,709	68 %
International	141,188	36 %	80,473	34 %	48,096	32 %
Total revenue	<u>\$ 387,864</u>	<u>100 %</u>	<u>\$ 236,577</u>	<u>100 %</u>	<u>\$ 149,805</u>	<u>100 %</u>
<b>Subscriptions and services:</b>						
Confluent Platform - License	\$ 69,183	18 %	\$ 49,043	21 %	\$ 37,094	25 %
Confluent Platform - PCS	183,737	47 %	128,178	54 %	78,664	52 %
Confluent Cloud	94,179	24 %	31,412	13 %	14,448	10 %
Subscription	347,099	89 %	208,633	88 %	130,206	87 %
Services	40,765	11 %	27,944	12 %	19,599	13 %
Total revenue	<u>\$ 387,864</u>	<u>100 %</u>	<u>\$ 236,577</u>	<u>100 %</u>	<u>\$ 149,805</u>	<u>100 %</u>

Other than the United States, no individual country represented 10% or more of total revenue during the years ended December 31, 2021, 2020, and 2019.

**Remaining Performance Obligations ("RPO")**

RPO represent the amount of contracted future revenue that has not yet been recognized as of the end of each period, including both deferred revenue that has been invoiced and non-cancelable committed amounts that will be invoiced and recognized as revenue in future periods. RPO exclude pay-as-you-go arrangements. As of December 31, 2021, the Company's RPO is \$500.6 million, approximately 64% of which is expected to be recognized as revenue over the next 12 months and the substantial majority of the remainder in the next 13 to 36 months.

**Deferred Revenue**

Deferred revenue, including current and non-current balances as of December 31, 2021 and 2020, was \$246.5 million and \$159.2 million, respectively. For the years ended December 31, 2021, 2020, and 2019, revenue recognized from deferred revenue at the beginning of each year was \$141.7 million, \$83.4 million, and \$44.2 million, respectively.

**Deferred Contract Acquisition Costs**

The following table summarizes the activity of deferred contract acquisition costs (in thousands):

	Year Ended December 31,	
	2021	2020
Beginning balance	\$ 47,599	\$ 25,499
Capitalization of contract acquisition costs	57,922	38,129
Amortization of deferred contract acquisition costs	(26,697)	(16,029)
Ending balance	\$ 78,824	\$ 47,599

**9. Redeemable Convertible Preferred Stock**

During the year ended December 31, 2020, the Company issued 17,369,577 shares of Series E redeemable convertible preferred stock at \$14.9687 per share for proceeds totaling \$259.8 million, net of issuance costs. Upon the sale of the Company's convertible founder stock in July 2020 pursuant to a tender offer (see Note 10), 7,284,182 shares of the Company's convertible founder stock were converted into shares of Series E redeemable convertible preferred stock on a one-for-one basis.

Redeemable convertible preferred stock outstanding as of December 31, 2020 consisted of the following (in thousands, except share and per share data):

Redeemable Convertible Preferred Stock	Shares Authorized	Shares Issued and Outstanding	Issuance Price Per Share	Carrying Amount	Aggregate Liquidation Preference
Series A	34,911,252	34,911,252	\$ 0.20050825	\$ 6,945	\$ 7,000
Series B	24,948,780	24,948,780	0.963975	23,981	24,050
Series C	18,657,756	18,657,756	2.67985	49,927	50,000
Series D	12,106,303	12,106,303	10.3252	124,931	125,000
Series E	24,653,759	24,653,759	14.9687	368,850	369,035
Total	115,277,850	115,277,850		\$ 574,634	\$ 575,085

Immediately prior to the closing of the IPO, all shares of the Company's redeemable convertible preferred stock outstanding, totaling 115,277,850, were automatically converted into an equal number of shares of Class B common stock and their carrying value of \$574.6 million was reclassified into stockholders' equity. As of December 31, 2021, there were no shares of redeemable convertible preferred stock issued and outstanding.

The rights, preferences, and privileges of the redeemable convertible preferred stock prior to its conversion into Class B common stock were as follows:

### ***Liquidation Preference***

In the event of any liquidation, dissolution, or winding up of the Company, either voluntary or involuntary, the holders of redeemable convertible preferred stock were entitled to receive, on a pari passu basis and prior and in preference to any distribution to the holders of common stock, an amount per share equal to \$0.20050825 per outstanding share of Series A redeemable convertible preferred stock, \$0.963975 per outstanding share of Series B redeemable convertible preferred stock, \$2.67985 per outstanding share of Series C redeemable convertible preferred stock, \$10.3252 per outstanding share of Series D redeemable convertible preferred stock, and \$14.9687 per outstanding share of Series E redeemable convertible preferred stock plus any declared but unpaid dividends. If upon such liquidation event, the assets of the Company legally available for distribution to the redeemable convertible preferred stockholders were insufficient, then the assets would be distributed pro rata among such holders in proportion to the full amounts they would otherwise be entitled to receive.

After the payment or setting aside for payment to the holders of redeemable convertible preferred stock of the full amounts, the remaining assets of the Company legally available for distribution would be distributed among the holders of common stock and convertible founder stock pro rata based on the number of shares of common stock held by each such holder on an as-converted basis (assuming conversion of all shares of convertible founder stock into common stock).

### ***Conversion Rights***

Each share of redeemable convertible preferred stock was convertible, at the option of the holder at any time after the date of issuance of such share, into the number of shares of common stock determined by dividing the original issue price by the then applicable conversion price. For each series of redeemable convertible preferred stock, the conversion price per share was equal to its respective issue price such that each share of redeemable convertible preferred stock was convertible into common stock on a one-for-one basis. The conversion price for each series of redeemable convertible preferred stock was subject to adjustments for certain events, including stock splits, stock dividends, combinations, subdivisions, or recapitalization events. In addition, if the Company issued any common stock without consideration or for a consideration per share less than the conversion price for the redeemable convertible preferred stock, the conversion price for each series would automatically be adjusted in accordance with anti-dilution provisions contained in the Company's amended and restated certificate of incorporation.

Each share of redeemable convertible preferred stock would automatically be converted into shares of common stock at the then-effective conversion rate immediately upon the earlier of (i) the closing of an underwritten IPO that results in aggregate cash proceeds to the Company of not less than \$80.0 million (before deducting underwriters' discounts and commissions) or the direct listing of the Company's securities which has been approved by a majority of the directors designated by holders of the redeemable convertible preferred stock; or (ii) the date, specified by vote or written consent of the holders of at least a majority of the then-outstanding shares of redeemable convertible preferred stock (voting together as a single class on an as-converted basis); provided, however, the shares of Series B, Series C, Series D, and Series E redeemable convertible preferred stock would not automatically be converted into shares of common stock without the written consent of the holders of at least a majority of the then-outstanding shares of Series B, Series C, Series D, and Series E redeemable convertible preferred stock, respectively (voting as a separate class per each series).

### ***Dividends***

The holders of redeemable convertible preferred stock would be entitled to receive dividends, on a pari passu basis and prior and in preference to any declaration or payment of any dividend on common stock, at the per annum rate of \$0.01605 per outstanding share of Series A redeemable convertible preferred stock, \$0.077125 per outstanding share of Series B redeemable convertible preferred stock, \$0.2144 per outstanding share of Series C redeemable convertible preferred stock, \$0.826016 per outstanding share of Series D redeemable convertible preferred stock, and \$1.197496 per outstanding share of Series E redeemable convertible preferred stock. Such dividends would not be cumulative. Payment of dividends would only be made when, as, and if declared by the Company's board of directors. Any additional dividends would be distributed among all holders of redeemable convertible preferred stock, convertible founder stock, and common stock pro rata on an as-converted basis at the then-effective conversion rate.

No dividends on redeemable convertible preferred stock, convertible founder stock, or common stock were declared by the board of directors or paid during the years ended December 31, 2021, 2020, and 2019.

### **Voting**

The holders of redeemable convertible preferred stock would be entitled to the same voting rights as the holders of common stock, and all holders would vote together as a single class on all matters. Each share of redeemable convertible preferred stock had a number of votes equal to the number of shares of common stock into which it was convertible.

### **Redemption**

The convertible preferred stock was contingently redeemable upon certain deemed liquidation events such as a change in control, merger, or sale of substantially all the assets of the Company. The convertible preferred stock was not mandatorily redeemable, but since a deemed liquidation event would constitute a redemption event outside of the Company's control, all shares of redeemable convertible preferred stock have been presented in mezzanine equity on the consolidated balance sheets.

In the event of a deemed liquidation event, the Company was required to redeem shares of Series A, Series B, Series C, Series D, and Series E redeemable convertible preferred stock at the issue price of \$0.20050825, \$0.963975, \$2.67985, \$10.3252, and \$14.9687 per share (as adjusted for any stock splits, stock dividends, combinations, subdivisions, recapitalizations or the like with respect to each Series A, Series B, Series C, Series D, and Series E redeemable convertible preferred stock), respectively, plus any non-cumulative dividends declared by the Company's board of directors.

## **10. Stockholders' Equity (Deficit)**

### ***Convertible Founder Stock***

In 2014, the Company issued an aggregate of 7,920,000 shares of convertible founder stock and 71,280,000 shares of common stock to the Company's founders (as adjusted for any stock splits), with each receiving 2,640,000 shares of convertible founder stock and 23,760,000 shares of common stock. Each share of convertible founder stock had a par value of \$0.00001. Each share of founder stock was convertible into redeemable convertible preferred stock if purchased by an investor in conjunction with a round of preferred stock financing; if otherwise transferred or sold, each share of founder stock was convertible into common stock. In exchange for the shares of convertible founder stock that were fully vested upon issuance, each founder contributed certain technology and intellectual property and other tangible personal property. The shares of common stock were subject to a requisite service period of four years.

Upon the sale of the Company's convertible founder stock in July 2020 pursuant to a tender offer (see below within Note 10), all 7,284,182 shares of the Company's founder stock that were sold were immediately converted into shares of Series E redeemable convertible preferred stock on a one-for-one basis.

Immediately prior to the closing of the IPO, all shares of the Company's convertible founder stock outstanding, totaling 635,818, were automatically converted into an equal number of shares of Class B common stock. As of December 31, 2021, there were no shares of convertible founder stock issued and outstanding.

### ***Preferred Stock***

In connection with the IPO, the Company's amended and restated certificate of incorporation became effective, which authorized the issuance of 10,000,000 shares of undesignated preferred stock with a par value of \$0.00001 per share with rights and preferences, including voting rights, designated from time to time by the board of directors.

**Common Stock**

The Company has two classes of common stock: Class A common stock and Class B common stock. In connection with the IPO, the Company's amended and restated certificate of incorporation authorized the issuance of 1,000,000,000 shares of Class A common stock and 500,000,000 shares of Class B common stock. The shares of Class A common stock and Class B common stock are identical, except with respect to voting, converting, and transfer rights. Each share of Class A common stock is entitled to one vote. Each share of Class B common stock is entitled to ten votes. Class A and Class B common stock have a par value of \$0.00001 per share and are referred to as common stock throughout the notes to the consolidated financial statements, unless otherwise noted. Holders of common stock are entitled to receive any dividends as may be declared from time to time by the board of directors.

Each share of Class B common stock is convertible at any time at the option of the holder into one share of Class A common stock. Any holder's shares of Class B common stock will convert automatically to Class A common stock, on a one-to-one basis, upon the following: (i) sale or transfer of such share of Class B common stock, except for permitted transfers as described in the amended and restated certificate of incorporation; (ii) the death or incapacity of the Class B common stockholder (or nine months after the date of the death or incapacity if the stockholder is one of the Company's founders); and (iii) on the final conversion date, defined as the earliest of (a) the date fixed by our board of directors that is no less than 61 days and no more than 180 days following the date on which the outstanding shares of Class B common stock represent less than 10% of the then outstanding shares of Class A and Class B common stock; (b) the last trading day of the fiscal year following the tenth anniversary of the Company's IPO; or (c) the date specified by a vote of the holders of a majority of the outstanding shares of Class B common stock, voting as a single class.

In June 2021, the Company donated 250,000 shares of its Class A common stock to its charitable foundation, Confluent.org. The Company recognized charitable donation expense of \$13.3 million within general and administrative expense based on the closing price of its Class A common stock on the date of donation.

**Common Stock Reserved for Future Issuance**

The Company has reserved the following shares of common stock for future issuance:

	<b>December 31, 2021</b>	<b>December 31, 2020</b>
Series A redeemable convertible preferred stock	-	34,911,252
Series B redeemable convertible preferred stock	-	24,948,780
Series C redeemable convertible preferred stock	-	18,657,756
Series D redeemable convertible preferred stock	-	12,106,303
Series E redeemable convertible preferred stock	-	24,653,759
Convertible founder stock	-	635,818
<b>2014 Stock Plan:</b>		
Options outstanding	61,903,883	71,213,150
Restricted stock units outstanding	3,495,540	-
Remaining shares available for future issuance under the 2014 Plan	-	4,722,481
<b>2021 Equity Incentive Plan:</b>		
Options outstanding	22,500	-
Restricted stock units outstanding	2,938,968	-
Remaining shares available for future issuance under the 2021 Plan	32,797,245	-
2021 Employee Stock Purchase Plan	5,162,575	-
<b>Total</b>	<b>106,320,711</b>	<b>191,849,299</b>



## **Equity Incentive Plans**

In September 2014, the Company's board of directors adopted and the Company's stockholders approved the 2014 Stock Plan (the "2014 Plan"). The 2014 Plan was also amended and restated in March 2021 and June 2021. Under the 2014 Plan, the board of directors may grant stock options and other equity-based awards to eligible employees, directors, and consultants. The 2014 Plan was terminated in June 2021 in connection with the IPO, but continues to govern the terms of outstanding awards that were granted prior to the termination of the 2014 Plan. No further equity awards will be granted under the 2014 Plan. With the establishment of the 2021 Equity Incentive Plan (the "2021 Plan"), upon the expiration, forfeiture, cancellation, or reacquisition of any shares of Class B common stock underlying outstanding stock-based awards granted under the 2014 Plan, an equal number of shares of Class A common stock will become available for grant under the 2021 Plan. Equity-based awards granted under the 2014 Plan and the 2021 Plan generally vest over four years. All stock option grants expire ten years from the date of grant.

In April 2021, the Company's board of directors adopted, and in June 2021, the Company's stockholders approved, the 2021 Plan, which became effective at the time of the execution of the underwriting agreement related to the Company's IPO. The 2021 Plan provides for the grant of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock awards, RSUs, performance awards, and other forms of awards to employees, directors, and consultants, including employees and consultants of the Company's affiliates. A total of 25,812,876 shares of the Company's Class A common stock have been reserved for future issuance under the 2021 Plan in addition to (i) the shares that remained available for grant of future awards under the 2014 Plan at the time the 2021 Plan became effective, (ii) shares underlying outstanding stock awards granted under the 2014 Plan that expire, or are forfeited, cancelled, or reacquired, as described above, and (iii) any automatic increases in the number of shares of Class A common stock reserved for future issuance under this plan.

In April 2021, the Company's board of directors adopted, and in June 2021, the Company's stockholders approved, the 2021 Employee Stock Purchase Plan (the "2021 ESPP"), which became effective at the time of the execution of the underwriting agreement related to the Company's IPO. The 2021 ESPP authorizes the issuance of shares of Class A common stock pursuant to purchase rights granted to employees. A total of 5,162,575 shares of the Company's Class A common stock have been reserved for future issuance under the 2021 ESPP, in addition to any automatic increases in the number of shares of Class A common stock reserved for future issuance under this plan.

Except for the initial offering period, the 2021 ESPP provides for 12-month offering periods beginning February 16 and August 16 of each year, and each offering period will consist of two six-month purchase periods. The initial offering period began on June 24, 2021 and will end on August 15, 2022. The initial offering consists of two purchase periods, with the first purchase period ending on February 15, 2022 and the second purchase period ending on August 15, 2022. The price at which Class A common stock is purchased under the 2021 ESPP is equal to 85% of the lesser of (1) the fair market value of the Company's stock on the offering date or (2) the fair market value of the Company's stock on the purchase date.

**Equity Awards Outstanding**

The following table summarizes stock equity award activity and activity regarding shares available for grant under the 2014 Plan and the 2021 Plan:

	<b>Equity Awards Outstanding</b>				
	<b>Shares Available for Grant</b>	<b>Outstanding Stock Options</b>	<b>Weighted-Average Exercise Price</b>	<b>Weighted-Average Remaining Contractual Term (in years)</b>	<b>Aggregate Intrinsic Value (in thousands)</b>
Balance as of January 1, 2019	5,645,652	48,361,074	\$ 1.12	8.71	\$ 98,241
Increase in authorized shares	23,873,281	-	\$ -		
Stock options granted	(32,867,335)	32,867,335	\$ 3.24		
Stock options exercised	-	(9,228,205)	\$ 1.47		
Stock options forfeited or expired	4,413,648	(4,413,648)	\$ 1.78		
Repurchases of unvested common stock	167,628	-	\$ -		
Balance as of December 31, 2019	1,232,874	67,586,556	\$ 2.06	8.54	\$ 202,315
Increase in authorized shares	17,927,565	-	\$ -		
Stock options granted	(22,829,471)	22,829,471	\$ 6.20		
Stock options exercised	-	(10,865,786)	\$ 1.58		
Stock options forfeited or expired	8,337,091	(8,337,091)	\$ 2.65		
Repurchases of unvested common stock	54,422	-	\$ -		
Balance as of December 31, 2020	4,722,481	71,213,150	\$ 3.39	8.26	\$ 677,503
Increase in authorized shares	48,412,876	-	\$ -		
Stock options granted	(17,232,871)	17,232,871	\$ 16.38		
Stock options exercised	-	(22,730,337)	\$ 3.13		
Stock options forfeited or expired	3,789,301	(3,789,301)	\$ 5.31		
Repurchases of unvested common stock	188,460	-	\$ -		
RSUs granted	(7,215,043)	-	\$ -		
RSUs forfeited or cancelled	132,041	-	\$ -		
Balance as of December 31, 2021	32,797,245	<u>61,926,383</u>	\$ 6.97	7.88	\$ 4,289,643
Vested as of December 31, 2021		<u>22,294,417</u>	\$ 3.25	6.88	\$ 1,627,213
Vested and expected to vest as of December 31, 2021		<u>61,926,383</u>	\$ 6.97	7.88	\$ 4,289,643

Aggregate intrinsic value represents the difference between the exercise price of the options to purchase common stock and the estimated fair value of the Company's common stock. The intrinsic value of options exercised was \$976.5 million, \$60.8 million, and \$16.3 million for the years ended December 31, 2021, 2020, and 2019, respectively. The weighted-average grant-date fair value per share of options granted during the years ended December 31, 2021, 2020, and 2019 was \$12.43, \$4.43, and \$1.80, respectively. The total grant-date fair value of stock options vested was \$63.6 million, \$29.2 million and \$15.4 million during years ended December 31, 2021, 2020, and 2019, respectively.

### ***Early Exercised Options***

Holders of stock options governed by the 2014 Plan have the right to exercise unvested options, which are subject to a repurchase right held by the Company at the original exercise price in the event of voluntary or involuntary termination of employment of the stockholder. As of December 31, 2021 and December 31, 2020, there were 2,164,577 and 2,338,945 shares that had been early exercised and were subject to repurchase, respectively. The proceeds related to early exercised options are recorded as liabilities until the options vest, at which point they are reclassified to equity. As of December 31, 2021 and December 31, 2020, the liabilities for early exercised options subject to repurchase were \$15.8 million and \$6.9 million, respectively, which were recorded as liability for early exercise of unvested stock options and other liabilities, non-current on the consolidated balance sheets.

Shares issued for early exercised options are included in issued and outstanding shares as they are legally issued and outstanding, but are not deemed outstanding for accounting purposes until the shares vest.

### ***Performance-Based Options***

As of December 31, 2020, the Company had granted 2,875,255 options with both a service-based vesting condition and a performance-based vesting condition. No performance-based options were granted during the year ended December 31, 2021. The performance-based vesting condition was not deemed probable until consummated, and therefore, stock-based compensation related to these options remained unrecognized prior to the effectiveness of the IPO. Upon the effectiveness of the IPO, the performance-based vesting condition was satisfied, and therefore, the Company recognized cumulative stock-based compensation expense of \$3.8 million to general and administrative expense using the accelerated attribution method for the portion of the awards for which the service-based vesting condition had been fully or partially satisfied.

### ***RSUs***

During the year ended December 31, 2021, the Company began granting RSUs to its employees. RSUs granted prior to the IPO had both service-based and performance-based vesting conditions.

The service-based vesting condition for these awards is generally satisfied by rendering continuous service for four years, during which time the grants will vest quarterly. In November 2021, the Company's board of directors modified the terms of the RSUs. Prior to the modification, the RSUs vested either quarterly or with a cliff vesting period of one year and continued vesting quarterly thereafter. The modification removed the requirement of the cliff vesting period of one year and did not have a material impact to the consolidated financial statements for the year ended December 31, 2021. All other significant terms of the service-based RSUs remained unchanged.

The performance-based vesting condition is satisfied upon the sale of the Company's common stock in a firm commitment underwritten public offering. The performance-based vesting condition was not deemed probable until consummated, and therefore, stock-based compensation related to these RSUs remained unrecognized prior to the effectiveness of the IPO. Upon the effectiveness of the IPO, the performance-based vesting condition was satisfied, and therefore, the Company recognized cumulative stock-based compensation expense of \$6.8 million using the accelerated attribution method for the portion of the awards for which the service-based vesting condition had been fully or partially satisfied.

The following table summarizes RSU activity under the 2014 Plan and the 2021 Plan:

	Number of Shares		Weighted-Average Grant Date Fair Value
Unvested balances as of January 1, 2021	-	\$	-
RSUs granted	7,215,043	\$	44.87
RSUs vested	(648,494)	\$	34.25
RSUs forfeited or cancelled	(132,041)	\$	41.51
Unvested balances as of December 31, 2021	6,434,508	\$	46.01

The total grant-date fair value of RSUs vested was \$22.2 million during the year ended December 31, 2021.

#### ***Determination of Fair Value***

The Company estimates the fair value of stock options using the Black-Scholes option-pricing model, which is dependent upon several variables, such as the fair value of the Company's common stock, the expected option term, expected volatility of the Company's stock price over the expected term, expected risk-free interest rate over the expected option term, and expected dividend yield.

*Fair Value of Common Stock:* Prior to the completion of the IPO, the board of directors had determined the fair value of common stock by considering a number of objective and subjective factors, including but not limited to contemporaneous independent third-party valuations of the Company's common stock, market performance of comparable publicly traded companies, sales of the Company's redeemable convertible preferred stock and common stock to unrelated third parties, operating and financial performance, the lack of marketability of the Company's common stock, general and industry-specific economic outlook, and the likelihood of achieving a liquidity event, such as an initial public offering, a merger, or acquisition of the Company given prevailing market conditions. After the completion of the IPO, the fair value of the Company's common stock is determined by the closing price, on the date of grant, of its Class A common stock, which is traded on the Nasdaq Global Select Market.

*Expected Term:* For option grants subject to service-based vesting conditions only, the expected term represents the period that the Company's stock options are expected to be outstanding and is calculated using the simplified method for options that have only service-based vesting conditions. The simplified method deems the term to be the average of the time-to-vesting and the contractual life of the options. For other option grants, the Company estimates the expected term using historical data on employee exercises and post-vesting employment termination behavior, considering the contractual life of the award.

*Expected Volatility:* Since the Company does not have a sufficient trading history of its common stock, the expected volatility was derived from the average historical stock volatilities of public companies within the Company's industry that it considers to be comparable to its business, over a period equivalent to the expected term of the stock options.

*Risk-Free Interest Rate:* The Company bases the risk-free interest rate on the implied yield available on U.S. Treasury zero-coupon notes with maturities equivalent to the option's expected term.

*Expected Dividend Yield:* The Company has not issued any dividends in its history and does not expect to issue dividends over the life of the options and therefore has estimated the dividend yield to be zero.

The fair value of stock options granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended December 31,		
	2021	2020	2019
Expected term (in years)	6.17	6.17	6.04
Expected volatility	66.3%	68.3%	59.0%
Risk-free interest rate	1.1%	0.5%	1.8%
Expected dividend yield	0%	0%	0%

The fair value of employee stock purchase rights for the initial offering period under the 2021 ESPP was estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended December 31, 2021
Expected term (in years)	0.63 - 1.12
Expected volatility	54.6% - 56.7%
Risk-free interest rate	0.1%
Expected dividend yield	0%

### Stock-Based Compensation Expense

Total stock-based compensation expense was as follows (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Cost of revenue - subscription	\$ 12,571	\$ 2,572	\$ 1,161
Cost of revenue - services	5,418	1,745	994
Research and development	49,051	33,755	6,268
Sales and marketing	55,506	14,734	6,545
General and administrative	33,078	90,535	3,649
Stock-based compensation, net of amounts capitalized	\$ 155,624	\$ 143,341	\$ 18,617
Capitalized stock-based compensation	2,625	547	69
Total stock-based compensation	\$ 158,249	\$ 143,888	\$ 18,686

As of December 31, 2021, there was \$518.7 million of unrecognized stock-based compensation expense, which is expected to be recognized over a weighted-average period of 3.2 years.

### Tender Offer

In July 2020, the Company facilitated a tender offer whereby certain investors purchased shares of the Company's convertible founder stock and common stock from certain stockholders. As a result, certain directors, employees, and non-employees of the Company sold an aggregate of 7,284,182 shares of the Company's convertible founder stock and 1,883,233 shares of the Company's common stock to entities affiliated with new and existing investors at a purchase price of \$14.9687 per share for an aggregate purchase price of \$137.2 million. Upon the sale of the Company's stock, 7,284,182 shares of convertible founder stock were converted into shares of Series E redeemable convertible preferred stock. The purchase price in this tender offer transaction was in excess of the fair value of such shares at the time of the transaction. As a result, during the year ended December 31, 2020, the Company recorded the excess of the purchase price over fair value of \$76.3 million as stock-based compensation expense.

**Secondary Sales**

In September 2020, a director of the Company sold an aggregate of 2,632,747 shares of the Company's common stock to entities affiliated with an existing investor at a purchase price of \$14.9687 per share for an aggregate purchase price of \$39.4 million. Also in September 2020, a director and an employee of the Company sold an aggregate of 2,142,900 shares of the Company's common stock to entities affiliated with a new investor at a purchase price of \$14.00 per share for an aggregate purchase price of \$30.0 million. The purchase prices in both of these secondary transactions were in excess of the fair value of such shares. As a result, during the year ended December 31, 2020, the Company recorded the excess of the purchase price over fair value of \$35.6 million as stock-based compensation expense.

**11. Income Taxes**

The components of loss before income taxes were as follows (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Domestic	\$ (347,552)	\$ (234,905)	\$ (97,714)
Foreign	7,925	4,870	2,667
Loss before income taxes	<u>\$ (339,627)</u>	<u>\$ (230,035)</u>	<u>\$ (95,047)</u>

The components of provision for (benefit from) income taxes were as follows (in thousands):

	Year Ended December 31,		
	2021	2020	2019
<b>Current</b>			
State	\$ 251	\$ 87	\$ 53
Foreign	1,588	1,041	336
Total	<u>1,839</u>	<u>1,128</u>	<u>389</u>
<b>Deferred</b>			
Federal	-	-	(72)
State	-	-	(11)
Foreign	1,335	(1,335)	(311)
Total	<u>1,335</u>	<u>(1,335)</u>	<u>(394)</u>
Provision for (benefit from) income taxes	<u>\$ 3,174</u>	<u>\$ (207)</u>	<u>\$ (5)</u>

The reconciliation of the income tax benefit computed at the federal statutory tax rate to the Company's provision for (benefit from) income taxes was as follows (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Income tax benefit computed at federal statutory rate	\$ (71,322)	\$ (48,307)	\$ (19,960)
Foreign rate differential	1,214	(1,317)	(144)
Stock-based compensation expense	(104,993)	24,004	1,612
Change in valuation allowance	192,301	27,446	18,958
Research and development credits	(14,483)	(2,432)	(1,112)
Other	457	399	641
Provision for (benefit from) income taxes	<u>\$ 3,174</u>	<u>\$ (207)</u>	<u>\$ (5)</u>

The significant components of net deferred tax balances were as follows (in thousands):

	December 31,	
	2021	2020 <sup>(1)</sup>
<b>Deferred tax assets:</b>		
Net operating loss carryforwards	\$ 277,453	\$ 72,332
Tax credit carryforwards	30,777	7,386
Stock-based compensation expense	14,885	3,250
Operating lease liabilities	9,398	12,080
Accruals and reserves	6,781	2,627
Deferred revenue	4,095	2,471
Other	3,258	-
<b>Total deferred tax assets</b>	<b>346,647</b>	<b>100,146</b>
Less: Valuation allowance	(316,056)	(73,809)
<b>Deferred tax assets, net of valuation allowance</b>	<b>30,591</b>	<b>26,337</b>
<b>Deferred tax liabilities:</b>		
Deferred contract acquisition costs	\$ (18,783)	\$ (11,670)
Operating lease right-of-use assets	(8,559)	(11,471)
Property and equipment	(2,558)	(898)
Other	(214)	(487)
<b>Total deferred tax liabilities</b>	<b>(30,114)</b>	<b>(24,526)</b>
<b>Net deferred tax assets</b>	<b>\$ 477</b>	<b>\$ 1,811</b>

<sup>(1)</sup> Revised to correct for immaterial adjustments in the disclosure, which had previously understated the net operating loss carryforwards deferred tax asset, accruals and reserves deferred tax asset, and deferred contract acquisition costs deferred tax liability as of December 31, 2020 by \$7.2 million, \$0.9 million, and \$8.1 million, respectively. These adjustments had no impact to the consolidated balance sheets, consolidated statements of operations, or consolidated statements of cash flows as of and for the years ended December 31, 2021, 2020, or 2019. The Company evaluated the effect of the errors on the Company's notes to the consolidated financial statements in accordance with SEC Staff Accounting Bulletin No. 99, *Materiality*, and concluded that the adjustments were not material to the previously issued 2020 consolidated financial statements.

The Company recognizes a valuation allowance on its deferred tax assets if it is more likely than not that some or all the deferred tax assets will not be realized. Due to a history of losses in the United States, U.S. deferred tax assets have been fully offset by a valuation allowance. During the year ended December 31, 2021, the Company also recorded a full valuation allowance on its U.K. deferred tax assets. As of December 31, 2021, the valuation allowance of \$316.1 million was primarily related to U.S. federal and state and U.K. net operating loss carryforwards and tax credit carryforwards. As of December 31, 2020, the valuation allowance of \$73.8 million was primarily related to U.S. federal and state net operating loss carryforwards and tax credit carryforwards. The valuation allowance on the Company's net deferred tax assets increased by \$242.3 million during the year ended December 31, 2021 primarily due to increased U.S. federal and state net operating loss carryforwards and tax credit carryforwards and the establishment of a valuation allowance in the United Kingdom. The valuation allowance increased by \$32.6 million and \$22.1 million during the years ended December 31, 2020 and 2019, respectively, primarily due to increased U.S. federal and state net operating loss carryforwards and tax credit carryforwards.

Deferred taxes have not been provided for the cumulative undistributed earnings of the Company's foreign subsidiaries as of December 31, 2021 due to the Company's intent and ability to permanently reinvest such earnings. The Company has determined that the amount of the unrecognized deferred tax liability related to these earnings is not material.

As of December 31, 2021, the Company had \$1,096.7 million of federal net operating loss carryforwards and \$559.6 million of state net operating loss carryforwards. Of the federal net operating loss carryforwards, \$1,052.6 million can be carried forward indefinitely, but is limited to 80% of annual taxable income. The remaining federal and state net operating loss carryforwards will begin to expire in 2034 and 2025, respectively.

As of December 31, 2021, the Company had U.S. federal and state research tax credit carryforwards of \$28.2 million and \$13.6 million, respectively. The U.S. federal research tax credit carryforwards will begin to expire in 2034. The U.S. state research tax credit carryforwards will begin to expire in 2026.

As of December 31, 2021, the Company had \$59.1 million of foreign net operating loss carryforwards. These foreign net operating loss carryforwards have an indefinite life and do not expire.

Under Section 382 of the Internal Revenue Code of 1986, as amended, and similar provisions of state law, utilization of net operating loss and tax credit carryforwards may be subject to an annual limitation due to an ownership change. As of December 31, 2021, the Company assessed that its net operating loss and tax credit carryforwards will not expire solely due to Section 382 limitations.

A reconciliation of the beginning and ending balances of total unrecognized tax benefits is as follows (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Beginning balance	\$ 3,399	\$ 1,623	\$ 796
Gross increase (decrease) for prior year tax positions	192	200	(2)
Gross increase for current year tax positions	8,939	1,576	829
Ending balance	<u>\$ 12,530</u>	<u>\$ 3,399</u>	<u>\$ 1,623</u>

As of December 31, 2021, the total amount of unrecognized tax benefits, if recognized, would not affect the Company's effective tax rate due to the existence of carryforwards and the valuation allowance in the United States and applicable U.S. state jurisdictions.

The Company does not expect its gross unrecognized tax benefits to change significantly within the next 12 months. It is reasonably possible that certain unrecognized tax benefits may increase or decrease within the next 12 months due to tax examination changes, settlement activities, or the impact on recognition and measurement considerations related to the results of published tax cases or other similar activities.

The Company recognizes interest and penalties related to uncertain tax positions in benefit from income taxes in the consolidated statements of operations. There were no interest and penalties associated with unrecognized income tax benefits for the years ended December 31, 2021, 2020, and 2019.

The Company's tax years from inception in 2014 through December 31, 2021 remain subject to examination by various jurisdictions.



## 12. Net Loss Per Share

For periods in which there were Class A and Class B shares outstanding, the rights, including the liquidation and dividend rights, of the holders of Class A and Class B common stock were identical, except with respect to voting, converting, and transfer rights. As the liquidation and dividend rights were identical for Class A and Class B common stock, the undistributed earnings were allocated on a proportionate basis and the resulting net loss per share would, therefore, be the same for both Class A and Class B common stock on an individual or combined basis.

The following table presents the calculation of basic and diluted net loss per share (in thousands, except share and per share data):

	Year Ended December 31,				
	2021	2020		2019	
	Class A and Class B Common	Common	Convertible Founder	Common	Convertible Founder
<b>Numerator:</b>					
Net loss	\$ (342,801)	\$ (219,560)	\$ (10,268)	\$ (87,207)	\$ (7,835)
<b>Denominator:</b>					
Weighted-average shares used to compute net loss per share, basic and diluted	188,627,720	99,562,032	4,656,050	88,147,380	7,920,000
Net loss per share, basic and diluted	\$ (1.82)	\$ (2.21)	\$ (2.21)	\$ (0.99)	\$ (0.99)

The following outstanding potentially dilutive shares were excluded from the computation of diluted net loss per share for the periods presented because the impact of including them would have been anti-dilutive:

	December 31, 2021	December 31, 2020	December 31, 2019
Redeemable convertible preferred stock	-	115,277,850	90,624,091
Stock options	61,926,383	71,213,150	67,586,556
Unvested early exercised stock options	2,164,577	2,338,945	4,510,347
RSUs	6,434,508	-	-
ESPP	1,322,476	-	-
Shares issuable upon conversion of the 2027 Notes	10,992,960	-	-
<b>Total</b>	<b>82,840,904</b>	<b>188,829,945</b>	<b>162,720,994</b>

The Company calculates the potential dilutive effect of its 2027 Notes under the if-converted method. Under this method, diluted net loss per share is determined by assuming that all of the 2027 Notes were converted into shares of the Company's Class A common stock at the beginning of the reporting period.

In connection with the issuance of the 2027 Notes, the Company entered into Capped Calls, which are not included for purposes of calculating the number of diluted weighted-average shares outstanding, as their effect would have been anti-dilutive. The Capped Calls are expected to partially offset the potential dilution to the Company's Class A common stock upon any conversion of the 2027 Notes.

### **13. Subsequent Events**

In January 2022, the Company entered into an amended third-party infrastructure agreement that includes a non-cancelable commitment of \$150.0 million over the next five years through January 2027.

## **Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure**

None.

## **Item 9A. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Annual Report on Form 10-K, our disclosure controls and procedures were effective at the reasonable assurance level.

### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended December 31, 2021 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Inherent Limitations on Effectiveness of Controls**

Our management, including our Chief Executive Officer and Chief Financial Officer, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives and are effective at the reasonable assurance level. However, management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

### **Management’s Report on Internal Control Over Financial Reporting**

This Annual Report on Form 10-K does not include a report of management’s assessment regarding internal control over financial reporting or an attestation report of our independent registered public accounting firm due to a transition period established by rules of the SEC for newly public companies.

**Item 9B. Other Information**

None.

**Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections**

Not applicable.

**Item 10. Directors, Executive Officers, and Corporate Governance**

The information required by this Item (other than the information set forth in the next paragraph) will be included in the proxy statement for our 2022 annual meeting of stockholders to be filed with the SEC within 120 days after the end of our year ended December 31, 2021 (the “2022 Proxy Statement”), and is incorporated herein by reference.

We maintain a Code of Conduct that is applicable to all employees, executive officers and directors. Our Code of Conduct is available on our Investor Relations website at [investors.confluent.io](http://investors.confluent.io) under “Governance - Governance Documents.” We expect that any amendments to the Code of Conduct, or any waivers of its requirements, will be disclosed on our website, if required by applicable law or the listing standards of The Nasdaq Global Select Market. The inclusion of our website address in this Annual Report on Form 10-K does not include or incorporate by reference into this Annual Report on Form 10-K the information on or accessible through our website.

**Item 11. Executive Compensation**

The information required by this Item will be included in the 2022 Proxy Statement and is incorporated herein by reference.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this Item will be included in the 2022 Proxy Statement and is incorporated herein by reference.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this Item will be included in the 2022 Proxy Statement and is incorporated herein by reference.

**Item 14. Principal Accountant Fees and Services**

The information required by this Item will be included in the 2022 Proxy Statement and is incorporated herein by reference.

**Item 15. Exhibits and Financial Statement Schedules**

The following documents are filed as part of this Annual Report on Form 10-K:

(a) *Consolidated Financial Statements*

The consolidated financial statements are filed as part of this Annual Report on Form 10-K under “Item 8. Financial Statements and Supplementary Data.”

(b) *Financial Statement Schedules*

The financial statement schedules are omitted because they are either not applicable or the information required is presented in the financial statements and notes thereto under “Item 8. Financial Statements and Supplementary Data.”

(c) *Exhibits*

The exhibits listed in the following Exhibit Index are filed, furnished, or incorporated by reference as part of this Annual Report on Form 10-K.

**Exhibit Index**

<b>Exhibit Number</b>	<b>Description</b>	<b>Form</b>	<b>File No.</b>	<b>Exhibit</b>	<b>Filing Date</b>	<b>Filed Herewith</b>
<a href="#">3.1</a>	<a href="#">Amended and Restated Certificate of Incorporation of Confluent, Inc.</a>	8-K	001-40526	3.1	6-28-2021	
<a href="#">3.2</a>	<a href="#">Amended and Restated Bylaws of Confluent, Inc.</a>	S-1/A	333-256693	3.4	6-16-2021	
<a href="#">4.1</a>	Reference is made to Exhibits <a href="#">3.1</a> and <a href="#">3.2</a> .					
<a href="#">4.2</a>	<a href="#">Form of Class A Common Stock Certificate.</a>	S-1/A	333-256693	4.1	6-16-2021	
<a href="#">4.3</a>	<a href="#">Indenture, dated as of December 13, 2021, by and between Confluent, Inc. and U.S. Bank National Association, as Trustee.</a>	8-K	001-40526	4.1	12-14-2021	
<a href="#">4.4</a>	<a href="#">Form of Global Note, representing Confluent, Inc.'s 0% Convertible Senior Notes due 2027 (included as Exhibit A to the Indenture filed as Exhibit 4.3).</a>	8-K	001-40526	4.2	12-14-2021	
<a href="#">4.5</a>	<a href="#">Description of Securities.</a>					X
<a href="#">10.1</a>	<a href="#">Amended and Restated Investors' Rights Agreement by and among Confluent, Inc. and certain holders of its capital stock, dated March 20, 2020.</a>	S-1	333-256693	10.1	6-1-2021	
<a href="#">10.2+</a>	<a href="#">Amended and Restated 2014 Stock Plan.</a>	S-1/A	333-256693	10.2	6-16-2021	
<a href="#">10.3+</a>	<a href="#">Forms of Option Agreement, Stock Option Grant Notice, Exercise Agreement, and Early Exercise Notice and Restricted Stock Purchase Agreement under the 2014 Stock Plan.</a>	S-1/A	333-256693	10.3	6-16-2021	
<a href="#">10.4+</a>	<a href="#">Forms of Restricted Stock Unit Grant Notice and Restricted Stock Unit Award Agreement under the 2014 Stock Plan.</a>	S-1/A	333-256693	10.4	6-16-2021	
<a href="#">10.5+</a>	<a href="#">2021 Equity Incentive Plan.</a>	S-1/A	333-256693	10.5	6-16-2021	
<a href="#">10.6+</a>	<a href="#">Forms of Notice of Stock Option Grant, Global Stock Option Agreement, and Exercise Notice under the 2021 Equity Incentive Plan.</a>	S-1/A	333-256693	10.6	6-16-2021	
<a href="#">10.7+</a>	<a href="#">Form of Restricted Stock Unit Award Agreement under the 2021 Equity Incentive Plan.</a>	S-1/A	333-256693	10.7	6-16-2021	
<a href="#">10.8+</a>	<a href="#">2021 Employee Stock Purchase Plan.</a>	S-1/A	333-256693	10.8	6-16-2021	
<a href="#">10.9+</a>	<a href="#">Form of Indemnification Agreement entered into by and between the Registrant and each director and executive officer.</a>	S-1	333-256693	10.9	6-1-2021	
<a href="#">10.10+</a>	<a href="#">Confirmatory Offer Letter by and between the Registrant and Edward Jay Kreps, dated May 28, 2021.</a>	S-1/A	333-256693	10.10	6-16-2021	
<a href="#">10.11+</a>	<a href="#">Confirmatory Offer Letter by and between the Registrant and Steffan Tomlinson, dated June 14, 2021.</a>	S-1/A	333-25669	10.11	6-16-2021	
<a href="#">10.12+</a>	<a href="#">Confirmatory Offer Letter by and between the Registrant and Erica Schultz, dated May 28, 2021.</a>	S-1/A	333-256693	10.12	6-16-2021	
<a href="#">10.13</a>	<a href="#">Net Lease Agreement by and between the Registrant and West Evelyn Bryant Office Partners, L.P., dated April 11, 2019.</a>	S-1	333-256693	10.13	6-1-2021	
<a href="#">10.14+</a>	<a href="#">Non-Employee Director Compensation Policy.</a>	S-1	333-256693	10.14	6-1-2021	
<a href="#">10.15+</a>	<a href="#">Executive Officer Change in Control/Severance Benefit Plan and related participation agreement.</a>					X
<a href="#">10.16+</a>	<a href="#">Cash Incentive Bonus Plan.</a>	S-1	333-256693	10.16	6-1-2021	
<a href="#">10.17</a>	<a href="#">Form of Confirmation for Capped Call Transactions.</a>	8-K	001-40526	10.1	12-14-2021	
<a href="#">21.1</a>	<a href="#">List of Subsidiaries of the Registrant.</a>					X

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<a href="#">23.1</a>	<a href="#">Consent of Pricewaterhouse Coopers LLP, independent registered public accounting firm.</a>	X
<a href="#">24.1</a>	<a href="#">Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K).</a>	X
<a href="#">31.1</a>	<a href="#">Certification of Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>	X
<a href="#">31.2</a>	<a href="#">Certification of Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>	X
<a href="#">32.1*</a>	<a href="#">Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>	X
<a href="#">32.2*</a>	<a href="#">Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>	X
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because XBRL tags are embedded within the Inline XBRL document.	X
101.SCH	Inline XBRL Taxonomy Extension Schema Document.	X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.	X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.	X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.	X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.	X
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).	X

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+ Management contract or compensatory plan or arrangement.

\* The certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Annual Report on Form 10-K and are not deemed “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, nor shall they be deemed incorporated by reference into any filing under the Securities Act or the Exchange Act, irrespective of any general incorporation language contained in such filing.

## **Item 16. Form 10-K Summary**

None.



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Confluent, Inc.

Date: February 24, 2022

By: \_\_\_\_\_  
/s/ Edward Jay Kreps  
Edward Jay Kreps  
Chief Executive Officer and Director

**POWER OF ATTORNEY**

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Edward Jay Kreps and Steffan Tomlinson, and each or any one of them, his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments to this report, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-facts and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

<b><u>Name</u></b>	<b><u>Title</u></b>	<b><u>Date</u></b>
<u>/s/ Edward Jay Kreps</u> Edward Jay Kreps	Chief Executive Officer and Director <i>(Principal Executive Officer)</i>	February 24, 2022
<u>/s/ Steffan Tomlinson</u> Steffan Tomlinson	Chief Financial Officer <i>(Principal Financial Officer)</i>	February 24, 2022
<u>/s/ Ying Christina Liu</u> Ying Christina Liu	Chief Accounting Officer <i>(Principal Accounting Officer)</i>	February 24, 2022
<u>/s/ Lara Caimi</u> Lara Caimi	Director	February 24, 2022
<u>/s/ Jonathan Chadwick</u> Jonathan Chadwick	Director	February 24, 2022
<u>/s/ Alyssa Henry</u> Alyssa Henry	Director	February 24, 2022
<u>/s/ Matthew Miller</u> Matthew Miller	Director	February 24, 2022
<u>/s/ Neha Narkhede</u> Neha Narkhede	Director	February 24, 2022
<u>/s/ Greg Schott</u> Greg Schott	Director	February 24, 2022
<u>/s/ Eric Vishria</u> Eric Vishria	Director	February 24, 2022
<u>/s/ Mike Volpi</u> Mike Volpi	Director	February 24, 2022

**DESCRIPTION OF THE REGISTRANT'S SECURITIES  
REGISTERED PURSUANT TO SECTION 12 OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**General**

The following is a summary of the rights of our common and preferred stock and some of the provisions of our amended and restated certificate of incorporation, amended and restated bylaws, investors' rights agreement, and relevant provisions of Delaware General Corporation Law. The descriptions herein are qualified in their entirety by our amended and restated certificate of incorporation, amended and restated bylaws, and investors' rights agreement, copies of which have been filed as exhibits to our Annual Report on Form 10-K, as well as the relevant provisions of Delaware General Corporation Law.

Our amended and restated certificate of incorporation provides for two classes of common stock: Class A common stock and Class B common stock, and it authorizes shares of undesignated preferred stock, the rights, preferences and privileges of which may be designated from time to time by our board of directors.

Our authorized capital stock consists of the following shares, all with a par value of \$0.00001 per share, of which:

- 1,000,000,000 shares are designated as Class A common stock;
- 500,000,000 shares are designated as Class B common stock; and
- 10,000,000 shares are designated as preferred stock.

**Class A and Class B Common Stock**

***Voting Rights***

Holders of Class A common stock are entitled to one vote per share on any matter that is submitted to a vote of our stockholders. Holders of our Class B common stock are entitled to 10 votes per share on any matter submitted to our stockholders. The holders of our Class A common stock and Class B common stock will vote together as a single class on all matters (including the election of directors) submitted to a vote of stockholders, unless otherwise required by Delaware law.

Under Delaware law, holders of our Class A common stock or Class B common stock would be entitled to vote as a separate class if a proposed amendment to our amended and restated certificate of incorporation would increase or decrease the aggregate number of authorized shares of such class, increase or decrease the par value of the shares of such class, or alter or change the powers, preferences, or special rights of the shares of such class so as to affect them adversely. As a result, in these limited instances, the holders of a majority of the Class A common stock could defeat any amendment to our amended and restated certificate of incorporation. For example, if a proposed amendment of our amended and restated certificate of incorporation provided for the Class A common stock to rank junior to the Class B common stock with respect to (1) any dividend or distribution, (2) the distribution of proceeds were we to be acquired, or (3) any other right, Delaware law would require the vote of the Class A common stock. In this

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instance, the holders of a majority of Class A common stock could defeat that amendment to our amended and restated certificate of incorporation.

Our amended and restated certificate of incorporation does not provide for cumulative voting for the election of directors.

### ***Economic Rights***

Except as expressly provided in our amended and restated certificate of incorporation or required by applicable law, all shares of Class A common stock and Class B common stock have the same rights and privileges and rank equally, share ratably, and are identical in all respects for all matters, including those described below.

### ***Dividends and Distributions***

Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of Class A common stock and Class B common stock will be entitled to share equally, identically, and ratably, on a per share basis, with respect to any dividend or distribution of cash or property paid or distributed by the company, unless different treatment of the shares of the affected class is approved by the affirmative vote of the holders of a majority of the outstanding shares of such affected class, voting separately as a class.

Under Delaware law, we can only pay dividends either out of “surplus” or out of the current or the immediately preceding year’s net profits. Surplus is defined as the excess, if any, at any given time, of the total assets of a corporation over its total liabilities and statutory capital. The value of a corporation’s assets can be measured in a number of ways and may not necessarily equal their book value.

### ***Right to Receive Liquidation Distributions***

On our liquidation, dissolution, or winding-up, the holders of Class A common stock and Class B common stock will be entitled to share equally, identically, and ratably in all assets remaining after the payment of any liabilities, liquidation preferences, and accrued or declared but unpaid dividends, if any, with respect to any outstanding preferred stock, unless a different treatment is approved by the affirmative vote of the holders of a majority of the outstanding shares of such affected class, voting separately as a class.

### ***Change of Control Transactions***

The holders of Class A common stock and Class B common stock will be treated equally and identically with respect to shares of Class A common stock or Class B common stock owned by them, unless different treatment of the shares of each class is approved by the affirmative vote of the holders of a majority of the outstanding shares of the class treated differently, voting separately as a class, on (a) the closing of the sale, lease, exclusive license or other disposition of all or substantially all of our assets, (b) the consummation of a consolidation, merger, or reorganization, other than any such consolidation, merger or reorganization in which the stockholders of the company immediately prior to such consolidation, merger or reorganization continue to hold a majority of the voting power of the surviving entity in substantially the same proportions (or, if the surviving entity is a wholly owned subsidiary of another entity, the surviving entity’s parent) immediately after such consolidation, merger or reorganization, or (c) any transaction or series of related transactions to which the company is a party in which greater than 50% of the company’s voting power is transferred; subject to certain exceptions. However, consideration to be paid or received by a holder of common stock in connection with any such assets sale, consolidation, merger, or reorganization

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under any employment, consulting, severance, or other compensatory arrangement will be disregarded for the purposes of determining whether holders of common stock are treated equally and identically.

### ***Subdivisions and Combinations***

If we subdivide or combine in any manner outstanding shares of Class A common stock or Class B common stock, the outstanding shares of the other class will be subdivided or combined in the same proportion and manner.

### ***No Preemptive or Similar Rights***

Our Class A common stock and Class B common stock are not entitled to preemptive rights, and are not subject to conversion, redemption, or sinking fund provisions, except for the conversion provisions with respect to the Class B common stock described below.

### ***Conversion***

Each share of Class B common stock is convertible at any time at the option of the holder into one share of Class A common stock. Upon any transfer of shares of Class B common stock, whether or not for value, each such transferred share will automatically convert into one share of Class A common stock, except for certain transfers described in our amended and restated certificate of incorporation, including (i) transfers for tax and estate planning purposes, so long as the transferring holder continues to hold sole or, in the case of our founders, shared with family members, voting and dispositive power or, in the case of transfers to trusts, so long as the transferring holder or family members are beneficiaries of the trust; (ii) certain transfers to affiliated foundations so long as the transferring holder or family members continue to hold sole or shared voting and dispositive power over the shares; (iii) transfers of shares of Class B common stock to any of our founders; and (iv) transfers to the estates or heirs of any of our founders upon his or her death or incapacity.

Any holder's shares of Class B common stock will convert automatically into Class A common stock, on a one-to-one basis, upon the following: (1) sale or transfer of such share of Class B common stock, except for certain permitted transfers as described in the immediately preceding paragraph and in our amended and restated certificate of incorporation; (2) the death or incapacity of the Class B common stockholder (or nine months after the date of death or incapacity if the stockholder is one of our founders); and (3) on the final conversion date, defined as the earlier of (a) the date fixed by our board of directors that is no less than 61 days and no more than 180 days following the date on which the outstanding shares of Class B common stock represent less than 10% of the then outstanding shares of Class A and Class B common stock; (b) December 31, 2031; or (c) the date specified by a vote of the holders of a majority of the outstanding shares of Class B common stock, voting as a single class.

Once transferred and converted into Class A common stock, the Class B common may not be reissued.

### ***Fully Paid and Non-Assessable***

All outstanding shares of our Class A common stock are fully paid and non-assessable.

### **Preferred Stock**

Our board of directors may, without further action by our stockholders, fix the rights, preferences, privileges and restrictions of up to an aggregate of 10,000,000 shares of preferred stock in one or more series and authorize their issuance. These rights, preferences and privileges could include dividend rights,

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conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series, any or all of which may be greater than the rights of our common stock. The issuance of our preferred stock could adversely affect the voting power of holders of our common stock and the likelihood that such holders will receive dividend payments and payments upon liquidation. In addition, the issuance of preferred stock could have the effect of delaying, deferring or preventing a change of control or other corporate action.

## **Registration Rights**

We are party to an investors' rights agreement that provides that certain holders of our common stock, including certain holders of at least 5% of our common stock and entities affiliated with certain of our directors, have certain registration rights, as set forth below. The registration of shares of our Class A common stock by the exercise of registration rights described below would enable the holders to sell these shares without restriction under the Securities Act when the applicable registration statement is declared effective. We will pay the registration expenses, other than underwriting discounts and commissions, of the shares registered by the demand, piggyback, and Form S-3 registrations described below.

Generally, in an underwritten offering, the managing underwriter, if any, has the right, subject to specified conditions, to limit the number of shares such holders may include. The demand, piggyback, and Form S-3 registration rights described below will expire after the earlier of June 28, 2024, or with respect to any particular stockholder, such time that such stockholder can sell all of its shares entitled to registration rights under Rule 144 of the Securities Act during any 90-day period.

### ***Demand Registration Rights***

Certain holders of our common stock are entitled to certain demand registration rights. These holders may request that we register all or a portion of the registrable shares. We are obligated to effect only one such registration. Such request for registration must cover such number of shares as would have an anticipated aggregate offering price of at least \$15.0 million.

### ***Piggyback Registration Rights***

Certain holders of our common stock are entitled to certain piggyback registration rights. If we register any securities for public sale, either for our own account or for the account of other security holders, we will also have to register all registrable securities that the holders of such securities request in writing to be registered. This piggyback registration right does not apply to a registration relating to any of our stock plans, a transaction under Rule 145 of the Securities Act, or a registration related to stock issued upon conversion of debt securities. The underwriters of any underwritten offering will have the right, in their sole discretion, to limit the number of shares registered by these holders if the underwriters determine that including all registrable securities will jeopardize the success of the offering.

### ***Form S-3 Registration Rights***

Certain holders of our common stock are entitled to certain registration rights on Form S-3. The holders of these shares, constituting at least a majority of our registrable securities then outstanding, can request that we register all or a portion of their shares on Form S-3 if we are eligible to file a registration statement on Form S-3 and the aggregate price to the public of the shares offered is in excess of \$10.0 million. We are not required to file more than two Form S-3 registration statements that are declared or became effective in any 12-month period. We may postpone the filing of a registration statement for up to 120 days not more than once in a 12-month period if in the good faith judgment of our board of directors

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such registration would be materially detrimental to us. The foregoing Form S-3 rights are subject to a number of additional exceptions and limitations.

## **Anti-Takeover Effects of Delaware Law and Our Certificate of Incorporation and Bylaws**

Some provisions of Delaware law, our amended and restated certificate of incorporation, and our amended and restated bylaws contain provisions that could make the following transactions more difficult: an acquisition of us by means of a tender offer; an acquisition of us by means of a proxy contest or otherwise; or the removal of our incumbent officers and directors. It is possible that these provisions could make it more difficult to accomplish or could deter transactions that stockholders may otherwise consider to be in their best interest or in our best interests, including transactions which provide for payment of a premium over the market price for our shares.

These provisions, summarized below, are intended to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to encourage persons seeking to acquire control of us to first negotiate with our board of directors. We believe that the benefits of the increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure us outweigh the disadvantages of discouraging these proposals because negotiation of these proposals could result in an improvement of their terms.

### ***Preferred Stock***

Our board of directors has the authority, without further action by our stockholders, to issue up to 10,000,000 shares of undesignated preferred stock with rights and preferences, including voting rights, designated from time to time by our board of directors. The existence of authorized but unissued shares of preferred stock would enable our board of directors to render more difficult or to discourage an attempt to obtain control of us by means of a merger, tender offer, proxy contest, or other means.

### ***Stockholder Meetings***

Our amended and restated bylaws provide that a special meeting of stockholders may be called only by our chairperson of the board, chief executive officer, or by a resolution adopted by our board of directors.

### ***Requirements for Advance Notification of Stockholder Nominations and Proposals***

Our amended and restated bylaws establish advance notice procedures with respect to stockholder proposals to be brought before a stockholder meeting and the nomination of candidates for election as directors, other than nominations made by or at the direction of the board of directors or a committee of the board of directors.

### ***Elimination of Stockholder Action by Written Consent***

Our amended and restated certificate of incorporation and amended and restated bylaws eliminate the right of stockholders to act by written consent without a meeting.

### ***Staggered Board***

Our board of directors is divided into three classes. The directors in each class serve for a three-year term, one class being elected each year by our stockholders by a plurality of the votes cast. This system of

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electing and removing directors may tend to discourage a third party from making a tender offer or otherwise attempting to obtain control of us because it generally makes it more difficult for stockholders to replace a majority of the directors.

### ***Removal of Directors***

Our amended and restated certificate of incorporation provides that no member of our board of directors may be removed from office by our stockholders except for cause and, in addition to any other vote required by law, upon the approval of at least a majority of the total voting power of all of our outstanding voting stock then entitled to vote in the election of directors.

### ***Stockholders Not Entitled to Cumulative Voting***

Our amended and restated certificate of incorporation does not permit stockholders to cumulate their votes in the election of directors.

### ***Delaware Anti-Takeover Statute***

We are subject to Section 203 of the Delaware General Corporation Law, which prohibits persons deemed to be “interested stockholders” from engaging in a “business combination” with a publicly held Delaware corporation for three years following the date these persons become interested stockholders unless the business combination is, or the transaction in which the person became an interested stockholder was, approved in a prescribed manner or another prescribed exception applies. Generally, an “interested stockholder” is a person who, together with affiliates and associates, owns, or within three years prior to the determination of interested stockholder status did own, 15% or more of a corporation’s voting stock. Generally, a “business combination” includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. The existence of this provision may have an anti-takeover effect with respect to transactions not approved in advance by the board of directors.

### ***Choice of Forum***

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware (or, if and only if the Court of Chancery of the State of Delaware lacks subject matter jurisdiction, any state court located within the State of Delaware or, if and only if all such state courts lack subject matter jurisdiction, the federal district court for the District of Delaware) is the sole and exclusive forum for the following types of actions or proceedings under Delaware statutory or common law: (i) any derivative action or proceeding brought on our behalf; (ii) any action or proceeding asserting a claim of breach of a fiduciary duty owed by any of our current or former directors, officers, or other employees to us or our stockholders, or any action asserting a claim for aiding and abetting such breach of fiduciary duty; (iii) any action or proceeding asserting a claim against us or any of our current or former directors, officers or other employees arising out of or pursuant to any provision of the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws; (iv) any action or proceeding to interpret, apply, enforce or determine the validity of our amended and restated certificate of incorporation or our amended and restated bylaws (including any right, obligation, or remedy thereunder); (v) any action or proceeding as to which the Delaware General Corporation Law confers jurisdiction to the Court of Chancery of the State of Delaware; and (vi) any action or proceeding asserting a claim against us or any of our current or former directors, officers, or other employees that is governed by the internal affairs doctrine, in all cases to the fullest extent permitted by law and subject to the court’s having personal jurisdiction over the indispensable parties named as defendants.

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This choice of forum provision would not apply to suits brought to enforce a duty or liability created by the Exchange Act or any other claim for which the federal courts have exclusive jurisdiction. Our amended and restated certificate of incorporation further provides that, unless we consent in writing to the selection of an alternative forum, to the fullest extent permitted by law, the federal district courts of the United States of America will be the exclusive forum for resolving any complaint asserting a cause or causes of action arising under the Securities Act, including all causes of action asserted against any defendant to such complaint. However, as Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act or the rules and regulations thereunder, there is uncertainty as to whether a court would enforce such provision.

For the avoidance of doubt, this provision is intended to benefit and may be enforced by us, our officers and directors, the underwriters to any offering giving rise to such complaint, and any other professional entity whose profession gives authority to a statement made by that person or entity and who has prepared or certified any part of the documents underlying an offering. Additionally, our amended and restated certificate of incorporation provides that any person or entity holding, owning or otherwise acquiring any interest in any of our securities shall be deemed to have notice of and consented to these provisions. We note that investors cannot waive compliance with the federal securities laws and the rules and regulations thereunder.

#### ***Amendment of Charter Provisions***

The amendment of any of the above provisions, except for the provision making it possible for our board of directors to issue preferred stock, would require approval by holders of at least two-thirds of the total voting power of all of our then-outstanding voting stock. The provisions of Delaware law, our amended and restated certificate of incorporation, and our amended and restated bylaws could have the effect of discouraging others from attempting hostile takeovers and, as a consequence, they may also inhibit temporary fluctuations in the market price of our Class A common stock that often result from actual or rumored hostile takeover attempts. These provisions may also have the effect of preventing changes in the composition of our board and management. It is possible that these provisions could make it more difficult to accomplish transactions that stockholders may otherwise deem to be in their best interests.

#### **Transfer Agent and Registrar**

The transfer agent and registrar for our Class A common stock and Class B common stock is Computershare Trust Company, N.A. The transfer agent and registrar's address is 250 Royall Street, Canton, Massachusetts 02021.

#### **Exchange Listing**

Our Class A common stock is listed on The Nasdaq Global Select Market under the symbol "CFLT."

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CONFLUENT, INC.  
EXECUTIVE OFFICER CHANGE IN CONTROL/  
SEVERANCE BENEFIT PLAN

January 28, 2022

1 INTRODUCTION.

The Confluent, Inc. Executive Officer Change in Control/Severance Benefit Plan (the “**Plan**”) is hereby established effective upon the date of approval by the Board of Directors of Confluent, Inc. (“**Confluent**”) set forth above (the “**Effective Date**”). The purpose of the Plan is to provide for the payment of severance benefits to eligible officers of Confluent in the event that such officers become subject to certain involuntary or constructive employment terminations. This Plan will supersede any severance benefit plan, policy or practice previously maintained by Confluent or change in control severance arrangements described in such employee’s offer letter with Confluent. This Plan document also is the Summary Plan Description for the Plan. On the third anniversary of the Effective Date and on each anniversary thereafter, the Plan’s term shall extend for one additional year, unless the Board has taken action prior to such anniversary to the effect that the Plan’s term will not be extended. In addition, if a Change in Control has occurred, the Plan may not be terminated until the later of (a) the last day of the Change in Control Period or (b) the date on which all obligations under the Plan have been satisfied.

For purposes of the Plan, the following terms are defined as follows:

(a) “**Affiliate**” means any corporation (other than Confluent) in an “unbroken chain of corporations” beginning with Confluent, if each of the corporations other than the last corporation in the unbroken chain owns stock possessing fifty percent (50%) or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

(b) “**Base Salary**” means base pay (excluding incentive pay, premium pay, commissions, overtime, bonuses and other forms of variable compensation) as in effect prior to any reduction that would give rise to an officer’s right to a resignation for Good Reason.

(c) “**Board**” means the Board of Directors of Confluent; provided, however, that if the Board has delegated authority to administer the Plan to the Compensation Committee of the Board, then “**Board**” will also mean the Compensation Committee.

(d) “**Cause**” means, with respect to a particular Eligible Officer: (i) such officer’s conviction of, or plea of guilty or no contest to, any crime involving fraud, dishonesty or moral turpitude; (ii) such officer’s material and improper or unauthorized use or disclosure of any proprietary information or trade secrets of Confluent that has a material impact on Confluent; (iii) such officer’s commission or attempted commission of or participation in any act of material fraud or dishonesty against Confluent; (iv) such officer’s intentional and material misconduct that causes or could reasonably be anticipated to cause harm to Confluent; (v) such officer’s material failure to perform assigned duties consistent with such officer’s position; (vi) such officer’s failure to

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cooperate in good faith with Confluent in any governmental or internal investigation or formal proceeding; or (vii) such officer's material violation of any of Company policy or any written agreement between such officer and Confluent.

(e) **"Change in Control"** means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) any Exchange Act Person becomes the Owner, directly or indirectly, of securities of Confluent representing more than 50% of the combined voting power of Confluent's then outstanding securities other than by virtue of a merger, consolidation or similar transaction. Notwithstanding the foregoing, a Change in Control will not be deemed to occur (A) on account of the acquisition of securities of Confluent directly from Confluent, (B) on account of the acquisition of securities of Confluent by an investor, any affiliate thereof or any other Exchange Act Person that acquires Confluent's securities in a transaction or series of related transactions the primary purpose of which is to obtain financing for Confluent through the issuance of equity securities, or (C) solely because the level of Ownership held by any Exchange Act Person (the **"Subject Person"**) exceeds the designated percentage threshold of the outstanding voting securities as a result of a repurchase or other acquisition of voting securities by Confluent reducing the number of shares outstanding, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of voting securities by Confluent, and after such share acquisition, the Subject Person becomes the Owner of any additional voting securities that, assuming the repurchase or other acquisition had not occurred, increases the percentage of the then outstanding voting securities Owned by the Subject Person over the designated percentage threshold, then a Change in Control will be deemed to occur;

(ii) there is consummated a merger, consolidation or similar transaction involving (directly or indirectly) Confluent and, immediately after the consummation of such merger, consolidation or similar transaction, the stockholders of Confluent immediately prior thereto do not Own, directly or indirectly, either (A) outstanding voting securities representing more than 50% of the combined outstanding voting power of the surviving Entity in such merger, consolidation or similar transaction or (B) more than 50% of the combined outstanding voting power of the parent of the surviving Entity in such merger, consolidation or similar transaction, in each case in substantially the same proportions as their Ownership of the outstanding voting securities of Confluent immediately prior to such transaction;

(iii) there is consummated a sale, lease, exclusive license or other disposition of all or substantially all of the consolidated assets of Confluent and its Subsidiaries, other than a sale, lease, license or other disposition of all or substantially all of the consolidated assets of Confluent and its Subsidiaries to an Entity, more than 50% of the combined voting power of the voting securities of which are Owned by stockholders of Confluent in substantially the same proportions as their Ownership of the outstanding voting securities of Confluent immediately prior to such sale, lease, license or other disposition; or

(iv) individuals who, on the date the Plan is adopted by the Board, are members of the Board (the **"Incumbent Board"**) cease for any reason to constitute at least a majority of the members of the Board; provided, however, that if the appointment or election (or nomination for election) of any new Board member was approved or recommended by a majority vote of the

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members of the Incumbent Board then still in office, such new member will, for purposes of this Plan, be considered as a member of the Incumbent Board.

Notwithstanding the foregoing or any other provision of this Plan, (a) the term Change in Control will not include a sale of assets, merger or other transaction effected exclusively for the purpose of changing the domicile of Confluent and (b) to the extent necessary to avoid taxation under Section 409A, an event will not constitute a Change in Control unless it also constitutes a change in the ownership or effective control of Confluent or a change in the ownership of a substantial portion of the assets of Confluent within the meaning of Section 409A.

(f) **“Change in Control Period”** means the period commencing three (3) months prior to the Closing of a Change in Control and ending twelve (12) months immediately following the Closing of a Change in Control.

(g) **“Change in Control Termination”** means an Involuntary Termination that occurs within the Change in Control Period. For such purposes, if the events giving rise to an Eligible Officer’s right to a resignation for Good Reason arise within the Change in Control Period, and such officer’s resignation occurs not later than thirty (30) days after the expiration of the Cure Period (as defined below), such termination will be a Change in Control Termination.

(h) **“Closing”** means the initial closing of the Change in Control as defined in the definitive agreement executed in connection with the Change in Control. In the case of a series of transactions constituting a Change in Control, “Closing” means the first closing that satisfies the threshold of the definition for a Change in Control.

(i) **“COBRA”** means the Consolidated Omnibus Budget Reconciliation Act of 1985.

(j) **“Code”** means the Internal Revenue Code of 1986, as amended, including any applicable regulations and guidance thereunder.

(k) **“Company”** means Confluent, Inc. or, following a Change in Control, the surviving entity resulting from such event.

(l) **“Covered Termination”** means a Regular Termination or a Change in Control Termination.

(m) **“Director”** means a member of the Board.

(n) **“Eligible Officer”** means an officer (defined as an employee at the Vice President level or above) of Confluent that meets the requirements to be eligible to receive Plan benefits as set forth in Section 2.

(o) **“Entity”** means a corporation, partnership, limited liability company or other entity.

(p) **“Exchange Act”** means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

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(q) **“Exchange Act Person”** means any natural person, Entity or “group” (within the meaning of Section 13(d) or 14(d) of the Exchange Act), except that “Exchange Act Person” will not include (i) Confluent or any Subsidiary of Confluent, (ii) any employee benefit plan of Confluent or any Subsidiary of Confluent or any trustee or other fiduciary holding securities under an employee benefit plan of Confluent or any Subsidiary of Confluent, (iii) an underwriter temporarily holding securities pursuant to a registered public offering of such securities, (iv) an Entity Owned, directly or indirectly, by the stockholders of Confluent in substantially the same proportions as their Ownership of stock of Confluent; or (v) any natural person, Entity or “group” (within the meaning of Section 13(d) or 14(d) of the Exchange Act) that, as of the Effective Date, is the Owner, directly or indirectly, of securities of Confluent representing more than 50% of the combined voting power of Confluent’s then outstanding securities.

(r) **“Good Reason”** for an Eligible Officer’s resignation from employment with Confluent means the occurrence of any of the following actions that are taken by Confluent without such officer’s prior written consent: (i) a material reduction in such officer’s base salary, which is agreed to be a reduction of at least 10% of such officer’s base salary (unless pursuant to a salary reduction program applicable generally to Confluent’s similarly situated employees); (ii) a material reduction in such officer’s duties, responsibilities or authority, *provided, however*, that a change in title or supervisor shall not be deemed a “material reduction” in and of itself unless such officer’s new duties, responsibilities and authority are materially reduced from such officer’s prior duties, responsibilities and authority; (iii) the failure of Confluent to obtain the assumption of this Plan by a successor, which would constitute a material breach of this Agreement; or (iv) relocation of such officer’s principal place of employment to a place that increases such officer’s one-way commute by more than 20 miles as compared to such officer’s then-current principal place of employment immediately prior to such relocation; *provided, however*, that if such officer is permitted to work remotely in connection with such relocation, then such relocation will not be Good Reason. In order to resign for Good Reason, such officer must provide written notice to Confluent’s Chief Executive Officer, or if such Eligible Officer is the Chief Executive Officer, must provide such written notice to Confluent’s Board, within 30 days after the first occurrence of the event giving rise to Good Reason setting forth the basis for such officer’s resignation, allow Confluent at least 30 days from receipt of such written notice to cure such event, and if such event is not reasonably cured within such period, the officer must resign from all positions the officer then holds with Confluent or any Subsidiary not later than 30 days after the expiration of the cure period.

(s) **“Involuntary Termination”** means a termination of employment that is due to: (1) a termination by Confluent without Cause or (2) in the case of a Change in Control Termination, an officer’s resignation for Good Reason.

(t) **“Own,” “Owned,” “Owner,” “Ownership”** means a person or Entity will be deemed to “Own,” to have “Owned,” to be the “Owner” of, or to have acquired “Ownership” of securities if such person or Entity, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote or to direct the voting, with respect to such securities.

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(u) **“Participation Agreement”** means an agreement between an officer and Confluent in substantially the form of Appendix A attached hereto, and which may include such other terms as the Board deems necessary or advisable in the administration of the Plan.

(v) **“Plan Administrator”** means the Board prior to the Closing and the Representative upon and following the Closing, as applicable.

(w) **“Representative”** means one or more members of the Board or other persons or entities designated by the Board prior to or in connection with a Change in Control that will have authority to administer and interpret the Plan upon and following the Closing as provided in Section 8(a).

(x) **“Regular Termination”** means an Involuntary Termination that is not a Change in Control Termination.

(y) **“Section 409A”** means Section 409A of the Code and the regulations and other guidance thereunder and any state law of similar effect.

(z) **“Subsidiary”** means, with respect to Confluent, (i) any corporation of which more than 50% of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, stock of any other class or classes of such corporation will have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, Owned by Confluent, and (ii) any partnership, limited liability company or other entity in which Confluent has a direct or indirect interest (whether in the form of voting or participation in profits or capital contribution) of more than 50%.

### 3. ELIGIBILITY FOR BENEFITS.

(a) **Eligible Officer.** An officer of Confluent is eligible to participate in the Plan if (i) the Board or Compensation Committee has designated such officer as eligible to participate in the Plan and authorized officers of Confluent have provided such person with a Participation Agreement; (ii) such officer has signed and returned such Participation Agreement to Confluent within the period specified therein; (iii) such officer’s employment with Confluent terminates due to a Covered Termination; and (iv) such officer meets the other Plan eligibility requirements set forth in this Section 2. The determination of whether an officer is an Eligible Officer will be made by the Plan Administrator, in its sole discretion, and such determination will be binding and conclusive on all persons.

(b) **Release Requirement.** In order to be eligible to receive benefits under the Plan, the Eligible Officer also must execute a general waiver and release in such a form as provided by Confluent (the **“Release”**), within the applicable time period set forth therein, and such Release must become effective in accordance with its terms, which must occur in no event more than sixty (60) days following the date of the applicable Covered Termination.

(c) **Plan Benefits Provided In Lieu of Individual Agreement Benefits.** This Plan will supersede any change in control or severance benefit plan, policy or practice previously maintained by Confluent with respect to an Eligible Officer and any change in control or severance

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benefits in any individually negotiated employment contract or other agreement between Confluent and an Eligible Officer, except to the extent such agreement specifically provides that its terms will supersede and/or supplement the terms of the Plan.

(d) **Exceptions to Benefit Entitlement.** An officer who otherwise is an Eligible Officer will not receive benefits under the Plan in the following circumstances, as determined by the Plan Administrator in its sole discretion:

(i) The officer voluntarily terminates employment with Confluent without Good Reason, or employment terminates due to the officer's death or disability, unless otherwise determined by the Board. Voluntary terminations include, but are not limited to, resignation, retirement or failure to return from a leave of absence on the scheduled date.

(ii) The officer voluntarily terminates employment with Confluent in order to accept employment with another entity that is wholly or partly owned (directly or indirectly) by Confluent or an Affiliate.

(iii) The officer is offered and accepts an identical or substantially equivalent or comparable position with Confluent or an Affiliate. For purposes of the foregoing, a "substantially equivalent or comparable position" is one that provides the officer substantially the same level of responsibility and compensation and would not give rise to the officer's right to a resignation for Good Reason.

(iv) The officer is offered and accepts immediate reemployment by a successor to Confluent or an Affiliate or by a purchaser of Confluent's assets, as the case may be, following a Change in Control and the terms of such reemployment would not give rise to the officer's right to resign for Good Reason. For purposes of the foregoing, "immediate reemployment" means that the officer's employment with the successor to Confluent or an Affiliate or the purchaser of its assets, as the case may be, results in uninterrupted employment such that the officer does not incur a lapse in pay or benefits as a result of the change in ownership of Confluent or the sale of its assets.

(v) The officer is rehired by Confluent or an Affiliate and recommences employment prior to the date benefits under the Plan are scheduled to commence.

(e) **Termination or Reduction of Severance Benefits.** An Eligible Officer's right to receive benefits under this Plan will terminate immediately if, at any time prior to or during the period for which the Eligible Officer is receiving benefits under the Plan, the Eligible Officer, without the prior written approval of the Board willfully and materially breaches any material fiduciary, statutory, common law, or contractual obligation to Confluent or an Affiliate (including, without limitation, the contractual obligations set forth in any confidential information and inventions assignment agreement or similar type agreement between the Eligible Officer and Confluent, as applicable).

#### 4. AMOUNT OF BENEFITS.

(a) **Benefits in Participation Agreement.** Benefits under the Plan, if any, will be provided to an Eligible Officer as set forth in the Participation Agreement.

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(b) **Additional Benefits.** Notwithstanding the foregoing, Confluent may, in its sole discretion, provide benefits to employees who are not Eligible Officers (“**Non-Eligible Employees**”) chosen by the Board, in its sole discretion, and the provision of any such benefits to a Non-Eligible Employee will in no way obligate Confluent to provide such benefits to any other Non-Eligible Employee, even if similarly situated. If benefits under the Plan are provided to a Non-Eligible Employee, references in the Plan to “Eligible Officer” (and similar references) will be deemed to refer to such Non-Eligible Employee.

(c) **Certain Reductions.** Confluent, in its sole discretion, will have the authority to reduce an Eligible Officer’s severance benefits, in whole or in part, by any other severance benefits, pay and benefits provided during a period following written notice of a business closing or mass layoff, pay and benefits in lieu of such notice, or other similar benefits payable to the Eligible Officer by Confluent or an Affiliate that become payable in connection with the Eligible Officer’s termination of employment pursuant to (i) any applicable legal requirement, including, without limitation, the Worker Adjustment and Retraining Notification Act or any other similar state law, (ii) any individually negotiated employment contract or agreement or any other written employment or severance agreement with Confluent, or (iii) any Company policy or practice providing for the Eligible Officer to remain on the payroll for a limited period of time after being given notice of the termination of the Eligible Officer’s employment, and the Plan Administrator will so construe and implement the terms of the Plan. Any such reductions that Confluent determines to make pursuant to this Section 3(c) will be made such that any severance benefit under the Plan will be reduced solely by any similar type of benefit under such legal requirement, agreement, policy or practice (*i.e.*, any cash severance benefits under the Plan will be reduced solely by any cash payments or benefits under such legal requirement, agreement, policy or practice, and any continued insurance benefits under the Plan will be reduced solely by any continued insurance benefits under such legal requirement, agreement, policy or practice). Confluent’s decision to apply such reductions to the severance benefits of one Eligible Officer and the amount of such reductions will in no way obligate Confluent to apply the same reductions in the same amounts to the severance benefits of any other Eligible Officer, even if similarly situated. In Confluent’s sole discretion, such reductions may be applied on a retroactive basis, with severance benefits previously paid being re-characterized as payments pursuant to Confluent’s statutory obligation.

(d) **Parachute Payments.** If any payment or benefit an Eligible Officer will or may receive from Confluent or otherwise (a “**Payment**”) would (i) constitute a “parachute payment” within the meaning of Section 280G of the Code, and (ii) but for this sentence, be subject to the excise tax imposed by Section 4999 of the Code (the “**Excise Tax**”), then any such Payment will be equal to the Reduced Amount. The “**Reduced Amount**” will be either (x) the largest portion of the Payment that would result in no portion of the Payment (after reduction) being subject to the Excise Tax or (y) the largest portion, up to and including the total, of the Payment, whichever amount (*i.e.*, the amount determined by clause (x) or by clause (y)), after taking into account all applicable federal, state and local employment taxes, income taxes, and the Excise Tax (all computed at the highest applicable marginal rate), results in the Eligible Officer’s receipt, on an after-tax basis, of the greater economic benefit notwithstanding that all or some portion of the Payment may be subject to the Excise Tax. If a reduction in a Payment is required pursuant to the preceding sentence and the Reduced Amount is determined pursuant to clause (x) of the preceding sentence, the reduction will occur in the manner (the “**Reduction Method**”) that results in the

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greatest economic benefit for the Eligible Officer. If more than one method of reduction will result in the same economic benefit, the items so reduced will be reduced pro rata (the “**Pro Rata Reduction Method**”).

Notwithstanding any provisions in this Section above to the contrary, if the Reduction Method or the Pro Rata Reduction Method would result in any portion of the Payment being subject to taxes pursuant to Section 409A that would not otherwise be subject to taxes pursuant to Section 409A, then the Reduction Method and/or the Pro Rata Reduction Method, as the case may be, will be modified so as to avoid the imposition of taxes pursuant to Section 409A as follows: (A) as a first priority, the modification will preserve to the greatest extent possible, the greatest economic benefit for the Eligible Officer as determined on an after-tax basis; (B) as a second priority, Payments that are contingent on future events (*e.g.*, being terminated without Cause), will be reduced (or eliminated) before Payments that are not contingent on future events; and (C) as a third priority, Payments that are “deferred compensation” within the meaning of Section 409A will be reduced (or eliminated) before Payments that are not deferred compensation within the meaning of Section 409A.

Confluent will appoint a nationally recognized accounting, consulting or law firm to make the determinations required by this Section. Confluent will bear all expenses with respect to the determinations by such accounting or law firm required to be made hereunder. Confluent will use commercially reasonable efforts to cause the accounting or law firm engaged to make the determinations hereunder to provide its calculations, together with detailed supporting documentation, to Eligible Officer and Confluent within 15 calendar days after the date on which Eligible Officer’s right to a Payment becomes reasonably likely to occur (if requested at that time by Eligible Officer or Confluent) or such other time as requested by Eligible Officer or Confluent.

If the Eligible Officer receives a Payment for which the Reduced Amount was determined pursuant to clause (x) above and the Internal Revenue Service determines thereafter that some portion of the Payment is subject to the Excise Tax, Eligible Officer agrees to promptly return to Confluent a sufficient amount of the Payment (after reduction pursuant to clause (x) above) so that no portion of the remaining Payment is subject to the Excise Tax. For the avoidance of doubt, if the Reduced Amount was determined pursuant to clause (y) above, the Eligible Officer will have no obligation to return any portion of the Payment pursuant to the preceding sentence.

#### **5. RETURN OF COMPANY PROPERTY.**

An Eligible Officer will not be entitled to any severance benefit under the Plan unless and until the Eligible Officer returns all Company Property. For this purpose, “Company Property” means all Company documents (and all copies thereof), other Company property, and confidential, proprietary or trade secret information which the Eligible Officer had in his or her possession at any time, including, but not limited to, Company files, notes, drawings, records, plans, forecasts, reports, studies, analyses, proposals, agreements, financial information, research and development information, sales and marketing information, operational and personnel information, specifications, code, software, databases, computer-recorded information, tangible property and

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equipment (including, but not limited to, computers, facsimile machines, mobile telephones, servers), credit cards, entry cards, identification badges and keys; and any materials of any kind which contain or embody any proprietary, confidential, or trade secret information of Confluent (and all reproductions thereof in whole or in part).

#### 6. TIME OF PAYMENT AND FORM OF BENEFITS.

All such payments under the Plan will be subject to applicable withholding for federal, state and local taxes. If an Eligible Officer is indebted to Confluent on his or her termination date, Confluent reserves the right to offset any severance payments under the Plan by the amount of such indebtedness. All severance benefits provided under the Plan are intended to satisfy the requirements for an exemption from application of Section 409A of the Code to the maximum extent that an exemption is available and any ambiguities herein will be interpreted accordingly; provided, however, that to the extent such an exemption is not available, the severance benefits provided under the Plan are intended to comply with the requirements of Section 409A to the extent necessary to avoid adverse personal tax consequences and any ambiguities herein will be interpreted accordingly.

Notwithstanding anything to the contrary set forth herein, any payments and benefits provided under the Plan that constitute “deferred compensation” within the meaning of Section 409A will not commence in connection with an Eligible Officer’s termination of employment unless and until the Eligible Officer has also incurred a “separation from service,” as such term is defined in Treasury Regulations Section 1.409A-1(h) (“**Separation from Service**”), unless Confluent reasonably determines that such amounts may be provided to the Eligible Officer without causing the Eligible Officer to incur the adverse personal tax consequences under Section 409A.

It is intended that (i) each installment of any benefits payable under the Plan to an Eligible Officer be regarded as a separate “payment” for purposes of Treasury Regulations Section 1.409A-2(b)(2)(i), (ii) all payments of any such benefits under the Plan satisfy, to the greatest extent possible, the exemptions from the application of Section 409A provided under Treasury Regulations Sections 1.409A-1(b)(4), 1.409A-1(b)(5) and 1.409A-1(b)(9)(iii), and (iii) any such benefits consisting of COBRA premiums also satisfy, to the greatest extent possible, the exemption from the application of Section 409A provided under Treasury Regulations Section 1.409A-1(b)(9)(v). However, if Confluent determines that any such benefits payable under the Plan constitute “deferred compensation” under Section 409A and the Eligible Officer is a “specified employee” of Confluent, as such term is defined in Section 409A(a)(2)(B)(i), then, solely to the extent necessary to avoid the imposition of the adverse personal tax consequences under Section 409A, (A) the timing of such benefit payments will be delayed until the earlier of (1) the date that is six (6) months and one (1) day after the Eligible Officer’s Separation from Service and (2) the date of the Eligible Officer’s death (such applicable date, the “**Delayed Initial Payment Date**”), and (B) Confluent will (1) pay the Eligible Officer a lump sum amount equal to the sum of the benefit payments that the Eligible Officer would otherwise have received through the Delayed Initial Payment Date if the commencement of the payment of the benefits had not been delayed pursuant to this paragraph and (2) commence paying the balance, if any, of the benefits in accordance with the applicable payment schedule.

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In no event will payment of any benefits under the Plan be made prior to an Eligible Officer's termination date or prior to the effective date of the Release. If Confluent determines that any payments or benefits provided under the Plan constitute "deferred compensation" under Section 409A, and the Eligible Officer's Separation from Service occurs at a time during the calendar year when the Release could become effective in the calendar year following the calendar year in which the Eligible Officer's Separation from Service occurs, then regardless of when the Release is returned to Confluent and becomes effective, the Release will not be deemed effective any earlier than the latest permitted effective date (the "**Release Deadline**"). If Confluent determines that any payments or benefits provided under the Plan constitute "deferred compensation" under Section 409A, then except to the extent that payments may be delayed until the Delayed Initial Payment Date pursuant to the preceding paragraph, on the first regular payroll date following the effective date of an Eligible Officer's Release, Confluent will (1) pay the Eligible Officer a lump sum amount equal to the sum of the benefit payments that the Eligible Officer would otherwise have received through such payroll date but for the delay in payment related to the effectiveness of the Release and (2) commence paying the balance, if any, of the benefits in accordance with the applicable payment schedule.

All severance payments under the Plan will be subject to applicable withholding for federal, state and local taxes. If an Eligible Officer is indebted to Confluent at his or her termination date, Confluent reserves the right to offset any severance payments under the Plan by the amount of such indebtedness.

#### **7. REEMPLOYMENT.**

In the event of an Eligible Officer's reemployment by Confluent during the period of time in respect of which severance benefits pursuant to the Plan have been paid, Confluent, in its sole and absolute discretion, may require such Eligible Officer to repay to Confluent all or a portion of such severance benefits under the Plan as a condition of reemployment.

#### **8. CLAWBACK; RECOVERY.**

All payments and severance benefits provided under the Plan will be subject to recoupment in accordance with any clawback policy that Confluent adopts, including pursuant to the listing standards of any national securities exchange or association on which Confluent's securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law. In addition, the Plan Administrator may impose such other clawback, recovery or recoupment provisions as the Plan Administrator determines necessary or appropriate, including but not limited to a reacquisition right in respect of previously acquired shares of common stock of Confluent or other cash or property upon the occurrence of a termination of employment for Cause. No recovery of compensation under such a clawback policy will be an event giving rise to a right to resign for Good Reason, constructive termination, or any similar term under any plan of or agreement with Confluent.

#### **9. RIGHT TO INTERPRET AND ADMINISTER PLAN; AMENDMENT AND TERMINATION.**

(a) **Interpretation and Administration.** Prior to the Closing, the Board will be the Plan Administrator and will have the exclusive discretion and authority to establish rules, forms,

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and procedures for the administration of the Plan and to construe and interpret the Plan and to decide any and all questions of fact, interpretation, definition, computation or administration arising in connection with the operation of the Plan, including, but not limited to, the eligibility to participate in the Plan and amount of benefits paid under the Plan. The rules, interpretations, computations and other actions of the Board will be binding and conclusive on all persons. Upon and after the Closing, the Plan will be interpreted and administered in good faith by the Representative who will be the Plan Administrator during such period. All actions taken by the Representative in interpreting the terms of the Plan and administering the Plan upon and after the Closing will be final and binding on all Eligible Officers. Any references in this Plan to the “Board” or “Plan Administrator” with respect to periods following the Closing will mean the Representative.

(b) **Amendment.** The Plan Administrator reserves the right to amend this Plan at any time; *provided, however*, that any amendment of the Plan will not be effective as to a particular Eligible Officer who is or may be adversely impacted by such amendment or termination and has an effective Participation Agreement without the written consent of such Eligible Officer.

(c) **Termination.** Subject to the first paragraph of Section 1, the Plan will automatically terminate following satisfaction of all Confluent’s obligations under the Plan.

#### 10. NO IMPLIED EMPLOYMENT CONTRACT.

The Plan will not be deemed (i) to give any officer or other person any right to be retained in the employ of Confluent or (ii) to interfere with the right of Confluent to discharge any officer or other person at any time, with or without cause and with or without advance notice, which right is hereby reserved.

#### 11. LEGAL CONSTRUCTION.

This Plan is intended to be governed by and will be construed in accordance with the Employee Retirement Income Security Act of 1974 (“ERISA”) and, to the extent not preempted by ERISA, the laws of the State of California.

#### 12. CLAIMS, INQUIRIES AND APPEALS.

(a) **Applications for Benefits and Inquiries.** Any application for benefits, inquiries about the Plan or inquiries about present or future rights under the Plan must be submitted to the Plan Administrator in writing by an applicant (or his or her authorized representative). The Plan Administrator is:

Confluent, Inc.  
Board of Directors or Representative  
899 West Evelyn Avenue  
Mountain View, California 94041

(b) **Denial of Claims.** In the event that any application for benefits is denied in whole or in part, the Plan Administrator must provide the applicant with written or electronic notice of the denial of the application, and of the applicant’s right to review the denial. Any electronic

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notice will comply with the regulations of the U.S. Department of Labor. The notice of denial will be set forth in a manner designed to be understood by the applicant and will include the following:

- (i) the specific reason or reasons for the denial;
- (ii) references to the specific Plan provisions upon which the denial is based;
- (iii) a description of any additional information or material that the Plan Administrator needs to complete the review and an explanation of why such information or material is necessary; and
- (iv) an explanation of the Plan's review procedures and the time limits applicable to such procedures, including a statement of the applicant's right to bring a civil action under Section 502(a) of ERISA following a denial on review of the claim, as described in Section 11(d) below.

This notice of denial will be given to the applicant within ninety (90) days after the Plan Administrator receives the application, unless special circumstances require an extension of time, in which case, the Plan Administrator has up to an additional ninety (90) days for processing the application. If an extension of time for processing is required, written notice of the extension will be furnished to the applicant before the end of the initial ninety (90) day period.

This notice of extension will describe the special circumstances necessitating the additional time and the date by which the Plan Administrator is to render its decision on the application.

(c) **Request for a Review.** Any person (or that person's authorized representative) for whom an application for benefits is denied, in whole or in part, may appeal the denial by submitting a request for a review to the Plan Administrator within sixty (60) days after the application is denied. A request for a review will be in writing and will be addressed to:

Confluent, Inc.  
Board of Directors or Representative  
899 West Evelyn Avenue  
Mountain View, California 94041

A request for review must set forth all of the grounds on which it is based, all facts in support of the request and any other matters that the applicant feels are pertinent. The applicant (or his or her representative) will have the opportunity to submit (or the Plan Administrator may require the applicant to submit) written comments, documents, records, and other information relating to his or her claim. The applicant (or his or her representative) will be provided, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to his or her claim. The review will take into account all comments, documents, records and other information submitted by the applicant (or his or her representative) relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

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(d) **Decision on Review.** The Plan Administrator will act on each request for review within sixty (60) days after receipt of the request, unless special circumstances require an extension of time (not to exceed an additional sixty (60) days), for processing the request for a review. If an extension for review is required, written notice of the extension will be furnished to the applicant within the initial sixty (60) day period. This notice of extension will describe the special circumstances necessitating the additional time and the date by which the Plan Administrator is to render its decision on the review. The Plan Administrator will give prompt, written or electronic notice of its decision to the applicant. Any electronic notice will comply with the regulations of the U.S. Department of Labor. In the event that the Plan Administrator confirms the denial of the application for benefits in whole or in part, the notice will set forth, in a manner calculated to be understood by the applicant, the following:

- (i) the specific reason or reasons for the denial;
- (ii) references to the specific Plan provisions upon which the denial is based;
- (iii) a statement that the applicant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant to his or her claim; and
- (iv) a statement of the applicant's right to bring a civil action under Section 502(a) of ERISA.

(e) **Rules and Procedures.** The Plan Administrator will establish rules and procedures, consistent with the Plan and with ERISA, as necessary and appropriate in carrying out its responsibilities in reviewing benefit claims. The Plan Administrator may require an applicant who wishes to submit additional information in connection with an appeal from the denial of benefits to do so at the applicant's own expense.

(f) **Exhaustion of Remedies.** No legal action for benefits under the Plan may be brought until the applicant (i) has submitted a written application for benefits in accordance with the procedures described by Section 11(a) above, (ii) has been notified by the Plan Administrator that the application is denied, (iii) has filed a written request for a review of the application in accordance with the appeal procedure described in Section 11(c) above, and (iv) has been notified that the Plan Administrator has denied the appeal. Notwithstanding the foregoing, if the Plan Administrator does not respond to an Eligible Officer's claim or appeal within the relevant time limits specified in this Section 11, the Eligible Officer may bring legal action for benefits under the Plan pursuant to Section 502(a) of ERISA.

### 13. BASIS OF PAYMENTS TO AND FROM PLAN.

The Plan will be unfunded, and all cash payments under the Plan will be paid only from the general assets of Confluent.

### 14. OTHER PLAN INFORMATION.

(a) **Employer and Plan Identification Numbers.** The Employer Identification Number assigned to Confluent (which is the "Plan Sponsor" as that term is used in ERISA) by the

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Internal Revenue Service is 27-2491037. The Plan Number assigned to the Plan by the Plan Sponsor pursuant to the instructions of the Internal Revenue Service is 510.

(b) **Ending Date for Plan's Fiscal Year.** The date of the end of the fiscal year for the purpose of maintaining the Plan's records is December 31.

(c) **Agent for the Service of Legal Process.** The agent for the service of legal process with respect to the Plan is:

Confluent, Inc.  
Plan Administrator  
899 West Evelyn  
Mountain View, California 94041

In addition, service of legal process may be made upon the Plan Administrator.

(d) **Plan Sponsor.** The "Plan Sponsor" is:

Confluent, Inc.  
899 West Evelyn Avenue  
Mountain View, California 94041  
(800) 439-3207

(e) **Plan Administrator.** The Plan Administrator is the Board prior to the Closing and the Representative upon and following the Closing. The Plan Administrator's contact information is:

Confluent, Inc.  
Board of Directors or Representative  
899 West Evelyn Avenue  
Mountain View, California 94041  
(800) 439-3207

The Plan Administrator is the named fiduciary charged with the responsibility for administering the Plan.

#### 15. STATEMENT OF ERISA RIGHTS.

Participants in this Plan (which is a welfare benefit plan sponsored by Confluent, Inc.) are entitled to certain rights and protections under ERISA. If you are an Eligible Officer, you are considered a participant in the Plan and, under ERISA, you are entitled to:

(a) **Receive Information About Your Plan and Benefits.**

(i) Examine, without charge, at the Plan Administrator's office and at other specified locations, such as worksites, all documents governing the Plan and a copy of the latest annual report (Form 5500 Series), if applicable, filed by the Plan with the U.S. Department of Labor and available at the Public Disclosure Room of the Employee Benefits Security Administration;

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(ii) Obtain, upon written request to the Plan Administrator, copies of documents governing the operation of the Plan and copies of the latest annual report (Form 5500 Series), if applicable, and an updated (as necessary) Summary Plan Description. The Administrator may make a reasonable charge for the copies; and

(iii) Receive a summary of the Plan's annual financial report, if applicable. The Plan Administrator is required by law to furnish each Eligible Officer with a copy of this summary annual report.

(b) **Prudent Actions by Plan Fiduciaries.** In addition to creating rights for Plan Eligible Officers, ERISA imposes duties upon the people who are responsible for the operation of the employee benefit plan. The people who operate the Plan, called "fiduciaries" of the Plan, have a duty to do so prudently and in the interest of you and other Eligible Officers and beneficiaries. No one, including your employer, your union or any other person, may fire you or otherwise discriminate against you in any way to prevent you from obtaining a Plan benefit or exercising your rights under ERISA.

(c) **Enforce Your Rights.** If your claim for a Plan benefit is denied or ignored, in whole or in part, you have a right to know why this was done, to obtain copies of documents relating to the decision without charge, and to appeal any denial, all within certain time schedules.

Under ERISA, there are steps you can take to enforce the above rights. For instance, if you request a copy of Plan documents or the latest annual report from the Plan, if applicable, and do not receive them within thirty (30) days, you may file suit in a Federal court. In such a case, the court may require the Plan Administrator to provide the materials and pay you up to \$110 a day until you receive the materials, unless the materials were not sent because of reasons beyond the control of the Plan Administrator.

If you have a claim for benefits which is denied or ignored, in whole or in part, you may file suit in a state or Federal court.

If you are discriminated against for asserting your rights, you may seek assistance from the U.S. Department of Labor, or you may file suit in a Federal court. The court will decide who should pay court costs and legal fees. If you are successful, the court may order the person you have sued to pay these costs and fees. If you lose, the court may order you to pay these costs and fees, for example, if it finds your claim is frivolous.

(d) **Assistance with Your Questions.** If you have any questions about the Plan, you should contact the Plan Administrator. If you have any questions about this statement or about your rights under ERISA, or if you need assistance in obtaining documents from the Plan Administrator, you should contact the nearest office of the Employee Benefits Security Administration, U.S. Department of Labor, listed in your telephone directory or the Division of Technical Assistance and Inquiries, Employee Benefits Security Administration, U.S. Department of Labor, 200 Constitution Avenue N.W., Washington, D.C. 20210. You may also obtain certain publications about your rights and responsibilities under ERISA by calling the publications hotline of the Employee Benefits Security Administration.

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APPENDIX A

CONFLUENT, INC.

EXECUTIVE OFFICER

CHANGE IN CONTROL/SEVERANCE BENEFIT PLAN

PARTICIPATION AGREEMENT

Name: \_\_\_\_\_

1. **ELIGIBILITY.**

You have been designated as eligible to participate in the Confluent, Inc. Executive Officer Change in Control/Severance Benefit Plan (the “**Plan**”). Capitalized terms not explicitly defined in this Participation Agreement (the “**Agreement**”) but defined in the Plan will have the same definitions as in the Plan.

2. **SEVERANCE BENEFITS**

Subject to the terms of the Plan and Section 3 of this Agreement, if your employment is terminated in a Covered Termination, and you meet all the other eligibility requirements set forth in the Plan, including, without limitation, executing the required Release within the applicable time period set forth therein and provided that such Release becomes effective in accordance with its terms, you will receive the severance benefits set forth in this Section 2. Notwithstanding the schedule for provision of severance benefits as set forth below, the provision of any severance benefits under this Section 2 is subject to any delay in payment that may be required under Section 5 of the Plan.

2.1 **Regular Termination.** Upon a Regular Termination, you will be eligible to receive the following severance benefits.

2.1.1 *Cash Severance Benefit.* You will be entitled to receive an amount equal to six months of your then-current Base Salary (such period of months, the “**Severance Period**”), which amount shall be paid to you in a lump sum cash payment no later than the first payroll cycle following the effective date of the Release, but in any event not later than March 15 of the year following the year in which the Regular Termination occurs.

2.1.2 *Payment of Continued Group Health Plan Benefits.*

- If you timely elect continued group health plan continuation coverage under COBRA Confluent will pay the full amount of your COBRA premiums, or will provide coverage under any self-funded plan, on behalf of you for your continued coverage under Confluent’s group

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health plans, including coverage for your eligible dependents, for the Severance Period (the “**COBRA Payment Period**”). Upon the conclusion of such period of insurance premium payments made by Confluent, or the provision of coverage under a self-funded group health plan, you will be responsible for the entire payment of premiums (or payment for the cost of coverage) required under COBRA for the duration of your eligible COBRA coverage period. For purposes of this Section, (i) references to COBRA will be deemed to refer also to analogous provisions of state law and (ii) any applicable insurance premiums that are paid by Confluent will not include any amounts payable by you under an Internal Revenue Code Section 125 health care reimbursement plan, which amounts, if any, are your sole responsibility.

- Notwithstanding the foregoing, if at any time Confluent determines, in its sole discretion, that it cannot provide the COBRA premium benefits without potentially incurring financial costs or penalties under applicable law (including, without limitation, Section 2716 of the Public Health Service Act), then in lieu of paying COBRA premiums on your behalf, Confluent will instead pay you on the last day of each remaining month of the COBRA Payment Period a fully taxable cash payment equal to the COBRA premium for that month, subject to applicable tax withholding (such amount, the “**Special Severance Payment**”), such Special Severance Payment to be made without regard to your election of COBRA coverage or payment of COBRA premiums and without regard to your continued eligibility for COBRA coverage during the COBRA Payment Period. Such Special Severance Payment will end upon expiration of the COBRA Payment Period.

2.2 **Change in Control Termination.** Upon a Change in Control Termination, you will be eligible to receive the following severance benefits. For the avoidance of doubt, in no event will you be entitled to benefits under both Section 2.1 and this Section 2.2. If you are eligible for severance benefits under both Section 2.1 and this Section 2.2, you will receive the benefits set forth in this Section 2.2 and such benefits will be reduced by any benefits previously provided to you under Section 2.1.

2.2.1 *Cash Severance Benefit.* You will receive the cash severance benefit described in Section 2.1.1 above, except that:

- the Base Salary payment will be paid to you in a lump sum cash payment no later than the first payroll cycle following the later of (i) the effective date of the Release or (ii) the Closing, but in any event not later than March 15 of the year following the year in which the Change in Control Termination occurs; and
  - you will additionally be entitled to an amount equal to one-half of the annual target cash bonus established for you, if any, for the year in
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which the Change in Control Termination occurs, payable in a lump sum cash payment no later than the first payroll cycle following the later of (i) the effective date of the Release or (ii) the Closing, but in any event not later than March 15 of the year following the year in which the Change in Control Termination occurs.

2.2.2 *Accelerated Vesting of Stock Awards.*

- Effective as of the later of the effective date of your Release or the effective date of the Closing, to the extent not previously vested: (i) the vesting and exercisability of 50% of each outstanding and unvested stock option to purchase Confluent's common stock that is held by you on such date and that vest based solely based upon continued service will be accelerated, (ii) any reacquisition or repurchase rights held by Confluent in respect of 50% of the common stock issued pursuant to any other stock award granted to you by Confluent that vests based solely upon continued service will lapse, and (iii) the vesting of 50% of each other stock award granted to you by Confluent, and any issuance of shares triggered by the vesting of such stock awards, including any restricted stock unit awards, in each case that vest based solely upon continued service, will be accelerated in full. Notwithstanding the foregoing or any provision of the Plan, if you have more favorable vesting acceleration provisions in another agreement with Confluent, the more favorable vesting provisions will apply. Notwithstanding the foregoing, this Section 2.2.2 will not apply to stock awards issued under or held in any Qualified Plan.
- If necessary to give effect to the intent of the foregoing provision, notwithstanding anything to the contrary set forth in your stock award agreements or the applicable equity incentive plan under which such stock award was granted that provides that any then unvested portion of your award will immediately expire upon your termination of service, the unvested portion of your stock award (after taking into account any vesting acceleration) will terminate on the later of (i) the effective date of your Release or (ii) Closing, but no later than the final day of the original full term of the award.

2.2.3 *Payment of Continued Group Health Plan Benefits.* You will receive the payment for continued group health plan benefits described in Section 2.1.2 above.

3. **DEFINITIONS.**

3.1 **"Equity Plan"** means Confluent's 2014 Stock Plan, 2021 Equity Incentive Plan, or any successor or other equity incentive plan adopted by Confluent which govern your stock awards, as applicable.

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3.2 **“Qualified Plan”** means a plan sponsored by Confluent or an Affiliate that is intended to be qualified under Section 401(a) of the Internal Revenue Code.

4. **ACKNOWLEDGEMENTS.**

As a condition to participation in the Plan, you hereby acknowledge each of the following:

- 4.1 The severance benefits that may be provided to you under this Agreement are subject to all of the terms of the Plan which is incorporated into and becomes part of this Agreement, including but not limited to the potential reductions and terminations to your severance benefits under the circumstances specified in Section 2 and Section 3 of the Plan.
- 4.2 Your eligibility for and receipt of any severance benefits to which you may become entitled as described in Section 2 above is also expressly contingent upon your compliance with the terms and conditions of the provisions of the Confidential Information and Invention Assignment Agreement or any other confidentiality or invention assignment agreement between you and Confluent that you signed when you joined Confluent, as may be amended from time to time (the **“CIIAA”**). Severance benefits under this Agreement will immediately cease in the event of your violation of the provisions of the CIIAA.
- 4.3 This Agreement and the Plan supersede any severance benefit plan, policy or practice previously maintained by Confluent that may have been applicable to you. This Agreement and the Plan do not supersede, replace or otherwise alter the CIIAA.
- 4.4 You may not sell, transfer, or otherwise assign or pledge your right to benefits under this Agreement and the Plan to either your creditors or to your beneficiary, except to the extent permitted by the Plan Administrator if such action would not result in adverse tax consequences under Section 409A.
- 4.5 Notwithstanding anything set forth in the Plan to the contrary, this Agreement shall terminate on the third anniversary of the date of your signature below unless mutually renewed by you and the Board.

To accept the terms of this Agreement and participate in the Plan, please sign and date this Agreement in the space provided below and return it to \_\_\_\_\_ no later than \_\_\_\_\_, 20\_\_.

CONFLUENT, INC.

By:  
Name:  
Title:

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I have read and accept these terms of this Agreement.

By: \_\_\_\_\_

Name:

Date:

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**Policy Dates:**

Adoption: April 30, 2021

Amended and Restated:

- May 27, 2021
  - January 28, 2022
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## Subsidiaries of Confluent, Inc.

<u>Name of Subsidiary</u>	<u>Jurisdiction of Organization</u>
Confluent Australia Pty Limited	Australia
Infinitem Canada Ltd.	Canada
Confluent France SAS	France
Confluent Germany GmbH	Germany
Confluent Hong Kong Ltd	Hong Kong
Confluent India Private Limited	India
Confluent Israel Ltd.	Israel
Confluent Italy S.R.L.	Italy
Confluent Japan Godo Kaisha	Japan
Confluent Korea Limited	Korea, Republic of
Confluent Malaysia Sdn. Bhd.	Malaysia
Confluent Netherlands B.V.	Netherlands
Confluent Singapore Pte. Ltd.	Singapore
Confluent Spain, Sociedad Limitada	Spain
Confluent Sweden AB	Sweden
Confluent Switzerland GmbH	Switzerland
Confluent ME FZ-LLC	United Arab Emirates
Confluent Europe Ltd.	United Kingdom
Confluent Federal, LLC	United States

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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-257338) of Confluent, Inc. of our report dated February 24, 2022 relating to the financial statements, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP  
San Francisco, California  
February 24, 2022

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**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Edward Jay Kreps, certify that:

- (1) I have reviewed this Annual Report on Form 10-K of Confluent, Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 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: February 24, 2022

By: \_\_\_\_\_  
/s/ Edward Jay Kreps  
Edward Jay Kreps  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Steffan Tomlinson, certify that:

- (1) I have reviewed this Annual Report on Form 10-K of Confluent, Inc.;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) 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 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: February 24, 2022

By: \_\_\_\_\_  
/s/ Steffan Tomlinson  
Steffan Tomlinson  
Chief Financial Officer  
(Principal Financial Officer)

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

In connection with the Annual Report of Confluent, Inc. (the "Company") on Form 10-K for the period ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 24, 2022

By: \_\_\_\_\_  
/s/ Edward Jay Kreps  
Edward Jay Kreps  
Chief Executive Officer  
(Principal Executive Officer)

This certification accompanies the Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.

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

In connection with the Annual Report of Confluent, Inc. (the "Company") on Form 10-K for the period ended December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 24, 2022

By: \_\_\_\_\_  
/s/ Steffan Tomlinson  
Steffan Tomlinson  
Chief Financial Officer  
(Principal Financial Officer)

This certification accompanies the Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act (whether made before or after the date of the Form 10-K), irrespective of any general incorporation language contained in such filing.

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