

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2024

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: 001-40252

**DigitalOcean Holdings, Inc.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**45-5207470**

(I.R.S. Employer  
Identification No.)

101 6th Avenue

New York, New York 10013

(Address of principal executive offices and Zip Code)

(646) 827-4366

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common stock, par value \$0.000025 per share	DOCN	The New York Stock Exchange

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	?	Accelerated filer	?
Non-accelerated filer	?	Smaller reporting company	?
		Emerging growth company	?

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

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

As of May 3, 2024, there were 91,091,324 shares of the registrant's common stock, with a par value of \$0.000025 per share, outstanding.

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## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements about us and our industry that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q, including statements regarding our future results of operations or 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,” “will” or “would” or the negative of these words or other similar terms or expressions.

You should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition and operating results. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described in Part I, Item 1A. “Risk Factors” and elsewhere in our Annual Report on Form 10-K. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. The results, events and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

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

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

We may announce material business and financial information to our investors using our investor relations website (<https://investors.digitalocean.com/>). We therefore encourage investors and others interested in our company to review the information that we make available on our website, in addition to following our filings with the Securities and Exchange Commission, webcasts, press releases and conference calls.

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# PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

### DIGITALOCEAN HOLDINGS, INC.

### CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)  
(unaudited)

	March 31, 2024	December 31, 2023
Current assets:		
Cash and cash equivalents	\$ 419,063	\$ 317,236
Marketable securities	—	94,532
Accounts receivable, less allowance for credit losses of \$5,811 and \$5,848, respectively	63,866	62,186
Prepaid expenses and other current assets	32,884	29,040
Total current assets	515,813	502,994
Property and equipment, net	322,052	305,444
Restricted cash	1,747	1,747
Goodwill	348,322	348,322
Intangible assets, net	134,416	140,151
Operating lease right-of-use assets, net	156,002	155,201
Deferred tax assets	1,945	1,994
Other assets	5,276	5,114
Total assets	\$ 1,485,573	\$ 1,460,967
Current liabilities:		
Accounts payable	\$ 4,536	\$ 3,957
Accrued other expenses	24,398	31,046
Deferred revenue	5,477	5,340
Operating lease liabilities, current	81,218	81,320
Other current liabilities	73,322	70,982
Total current liabilities	188,951	192,645
Deferred tax liabilities	3,517	3,533
Long-term debt	1,479,687	1,477,798
Operating lease liabilities, non-current	95,174	91,161
Other long-term liabilities	4,316	9,528
Total liabilities	1,771,645	1,774,665
Commitments and Contingencies (Note 8)		
Preferred stock (\$0.000025 par value per share; 10,000,000 shares authorized; 0 shares issued and outstanding as of March 31, 2024 and December 31, 2023)	—	—
Common stock (\$0.000025 par value per share; 750,000,000 shares authorized; 91,264,101 and 90,243,442 issued and outstanding as of March 31, 2024 and December 31, 2023, respectively)	2	2
Additional paid-in capital	44,615	30,989
Accumulated other comprehensive loss	(591)	(452)
Accumulated deficit	(330,098)	(344,237)
Total stockholders' deficit	(286,072)	(313,698)
Total liabilities and stockholders' deficit	\$ 1,485,573	\$ 1,460,967

See accompanying notes to condensed consolidated financial statements

**DIGITALOCEAN HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except per share amounts)  
(unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Revenue	\$ 184,730	\$ 165,134
Cost of revenue	72,644	71,879
Gross profit	112,086	93,255
Operating expenses:		
Research and development	33,971	38,272
Sales and marketing	20,804	18,231
General and administrative	45,773	48,939
Restructuring and other charges	—	20,869
Total operating expenses	100,548	126,311
Income (loss) from operations	11,538	(33,056)
Other income (expense):		
Interest expense	(2,304)	(2,189)
Interest income and other income, net	5,021	7,394
Other income, net	2,717	5,205
Income (loss) before income taxes	14,255	(27,851)
Income tax (expense) benefit	(116)	11,481
Net income (loss) attributable to common stockholders	\$ 14,139	\$ (16,370)
Net income (loss) per share attributable to common stockholders		
Basic	\$ 0.16	\$ (0.17)
Diluted	\$ 0.15	\$ (0.17)
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders		
Basic	90,794	95,565
Diluted	93,787	95,565

See accompanying notes to condensed consolidated financial statements

**DIGITALOCEAN HOLDINGS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(in thousands)****(unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2024</b>	<b>2023</b>
Net income (loss) attributable to common stockholders	\$ 14,139	\$ (16,370)
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of taxes	(151)	126
Unrealized gain on marketable securities, net of taxes	12	1,243
Other comprehensive income (loss)	(139)	1,369
Comprehensive income (loss)	\$ 14,000	\$ (15,001)

See accompanying notes to condensed consolidated financial statements

**DIGITALOCEAN HOLDINGS, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT**  
(in thousands, except share amounts)  
(unaudited)

	<b>Common Stock</b>		<b>Additional Paid-In Capital</b>	<b>Accumulated Other Compreh- ensive Loss</b>	<b>Accumulated Deficit</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>				
Balance at December 31, 2023	90,243,442	\$ 2	\$ 30,989	\$ (452)	\$ 344,237	\$ 313,698
Issuance of common stock under equity incentive plan, net of taxes withheld	1,220,917	—	(1,888)	—	—	(1,888)
Repurchase and retirement of common stock	(200,258)	—	(7,795)	—	—	(7,795)
Excise taxes related to repurchase of common stock	—	—	(78)	—	—	(78)
Stock-based compensation	—	—	23,387	—	—	23,387
Other comprehensive loss	—	—	—	(139)	—	(139)
Net Income attributable to common stockholders	—	—	—	—	14,139	14,139
Balance at March 31, 2024	91,264,101	\$ 2	\$ 44,615	\$ (591)	\$ 330,098	\$ 286,072

  

	<b>Common Stock</b>		<b>Additional Paid-In Capital</b>	<b>Accumulated Other Compreh- ensive Loss</b>	<b>Accumulated Deficit</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>				
Balance at December 31, 2022	96,732,507	\$ 2	\$ 263,957	\$ (2,048)	\$ 214,342	\$ 47,569
Issuance of common stock under equity incentive plan, net of taxes withheld	1,011,034	—	1,461	—	—	1,461
Repurchase and retirement of common stock	(7,759,973)	—	(265,901)	—	—	(265,901)
Excise taxes related to repurchase of common stock	—	—	(2,659)	—	—	(2,659)
Stock-based compensation	—	—	31,923	—	—	31,923
Other comprehensive income	—	—	—	1,369	—	1,369
Net loss attributable to common stockholders	—	—	—	—	(16,370)	(16,370)
Balance at March 31, 2023	89,983,568	\$ 2	\$ 28,781	\$ (679)	\$ 230,712	\$ 202,608

See accompanying notes to condensed consolidated financial statements

**DIGITALOCEAN HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
<b>Operating activities</b>		
Net income (loss) attributable to common stockholders	\$ 14,139	\$ (16,370)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	31,887	28,913
Stock-based compensation	22,877	31,531
Provision for expected credit losses	4,175	3,987
Operating lease right-of-use assets and liabilities, net	3,300	9,523
Net accretion of discounts and amortization of premiums on investments	2,569	(3,436)
Non-cash interest expense	1,993	1,983
Loss on impairment of long-lived assets	—	553
Deferred income taxes	—	1,589
Other	(53)	590
Changes in operating assets and liabilities:		
Accounts receivable	(5,855)	(5,125)
Prepaid expenses and other current assets	(2,744)	(2,568)
Accounts payable and accrued expenses	(3,260)	(11,031)
Deferred revenue	137	(535)
Other assets and liabilities	(2,472)	(3,389)
<b>Net cash provided by operating activities</b>	<b>66,693</b>	<b>36,215</b>
<b>Investing activities</b>		
Capital expenditures - property and equipment	(43,665)	(23,314)
Capital expenditures - internal-use software development	(1,563)	(1,794)
Cash paid for asset acquisitions	—	(2,500)
Purchase of marketable securities	—	(195,910)
Maturities of marketable securities	91,675	331,581
Purchased interest on marketable securities	—	(113)
Proceeds from sale of equipment	—	6
<b>Net cash provided by investing activities</b>	<b>46,447</b>	<b>107,956</b>
<b>Financing activities</b>		
Proceeds related to the issuance of common stock under equity incentive plan	5,674	5,535
Principal repayments of finance leases	(1,359)	—
Employee payroll taxes paid related to net settlement of equity awards	(6,792)	(3,864)
Repurchase and retirement of common stock	(8,770)	(265,901)
<b>Net cash used in financing activities</b>	<b>(11,247)</b>	<b>(264,230)</b>
Effect of exchange rate changes on cash, cash equivalents, and restricted cash	(66)	(29)
<b>Increase (decrease) in cash, cash equivalents and restricted cash</b>	<b>101,827</b>	<b>(120,088)</b>
Cash, cash equivalents and restricted cash - beginning of period	318,983	151,807
<b>Cash, cash equivalents and restricted cash - end of period</b>	<b>\$ 420,810</b>	<b>\$ 31,719</b>

See accompanying notes to condensed consolidated financial statements

**DIGITALOCEAN HOLDINGS, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(unaudited)

**Supplemental disclosures of cash flow information:**

Cash paid for interest	\$	172	\$	126
Cash paid for taxes, net of refunds		997		393
Operating cash flows paid for operating leases		18,095		16,579

**Non-cash investing and financing activities:**

Capitalized stock-based compensation	\$	510	\$	392
Property and equipment received but not yet paid, included in Accounts payable and Accrued other expenses		2,500		20,437
Operating right-of-use assets obtained in exchange for operating lease liabilities		24,797		48,597

See accompanying notes to condensed consolidated financial statements

# DIGITALOCEAN HOLDINGS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands, except share and per share amounts)

### Note 1. Nature of the Business and Organization

DigitalOcean Holdings, Inc. and its subsidiaries (collectively, the “Company”, “we”, “our”, “us”) is a leading cloud computing platform offering on-demand infrastructure, platform and software tools for startups and growing technology businesses. The Company was founded with the guiding principle that the transformative benefits of the cloud should be easy to leverage, broadly accessible, reliable and affordable. The Company’s platform simplifies cloud computing, enabling its customers to rapidly accelerate innovation and increase their productivity and agility. The Company offers mission-critical solutions across Infrastructure-as-a-Service (“IaaS”), including Droplet virtual machines, storage and networking offerings; Platform-as-a-Service (“PaaS”), including Managed Database and Managed Kubernetes offerings; Software-as-a-Service (“SaaS”), including Managed Hosting and Marketplace offerings; and artificial intelligence and machine learning (“AI/ML”), including Machines, Notebooks and Deployments offerings.

The Company has adopted a holding company structure and the primary operations are performed globally through its wholly owned operating subsidiaries.

### Note 2. Summary of Significant Accounting Policies

#### *Basis of Presentation and Principles of Consolidation*

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and include accounts of the Company and all wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments, which include normal recurring adjustments, necessary for a fair statement of the Company’s financial position as of March 31, 2024, results of operations for the three months ended March 31, 2024 and 2023, cash flows for the three months ended March 31, 2024 and 2023, and stockholders’ deficit for the three months ended March 31, 2024 and 2023.

#### *Use of Estimates*

The preparation of these condensed consolidated financial statements in conformity with U.S. GAAP requires management to make, on an ongoing basis, estimates, judgments and assumptions that affect the amounts reported and disclosed in the condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Such estimates include, but are not limited to, those related to revenue recognition, accounts receivable and related reserves, useful lives and realizability of long lived assets, capitalized internal-use software development costs, accounting for stock-based compensation including estimation of the probability of performance vesting conditions, the incremental borrowing rate used to determine lease liabilities, valuation allowances against deferred tax assets, fair value of financial instruments, and the fair value and useful lives of tangible and intangible assets acquired and liabilities assumed resulting from business combinations. Management bases its estimates on historical experience and on various other assumptions which management believes to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

#### *Restricted Cash*

The following table reconciles cash, cash equivalents and restricted cash per the Condensed Consolidated Statements of Cash Flows:

	March 31,	
	2024	2023
Cash and cash equivalents	\$ 419,063	\$ 20,872
Restricted cash included in Prepaid expenses and other current assets <sup>(1)</sup>	—	9,100
Restricted cash <sup>(2)</sup>	1,747	1,747
Total cash, cash equivalents and restricted cash	\$ 420,810	\$ 31,719

(1) Includes contingent compensation related to the Cloudways Ltd. (“Cloudways”) acquisition, which was paid on September 1, 2023.

(2) Includes deposits in financial institutions related to letters of credit used to secure lease agreements.

#### *Accounts Receivable Net of Allowance for Expected Credit Losses*



Accounts receivable primarily represents revenue recognized that was not invoiced at the balance sheet date and is primarily billed and collected in the following month. Trade accounts receivable are carried at the original invoiced amount less an estimated allowance for expected credit losses based on the probability of future collection. Management determines the adequacy of the allowance based on historical loss patterns, the number of days that customer invoices are past due, reasonable and supportable forecasts of future economic conditions to inform adjustments over historical loss data, and an evaluation of the potential risk of loss associated with specific accounts. When management becomes aware of circumstances that may further decrease the likelihood of collection, it records a specific allowance against amounts due, which reduces the receivable to the amount that management reasonably believes will be collected. The Company records changes in the estimate to the allowance for expected credit losses through provision for expected credit losses and reverses the accounts receivable and related allowance after the potential for recovery is considered remote.

The following table presents the changes in our allowance for expected credit losses for the period presented:

	<b>Amount</b>
Balance as of December 31, 2023	\$ 5,848
Provision for expected credit losses	4,175
Write-offs and other	(4,212)
Balance as of March 31, 2024	\$ 5,811

### **Deferred Revenue**

Deferred revenue was \$5,477 and \$5,340 as of March 31, 2024 and December 31, 2023, respectively. Revenue recognized during the three months ended March 31, 2024 and 2023 was \$2,112 and \$2,118, respectively, which was included in each deferred revenue balance at the beginning of each respective period.

### **Segment Information**

The Company's chief operating decision maker, the chief executive officer ("CEO"), reviews discrete financial information presented on a consolidated basis for purposes of regularly making operating decisions, allocation of resources, and assessing financial performance. Accordingly, the Company has one operating and reporting segment.

### **Geographical Information**

Revenue, as determined based on the billing address of the Company's customers, was as follows:

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2024</b>	<b>2023</b>
North America	37 %	38 %
Europe	29	29
Asia	24	23
Other	10	10
Total	100 %	100 %

Revenue derived from customers in the United States was 30% and 31% of total revenue for the three months ended March 31, 2024 and 2023, respectively.

Long-lived assets include property and equipment and leases. The geographic locations of the Company's long-lived assets, net, based on physical location of the assets is as follows:

	March 31, 2024	December 31, 2023
United States	\$ 269,188	\$ 233,557
Singapore	38,639	43,425
Germany	54,881	62,224
Netherlands	42,367	46,170
Other	72,979	75,269
Total	<u>\$ 478,054</u>	<u>\$ 460,645</u>

### **Concentration of Credit Risk**

The amounts reflected in the Condensed Consolidated Balance Sheets for cash and cash equivalents, marketable securities, restricted cash, and trade accounts receivable are exposed to concentrations of credit risk. Although the Company maintains cash and cash equivalents with multiple financial institutions, the deposits, at times, may exceed federally insured limits. The Company believes that the financial institutions that hold its cash and cash equivalents are financially sound and, accordingly, minimal credit risk exists with respect to these balances.

The Company's customer base consists of a significant number of geographically dispersed customers. No customer represented 10% or more of accounts receivable, net as of March 31, 2024 and December 31, 2023. Additionally, no customer accounted for 10% or more of total revenue during the three months ended March 31, 2024 and 2023.

### **Recent Accounting Pronouncements – Pending Adoption**

In December 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-09, Income Taxes (Topic 740)—Improvements to Income Tax Disclosures ("ASU 2023-09"). ASU 2023-09 requires that an entity disclose specific categories in the effective tax rate reconciliation as well as provide additional information for reconciling items that meet a quantitative threshold. Further, ASU 2023-09 requires certain disclosures of state versus federal income tax expense and taxes paid. The amendments in ASU 2023-09 are required to be adopted for fiscal years beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued. The amendments should be applied on a prospective basis although retrospective application is permitted. The Company is currently evaluating the impact of adoption on our financial disclosures.

In November 2023, the FASB issued ASU No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures ("ASU 2023-07"). ASU 2023-07 expands public entities' segment disclosures by requiring disclosure of significant segment expenses that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss, an amount and description of its composition for other segment items, and interim disclosures of a reportable segment's profit or loss and assets. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023 and for interim periods within fiscal years beginning after December 15, 2024, with early application permitted. The Company is currently evaluating the impact of adopting ASU 2023-07 on its consolidated financial statements and disclosures.

## **Note 3. Acquisitions, Goodwill and Intangible Assets**

### **Paperspace Co.**

On July 5, 2023 (the "Paperspace Acquisition Date"), the Company consummated a business combination acquiring 100% of Paperspace Co. ("Paperspace") for total cash consideration of \$100,399. Included in the consideration paid is a contribution of \$11,100 to an escrow account held by a third party on the Paperspace Acquisition Date to support certain post-closing indemnification obligations.

This acquisition has been accounted for as a business combination and the results of Paperspace's operations have been included in the accompanying consolidated financial statements since the Paperspace Acquisition Date. The acquisition and integration of Paperspace's advanced technology into the Company's platform will extend the Company's offerings, enabling customers to more easily test, develop and deploy artificial intelligence and machine learning ("AI/ML") applications, and augment and enhance existing AI/ML applications.

The determination and allocation of total consideration is based on estimates of fair value. Measurement period adjustments, if any, will be recognized in the reporting period in which the adjustment amounts are determined within



twelve months from the Paperspace Acquisition Date. As of March 31, 2024, the purchase price allocation for Paperspace remains open as the Company gathers additional information in relation to its assessment of tax related items.

The following table sets forth the allocation of the purchase price for the business combination and summarizes the fair values of the assets acquired and liabilities assumed at the Paperspace Acquisition Date:

	<b>Amount</b>
<b>Fair value of consideration transferred</b>	
Cash consideration	\$ 100,399
<b>Recognized amounts of identifiable assets acquired and liabilities assumed</b>	
<b>Tangible assets acquired:</b>	
Cash and cash equivalents	\$ 1,376
Accounts receivable	1,042
Prepaid expenses and other current assets	193
Property and equipment, net	4,515
Operating right-of-use asset, net	4,398
Finance lease right-of-use asset, net	11,958
Other assets	367
<b>Intangible assets</b>	<b>37,690</b>
<b>Liabilities assumed:</b>	
Accounts payable and accrued expenses	(1,445)
Deferred revenue	(105)
Operating lease liabilities, current	(1,475)
Operating lease liabilities, non-current	(2,923)
Finance lease liabilities, current	(5,707)
Finance lease liabilities, non-current	(6,251)
Deferred tax liabilities	(1,074)
<b>Total identifiable net assets acquired</b>	<b>42,559</b>
<b>Goodwill recorded in acquisition</b>	<b>57,840</b>
<b>Total purchase price allocation</b>	<b>\$ 100,399</b>

The Company amortizes its intangible assets assuming no residual value over periods in which the economic benefit of these assets is consumed (the useful life). The fair values allocated to the identifiable intangible assets and their estimated useful lives are as follows:

	<b>Estimated Fair Value</b>	<b>Weighted Average Useful Life (years)</b>
Trademark/Trade Name	\$ 300	1
Developed Technology	24,120	5
Customer Relationships	13,270	5
<b>Total intangible assets</b>	<b>\$ 37,690</b>	

Paperspace's assets and liabilities were measured at estimated fair values on July 5, 2023. Estimates of fair value represent management's best estimate and require a complex series of judgments about future events and uncertainties. Third-party valuation specialists were engaged to assist management in the valuation of these assets and liabilities.

The goodwill is attributable primarily to the integration of Paperspace's advanced technology into the Company's platform which will extend the Company's offerings, resulting in incremental revenue from new and existing customers,

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and to a lesser extent intangible assets that do not qualify for separate recognition, including the existing workforce acquired through the acquisition. None of the goodwill is expected to be deductible for income tax purposes.

#### *Unaudited Pro Forma Financial Information*

The unaudited pro forma information below summarizes the combined results of the Company and Paperspace as if the Company's acquisition of Paperspace closed on January 1, 2022 but does not necessarily reflect the combined actual results of operations of the Company and Paperspace that would have been achieved, nor are they necessarily indicative of future results of operations. The unaudited pro forma information reflects certain adjustments that were directly attributable to the acquisition of Paperspace, including additional amortization of acquired assets and the timing of nonrecurring acquisition and integration related costs, and other adjustments the Company believes are reasonable for the pro forma presentation. If Paperspace had been acquired on January 1, 2022, it would not have had a material impact to revenue for the three months ended March 31, 2023.

	<b>Pro Forma for the Three Months Ended March 31, 2023</b>	
Net loss	\$	21,200

#### **Contingent Compensation for Acquisitions**

Contingent compensation represents compensation for post-combination services because the payments are contingent on continuing employment of the Paperspace founders, Cloudways seller, and Snapshooter Limited founder at each payment date. Contingent compensation costs related to payments due to certain Paperspace founders for \$ 10,120, of which \$5,060 will be earned on July 5, 2024, and \$1,265 will be earned quarterly thereafter through July 5, 2025.

Contingent compensation costs related to payments due to a Cloudways seller for \$38,830, of which \$16,851 was earned and paid on September 1, 2023, \$7,326 was earned and paid on March 1, 2024, and \$7,326 will be earned on September 1, 2024 and March 1, 2025.

Contingent compensation costs related to payments due to a SnapShooter Limited founder for \$1,000 was earned and paid during the three months ended March 31, 2024.

#### **Note 4. Marketable Securities**

The following is a summary of available-for-sale marketable securities, excluding those securities classified within cash and cash equivalents, on the Condensed Consolidated Balance Sheets as of December 31, 2023. As of March 31, 2024, the Company reallocated its marketable securities to money market funds due to the more favorable yields.

	<b>December 31, 2023</b>			
	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
U.S. treasury securities	\$ 69,456	\$ 6	\$ (6)	\$ 69,456
Commercial paper	25,088	—	(12)	25,076
Total Marketable securities	\$ 94,544	\$ 6	\$ (18)	\$ 94,532

Interest income from investments was \$5,274 and \$7,670 for the three months ended March 31, 2024 and 2023, respectively.

#### **Note 5. Fair Value Measurements**

The fair value of our financial assets measured on a recurring basis is as follows:

	March 31, 2024		
	Level I	Level II	Total
Cash and cash equivalents:			
Cash	\$ 44,301	\$ —	\$ 44,301
Money market funds	374,762	—	374,762
Total Cash and cash equivalents	\$ 419,063	\$ —	\$ 419,063

  

	December 31, 2023		
	Level I	Level II	Total
Cash and cash equivalents:			
Cash	\$ 54,871	\$ —	\$ 54,871
Money market funds	262,365	—	262,365
Total Cash and cash equivalents	\$ 317,236	\$ —	\$ 317,236
Marketable securities:			
U.S. treasury securities	\$ 69,456	\$ —	\$ 69,456
Commercial paper	—	25,076	25,076
Total Marketable securities	\$ 69,456	\$ 25,076	\$ 94,532

The Company classifies its highly liquid money market funds and U.S. treasury securities within Level 1 of the fair value hierarchy because they are valued based on quoted market prices in active markets. The Company classifies its commercial paper and corporate debt securities within Level 2 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 which may not be actively traded. The Company had no Level 3 financial assets as of March 31, 2024 and December 31, 2023.

#### ***Financial Instruments Not Recorded at Fair Value on a Recurring Basis***

The Company reports financial instruments at fair value, with the exception of the 0% Convertible Senior Notes due December 1, 2026 ("Convertible Notes"). Financial instruments that are not recorded at fair value on a recurring basis are measured at fair value on a quarterly basis for disclosure purposes. The carrying values and estimated fair values of financial instruments not recorded at fair value are as follows:

	March 31, 2024		December 31, 2023	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Convertible Notes	\$ 1,479,687	\$ 1,261,500	\$ 1,477,798	\$ 1,235,625

The carrying value of the Convertible Notes as of March 31, 2024 and December 31, 2023 was net of unamortized debt issuance costs of \$20,313 and \$22,202, respectively.

The total fair value of the Convertible Notes was determined based on the closing trading price as of the last day of trading for the period. The Company considers the fair value to be a Level 2 valuation due to the limited trading activity.

## **Note 6. Balance Sheet Details**

### ***Property and equipment, net***

Property and equipment, net consisted of the following:

	<b>March 31, 2024</b>	<b>December 31, 2023</b>
Computers and equipment	\$ 671,694	\$ 657,505
Furniture and fixtures	1,511	1,511
Leasehold improvements	6,820	6,820
Internal-use software	86,360	84,279
Equipment under finance leases	12,234	11,938
Property and equipment, gross	\$ 778,619	\$ 762,053
Less: accumulated depreciation	\$ (381,457)	\$ (387,083)
Less: accumulated amortization	(75,110)	(69,526)
Property and equipment, net	<u>\$ 322,052</u>	<u>\$ 305,444</u>

Depreciation expense on property and equipment was \$24,638 and \$22,372 for the three months ended March 31, 2024 and 2023, respectively.

The Company capitalized costs related to the development of computer software for internal use of \$2,072 and \$2,199 for the three months ended March 31, 2024 and 2023, respectively, which is included in internal-use software costs within Property and equipment, net. Amortization expense related to internal-use software was \$1,514 and \$2,750 for the three months ended March 31, 2024 and 2023, respectively.

During the three months ended March 31, 2023, the Company recorded an impairment loss of \$553 related to software that is no longer being used. No such loss was recorded for the three months ended March 31, 2024. This impairment loss is included in Cost of revenue and Research and development on the Condensed Consolidated Statements of Operations.

## **Note 7. Debt**

### ***Credit Facility***

In February and March 2020, the Company entered into and subsequently amended a second amended and restated credit agreement with KeyBank National Association as administrative agent. In November 2021, the Company further amended such credit agreement to revise certain covenants that restricted the incurrence of indebtedness to permit the issuance of the convertible notes discussed below. In March 2022, the Company entered into a third amended and restated credit agreement (the "Credit Facility") to, among other modifications,

- (i) remove the term loan component of the existing credit facility which had been previously repaid in full;
- (ii) increase the maximum borrowing limit of the revolving credit facility from \$150,000 to \$250,000;
- (iii) extend the maturity date;
- (iv) replace the existing maximum total net leverage ratio financial covenant with a maximum senior secured net leverage ratio financial covenant;
- (v) eliminate the financial covenant requirement of maintaining a minimum debt service coverage ratio;
- (vi) reduce the interest rates applicable to any principal amounts outstanding on the revolving credit facility as well as the annual commitment fee for unused amounts on the revolving credit facility; and
- (vii) replace the benchmark reference rate for U.S. Dollar loans from LIBOR to the forward-looking term rate based on the secured overnight financing rate plus a customary adjustment ("Adjusted Term SOFR").

At March 31, 2024, the Company had available borrowing capacity of \$250,000 on the Credit Facility. The Credit Facility will mature on the earlier of (a) March 29, 2027 and (b) 90 days before the maturity date applicable to any outstanding convertible notes issued by the Company in an aggregate principal amount equal to or greater than \$100,000.



The Credit Facility is secured by a first-priority security interest in substantially all of the assets of the Company. The Credit Facility contains certain financial and operational covenants, including a maximum senior secured net leverage ratio financial covenant of 3.50x. As of March 31, 2024, the Company was in compliance with all covenants under the Credit Facility.

The per annum interest rate applicable to any principal amounts outstanding under the Credit Facility for U.S. Dollar loans will be equal to (i) Adjusted Term SOFR plus (ii) an applicable margin varying from 1.25% to 2.00%, subject to a pricing grid based on the senior secured net leverage ratio. The Credit Facility provides for an annual commitment fee varying from 0.20% to 0.30%, also subject to a pricing grid based on the senior secured net leverage ratio, applied to the average daily unused amount of the revolving credit facility. The Company incurred commitment fees on the unused balance of the Credit Facility of \$126 and \$125 for the three months ended March 31, 2024 and 2023, respectively.

Amortization of deferred financing fees was \$105 for both the three months ended March 31, 2024 and 2023.

### ***Convertible Notes***

In November 2021, the Company issued \$1,500,000 aggregate principal amount of Convertible Notes in a private offering, including the exercise in full of the over-allotment option granted to the initial purchasers of \$200,000. The Convertible Notes are senior unsecured obligations of the Company and do not bear interest, and the principal amount of the Convertible Notes does not accrete. The Convertible Notes will mature on December 1, 2026 unless earlier converted, redeemed, or repurchased. Amortization of deferred financing fees for the three months ended March 31, 2024 and 2023 was \$1,888 and \$1,879, respectively.

During the three months ended March 31, 2024, none of the circumstances allowing holders to convert the Convertible Notes were met.

## **Note 8. Commitments and Contingencies**

### ***Purchase Commitments***

As of March 31, 2024, the Company had long-term commitments for bandwidth usage with various networks and internet service providers and entered into purchase orders with various vendors. The Company's purchase commitments have not materially changed since December 31, 2023.

### ***Letters of Credit***

In conjunction with the execution of certain office space operating leases, a letter of credit in the amount of \$1,747 was issued and outstanding as of March 31, 2024 and December 31, 2023. No draws have been made under the letter of credit. These funds are included as Restricted cash on the Condensed Consolidated Balance Sheets as they are related to long-term operating leases and are included in beginning and ending Cash, cash equivalents and restricted cash in the Condensed Consolidated Statements of Cash Flows. The letter of credit was reduced on an annual basis until the end of 2022 and, beginning January 1, 2023, the deposit currently held is the minimum threshold required until the lease expiration.

### ***Legal Proceedings***

The Company may be involved in various legal proceedings and litigation arising in the ordinary course of business. While it is not feasible to predict or determine the ultimate disposition of any such litigation matters, the Company believes that any such legal proceedings will not have a material adverse effect on its condensed consolidated financial position, results of operations, or liquidity.

On September 12, 2023, a putative class action lawsuit was filed in the United States District Court for the Southern District of New York against the Company and certain of its current and former executive officers for alleged violations of the U.S. federal securities laws. The complaint in the lawsuit, captioned *Agarwal v. DigitalOcean Holdings, Inc., et. al.* (Case 1:23-cv-08060), asserted claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 on behalf of a proposed class consisting of those who acquired common stock of the Company between February 16, 2023 and August 25, 2023 (the "Putative Class Period"), and alleged that the Company made materially false and misleading statements regarding its business during the Putative Class Period. On January 3, 2024, the plaintiff in the federal class action lawsuit voluntarily dismissed the action without prejudice.

On December 12, 2023 and December 14, 2023, respectively, the Company was named a nominal defendant in two putative stockholder derivative actions filed in the United States District Court for the District of Delaware against its directors and its former chief executive officer and member of the board. The complaints in the two lawsuits,



Flanagan v. Spruill, et al. (Case No. 1:23-cv-01424-RGA) and Reynolds v. Spruill, et al. (Case No. 1:23-cv-01433-RGA), alleged, among other things, violations of federal law and breaches of fiduciary duty, in relation to substantially the same factual allegations as the above-described federal class action lawsuit captioned Agarwal v. DigitalOcean Holdings, Inc., et. al. (Case 1:23-cv-08060). On January 12, 2024, the two cases were consolidated. On February 7, 2024, the consolidated action was voluntarily dismissed without prejudice.

## Note 9. Stockholders' Equity

### Share Buyback Program

On February 20, 2024, the Company's Board of Directors approved the repurchase of up to an aggregate of \$ 140 million of its common stock ("2024 Share Buyback Program"). Pursuant to the 2024 Share Buyback Program, repurchases of the Company's common stock will be made at prevailing market prices through open market purchases or in negotiated transactions off the market. The repurchase program is authorized through fiscal year 2025; however, the Company is not obligated to acquire any particular amount of common stock and the program may be extended, modified, suspended or discontinued at any time at the Company's discretion.

During the three months ended March 31, 2024, the Company repurchased and retired 200,258 shares of common stock pursuant to the 2024 Share Buyback Program for an aggregate purchase price of \$7,795, which excludes the 1% excise tax of \$78 imposed under the Inflation Reduction Act. All purchased shares were retired and are reflected as a reduction of Common stock for the par value of shares, with the excess applied to Additional paid-in capital. As of March 31, 2024, the dollar value of shares that remained available to be repurchased by the Company under the 2024 Share Buyback Program was \$132,205.

## Note 10. Stock-Based Compensation

### Equity Incentive Plan

In March 2021, the Company's Board of Directors adopted, and the stockholders approved, the 2021 Equity Incentive Plan. The 2021 Equity Incentive Plan is a successor to and continuation of the 2013 Stock Plan. The 2021 Equity Incentive Plan became effective on the date of the IPO with no further grants being made under the 2013 Stock Plan, however, awards outstanding under the 2013 Stock Plan will continue to be governed by their existing terms. The 2021 Equity Incentive Plan provides for the grant of incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock awards, restricted stock units awards ("RSUs"), performance awards, and other awards to employees, directors, and consultants. Shares issued pursuant to the exercise of these awards are transferable by the holder.

### Stock Options

Stock options granted have a maximum term of ten years from the grant date, are exercisable upon vesting and typically vest over a period of four years. Stock option activity for the three months ended March 31, 2024 was as follows:

	Number of Options Outstanding	Weighted- Average Exercise Price	Weighted- Average Remaining Life in Years	Aggregate Intrinsic Value
Outstanding at January 1, 2024	3,289,019	\$ 9.43	4.17	\$ 89,671
Exercised	(823,221)	6.93		
Forfeited or cancelled	(16,712)	18.22		
Outstanding at March 31, 2024	2,449,086	\$ 10.18	4.85	\$ 68,577
Vested and exercisable at March 31, 2024	2,256,650	9.60	4.70	64,502
Vested and unvested expected to vest at March 31, 2024	2,439,890	\$ 10.15	4.84	\$ 68,388

The aggregate intrinsic value represents the difference between the fair value of common stock and the exercise price of outstanding in-the-money options. The aggregate intrinsic value of exercised options for the three months ended March 31, 2024 and 2023 was \$24,426 and \$21,037, respectively.

No options were granted during the three months ended March 31, 2024 and 2023. The aggregate estimated fair value of stock options granted to participants that vested during the three months ended March 31, 2024 and 2023 was \$2,020 and \$3,836, respectively.



As of March 31, 2024, there was \$3,384 of unrecognized stock-based compensation related to outstanding stock options granted that is expected to be recognized over a weighted-average period of 0.63 years.

### **RSUs**

RSUs granted typically vest over four years. RSU activity for the three months ended March 31, 2024 was as follows:

	<b>Shares</b>	<b>Weighted-Average Fair Value</b>
Unvested balance at January 1, 2024	6,308,499	\$ 36.07
Granted	1,432,970	38.86
Vested	(501,216)	37.81
Forfeited or cancelled	(585,633)	37.49
Unvested balance at March 31, 2024	6,654,620	36.40
Vested and expected to vest at March 31, 2024	5,177,654	\$ 36.53

As of March 31, 2024, there was \$174,375 of unrecognized stock-based compensation related to outstanding RSUs granted that is expected to be recognized over a weighted-average period of 2.97 years.

### **PRSUs**

The Company has issued PRSUs which will vest based on the achievement of each award's established performance targets. PRSU activity for the three months ended March 31, 2024 was as follows:

	<b>Shares</b>	<b>Weighted-Average Fair Value</b>
Unvested balance at January 1, 2024	537,715	\$ 35.25
Vested	(84,311)	54.07
Forfeited or cancelled	(98,833)	31.75
Adjusted by performance factor	(305,948)	31.75
Unvested balance at March 31, 2024	48,623	\$ 31.75

At the end of each reporting period, the Company will adjust compensation expense for the PRSUs based on its best estimate of attainment of specified performance metrics. The cumulative effect on current and prior periods of a change in the estimated number of PRSUs that are expected to be earned during the performance period will be recognized as an adjustment to earnings in the period of the revision. Compensation cost in connection with the probable number of shares that will vest will be recognized using the accelerated attribution method.

### **LTIP PRSUs**

The Company grants Long Term Incentive Plan ("LTIP") PRSUs to certain executives of the Company typically during the first fiscal quarter of each fiscal year. A percentage of the LTIP PRSUs will become eligible to vest based on the Company's financial performance level at the end of each fiscal year. The number of LTIP PRSUs received will depend on the achievement of financial metrics relative to the approved performance targets. Depending on the actual financial metrics achieved relative to the target financial metrics throughout the defined performance period of the award, the number of LTIP PRSUs that vest could range from 0% to 200% of the target amount and are subject to the Compensation Committee's approval of the level of achievement against the approved performance targets.

Assuming the minimum performance level is achieved, one-third of the aggregate number of the achieved LTIP PRSUs shall vest on the later of (i) March 1 of the year after grant or (ii) two trading days following the public release of the Company's financial results, and the remainder shall vest in 8 equal quarterly installments subject, in each case, to the individual's continuous service through the applicable vesting date.

On March 1, 2023, the Company granted an LTIP PRSU award (the "2023 LTIP PRSU"). The financial performance level under the PRSUs was the percentage equal to the sum of the revenue growth percentage and profitability percentage, which on February 21, 2024, was determined to be achieved at 38.5% of the target amount. This resulted in a performance factor reduction of 305,948 shares from the original maximum shares achievable of 378,882, excluding forfeitures.



On April 11, 2024, the Company granted an LTIP PRSU award (the “2024 LTIP PRSU”). The financial performance level under the PRSUs can be attained based on the achievement of certain revenue and adjusted free cash flow margin targets. Under the 2024 LTIP PRSU, 75% of the award can be achieved based on the revenue targets and 25% of the award can be achieved based on the adjusted free cash flow margin targets. The target shares granted under the 2024 LTIP PRSU was 84,472. The actual number of shares that are received under the 2024 LTIP PRSU may be higher or lower than the target shares based on the actual financial metrics achieved relative to the target financial metrics for fiscal year 2024.

There is \$608 of unrecognized stock-based compensation that is expected to be recognized over a weighted-average period of 2 years in regards to the LTIP PRSUs.

### **MRSUs**

On February 12, 2024, Padmanabhan Srinivasan joined the Company in the role of CEO. As part of his compensation package, Mr. Srinivasan received an MRSU with an estimated grant date fair value of approximately \$8 million, which will vest upon the satisfaction of certain service conditions and the achievement of certain Company stock price goals during a five-year performance period, as described below. A cumulative percentage of the MRSU target will be earned based on the achievement of stock price goals, measured based on the average of the Company’s closing stock price over a consecutive 60 trading day period during the performance period as set forth in the table below:

Tranche	Company Stock Price Target	Total Payout
1	\$65.00	25% of Target MRSUs
2	\$100.00	50% of Target MRSUs
3	\$135.00	100% of Target MRSUs
4	\$170.00	150% of Target MRSUs

The target number of achievable shares is 193,178 and the maximum number of achievable shares is 289,767. There will be no pro-rata or straight-line interpolation vesting for achievement of a stock price target between the stock price targets, except in the event of a qualifying termination.

If the stock price targets are achieved during the first three years following the grant date (the “First Performance Period”), 50% of the MRSUs eligible to vest will vest on the third anniversary of the grant date and the remaining 50% of the eligible MRSUs will vest on the fifth anniversary of the grant date. Each tranche of MRSUs whose stock price target was not achieved during the First Performance Period that is subsequently achieved during the period between the third anniversary of the grant date and fifth anniversary of the grant date will vest on the fifth anniversary of the grant date.

The unvested balance of 3,000,000 shares related to the former CEO’s MRSU were forfeited and canceled during the three months ended March 31, 2024. There was no unrecognized stock-based compensation related to the former CEO’s MRSU awards.

As of March 31, 2024, there was \$7,720 unrecognized stock-based compensation related to the MRSUs granted remaining to be recognized.

### **ESPP**

In March 2021, the Company’s Board of Directors adopted, and the stockholders approved, the 2021 Employee Stock Purchase Plan (“ESPP”). Eligible employees enroll in the offering period at the start of each purchase period, whereby they may purchase a number of shares at a price per share equal to 85% of the lesser of (1) the stock price at the employee’s first participation in the offering period or (2) the fair market value of the Company’s common stock on the purchase date. After the end of an offering period, a new offering will automatically begin on the date that immediately follows the conclusion of the preceding offering.

#### **2023 Offering**

A new offering period commenced on November 21, 2023, and consists of two purchase periods, the first of which will have a purchase date of May 20, 2024 and the second and final purchase will have a purchase date of November 20, 2024 (the “2023 Offering”).

During the three months ended March 31, 2024 and 2023, the Company recorded stock-based compensation associated with the ESPP of \$463 and \$625, respectively. As of March 31, 2024, \$1,633 has been withheld on behalf of employees.



## Stock-Based Compensation

Stock-based compensation was included in the Condensed Consolidated Statements of Operations as follows:

	Three Months Ended March 31,	
	2024	2023
Cost of revenue	\$ 522	\$ 392
Research and development	9,386	9,590
Sales and marketing	3,781	3,332
General and administrative	9,188	14,280
Restructuring and other charges	—	3,937
Total	\$ 22,877	\$ 31,531

## Note 11. Net Income (Loss) per Share Attributable to Common Stockholders

The following table presents the calculation of basic and diluted net income (loss) per share:

	Three Months Ended March 31,	
	2024	2023
<i>(In thousands, except per share amounts)</i>		
<b>Basic net income (loss) per share:</b>		
Numerator:		
Net income (loss) attributable to common stockholders	\$ 14,139	\$ (16,370)
Denominator:		
Weighted average shares used to compute net income (loss) per share	90,794	95,565
Basic net income (loss) per share attributable to common stockholders	\$ 0.16	\$ (0.17)
<b>Diluted net income (loss) per share:</b>		
Numerator:		
Net income (loss) attributable to common stockholders	\$ 14,139	\$ (16,370)
Denominator:		
Number of shares used in basic calculation	90,794	95,565
Weighted-average effect of diluted securities:		
Stock Options	1,931	—
RSUs	979	—
PRsUs	83	—
Number of shares used in diluted calculation	93,787	95,565
Diluted net income (loss) per share attributable to common stockholders	\$ 0.15	\$ (0.17)

Potentially dilutive securities that were not included in the diluted per share calculations because they would be anti-dilutive were as follows:

	Three Months Ended March 31,	
	2024	2023
<i>(In thousands)</i>		
Stock Options	16	46
RSUs	2,009	1,456
PRsUs	—	15
Convertible Notes	8,403	8,403
Total	10,428	9,920

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## Note 12. Income Taxes

The computation of the provision for, or benefit from, income taxes for an interim period is determined using an estimated annual effective tax rate, adjusted for discrete items, if any. Each quarter, the Company updates the estimated annual effective tax rate and records a year-to-date adjustment to the tax provision as necessary.

For the three months ended March 31, 2024, the Company recorded a tax expense of \$116. The effective tax rate for the three months ended March 31, 2024 was 0.8%. The effective tax rate differs from the statutory rate primarily as a result of having a full valuation allowance in the U.S. and the mix of income in the foreign jurisdictions in which the Company conducts business, and excess tax benefits from stock-based compensation.

For the three months ended March 31, 2023, the Company recorded a tax benefit of \$11,481. The effective tax rate for the three months ended March 31, 2023 was 41.2%. The effective tax rate differs from the statutory rate primarily as a result of being able to benefit from current year losses in the U.S., despite maintaining a valuation allowance against the remaining U.S. deferred tax assets, as well as the mix of income in foreign jurisdictions.

The Organization for Economic Co-operation and Development Pillar Two guidelines published to date include transition and safe harbor rules around the implementation of the Pillar Two global minimum tax of 15%. Based on current enacted legislation effective in 2024, the Company is currently below the threshold of Pillar Two tax. The Company is monitoring developments and evaluating the impacts these new rules will have on its future income tax provision and effective income tax rate.

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

*The following discussion and analysis of our financial condition and results of operations should be considered together with our unaudited condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and the related notes and the discussion under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2023. This discussion, particularly information with respect to our outlook, key trends and uncertainties, our plans and strategy for our business, and our performance and future success, includes forward-looking statements that involve risks and uncertainties as described under the heading "Special Note Regarding Forward-Looking Statements" in this Quarterly Report on Form 10-Q. Actual results could differ materially from those discussed below.*

### Overview

DigitalOcean is a leading cloud computing platform offering on-demand infrastructure and platform tools for startups and growing technology businesses. We were founded with the guiding principle that the transformative benefits of the cloud should be easy to leverage, broadly accessible, reliable and affordable. Our platform simplifies cloud computing, enabling our customers to rapidly accelerate innovation and increase their productivity and agility.

The lifecycle of a customer typically begins with users coming to our platform to explore a new technology or test an idea. Thousands of users come to DigitalOcean every month, paying a small amount to learn and to complete their discrete tasks. In many cases, these early users do not intend to remain on our platform beyond their initial testing. We refer to these users that spend less than or equal to \$50 per month and utilize our platform for three months or less as "Testers". Given their short time on our platform and their relatively small individual and aggregate spend, we do not consider Testers to be a meaningful part of our customer base. Once a user has remained on our platform for longer than three months, or spends greater than \$50 per month, we consider them to be active and ongoing customers that have the intention to remain on our platform and to potentially scale their utilization of our products. We divide this customer population into the following three categories:

- Learners: users that both (i) spend less than or equal to \$50 for the month-end period and (ii) have been on our platform for more than three months.
- Builders: users that spend greater than \$50 and less than or equal to \$500 for the month-end period.
- Scalers: users that spend greater than \$500 for the month-end period.

As of March 31, 2024, we had approximately 637,000 Learners, Builders and Scalers using our platform to build, deploy and scale applications. We view Learners, Builders and Scalers as the most appropriate measure of our customer population, and Testers have therefore been excluded from the total customer population count.



Our users include software engineers, researchers, data scientists, system administrators, students and hobbyists. Our customers use our platform across numerous industry verticals and for a wide range of use cases, such as web and mobile applications, website hosting, e-commerce, media and gaming, personal web projects, managed services, and, most recently, artificial intelligence and machine learning (AI/ML) applications, among many others. We believe that our focus on simplicity, community, open source and customer support are the four key differentiators of our business, driving a broad range of customers around the world to build their applications on our platform.

We offer mission-critical solutions across Infrastructure-as-a-Service (IaaS), including our Droplet virtual machines, storage and networking offerings; Platform-as-a-Service (PaaS), including our Managed Database and Managed Kubernetes offerings; Software-as-a-Service (SaaS), including our Managed Hosting and Marketplace offerings; and AI/ML, including our Machines, Notebooks and Deployments offerings. Our cloud platform was designed with simplicity in mind to ensure that startups and growing technology businesses can spend less time managing their infrastructure and more time building innovative applications that drive business growth. Improving the developer experience and increasing productivity are core to our mission. In just minutes, developers can set up thousands of virtual machines, secure their projects, enable performance monitoring and scale up and down as needed.

We generate revenue from the usage of our cloud computing platform by our customers. We recognize revenue based on the customer utilization of our offerings. Our pricing is primarily consumption-based and billed monthly in arrears, making it easy for our customers to track usage on an ongoing basis and optimize their deployments.

We have a highly efficient self-service customer acquisition model, which we complement with a sales force focused on inside sales, targeted outside sales and partnership opportunities to drive revenue growth. Our model enables customers to get started on our platform very quickly and without the need for assistance. We focus heavily on enabling a self-service, low-friction model that makes it easy for users to try, adopt and use our products. For each of the three months ended March 31, 2024 and 2023, our sales and marketing expense was approximately 11% of our revenue. The efficiency of our go-to-market model and our focus on the needs of startups and growing technology businesses has enabled us to drive organic growth and establish a truly global customer base across a broad range of industries.

Our customers are spread across approximately 190 countries and around two-thirds of our revenue has historically come from customers located outside the United States. For the three months ended March 31, 2024, 37% of our revenue was generated from North America, 29% from Europe, 24% from Asia and 10% from the rest of the world.

Our average revenue per customer (consisting of the aggregate revenue and customer counts for our Learners, Builders and Scalars, but excluding revenue and customer counts for Testers), or ARPU, has increased from \$88.35 in the quarter ended March 31, 2023 to \$95.13 in the quarter ended March 31, 2024. We had no material customer concentration as our top 25 customers made up approximately 7% of our revenue in each of the three months ended March 31, 2024 and 2023. Our annual run-rate revenue, or ARR, as of March 31, 2024 was \$749 million, up from \$669 million as of March 31, 2023. ARR as of the end of each month represents total revenue for that month multiplied by 12.

Growing our Builders and Scalars is a critical focus for us, and we have successfully increased the number of these customers and their percentage of our total revenue. We had approximately 17,000 Scalars as of March 31, 2024, up from approximately 15,000 as of March 31, 2023. We had approximately 140,000 Builders as of March 31, 2024, up from approximately 131,000 as of March 31, 2023. Revenue from Builders and Scalars increased 9% and 15%, respectively, for the three months ended March 31, 2024 from the three months ended March 31, 2023. Revenue from Builders and Scalars as a percentage of total revenue was 87% in the three months ended March 31, 2024 and 86% in the three months ended March 31, 2023.

## **Key Factors Affecting Our Performance**

### ***Increasing Importance of Cloud Computing and Developers***

Our future success depends in large part on the continuing adoption of cloud computing, proliferation of cloud-native start ups and businesses and the increasing importance of developers, all of which are driving the adoption of our developer cloud platform. We believe our market opportunity is large and that these factors will continue to drive our growth.



### ***Increasing Usage by Our Existing Customers***

Our existing customer base represents a significant opportunity for further sales expansion through increased usage of our platform and adoption of additional product offerings. We are highly focused on gaining a better understanding of the needs and growth plans of our existing customers. This deeper relationship with our customers will help us identify opportunities to educate our customer base on ways to utilize the platform more effectively for their individual use cases, as well as provide a feedback loop to inform our product roadmap. We are focusing our sales and support teams to prevent customer churn by ensuring that our products and services provide a high level of value. Our goal is to continue to increase our revenue from existing customers through the introduction of new products and features tailored to our customer base in addition to expanded customer outreach, focused on larger customers and specific use cases.

### ***Growing Our Base of Higher Spend Customers***

We believe there is a substantial opportunity to further expand our customer base to attract more businesses that can scale on our platform. We are investing in strategies that we believe will attract Builders and Scalars, including new marketing initiatives that further optimize our self-service revenue funnel to help customers expand their usage and partnership initiatives to identify potential Builders and Scalars. In addition, our Cloudways and Paperspace acquisitions added a significant number of Builders and Scalars as these offerings provide premium managed services and high value AI/ML offerings, respectively.

### ***Investing in Our Platform and Product Offerings***

We have a history of, and will continue to invest significantly in, delivering innovative products, features and functionality targeted at our core customer base. The market opportunity for our core IaaS services of compute, storage and networking continues to expand and we are making targeted investments to expand our IaaS revenue. Beyond IaaS, we continue to see large growth opportunities in the PaaS, SaaS and AI/ML markets and, accordingly, we have expanded our portfolio of products and offerings over the last few years. In addition, we may pursue both strategic partnerships and acquisitions, such as our acquisitions of Cloudways and Paperspace, that we believe will be complementary to our business, accelerate customer acquisition, increase usage of our platform and/or expand our product offerings in our core markets. Our results of operations may fluctuate as we make these investments to drive usage and take advantage of our expansive market opportunity.

### ***Macroeconomic Conditions***

Unfavorable conditions in the economy both in the United States and abroad, including conditions resulting from changes in gross domestic product growth, supply chain disruptions, inflationary pressures, interest rates, financial and credit market fluctuations, volatility in the capital markets, liquidity concerns at, and failures of, banks and other financial institutions, international trade relations, political turmoil, political instability and transitions of power in regions where we operate, including Pakistan following the most recent general election, natural catastrophes, outbreaks of contagious diseases, warfare and terrorist attacks on the United States, Europe or elsewhere, including military actions affecting Russia, Ukraine, the Middle East or elsewhere, could cause a decrease in business investments in information technology and negatively affect the growth of our business and our results of operations.

While our business model provides some resilience against these factors, we will continue to monitor the direct and indirect impacts of these or similar circumstances on our business and our results of operations, and will take appropriate measures, as necessary, to minimize potential risk exposure.

## Key Business Metrics

We utilize the key metrics set forth below to help us evaluate our business and growth, identify trends, formulate financial projections and make strategic decisions. We are not aware of any uniform standards for calculating these key metrics, and other companies may not calculate similarly titled metrics in a consistent manner, which may hinder comparability. The table below includes the impact of our acquisitions beginning in the period in which they were acquired with respect to the metrics disclosed.

	Three Months Ended March 31,	
	2024	2023
Learners <sup>(1)</sup>	479,387	467,600
Builders <sup>(1)</sup>	140,306	131,109
Scalers <sup>(1)</sup>	17,243	15,398
ARPU	\$ 95.13	\$ 88.35
ARR (in millions)	\$ 749	\$ 669
Net dollar retention rate	97 %	107 %

(1) Customer count

### ***Learners, Builders & Scalers***

While we believe the total number of these customers is an important indicator of the growth of our business and future revenue opportunity, the trends relating to our Builders and Scalers is of particular importance to us as these customers represent a significant majority of our revenue and revenue growth, and they are representative of the startup and growing technology business customers that grow on our platform and use multiple products.

### ***ARPU***

We believe that our average revenue per customer, which we refer to as ARPU, is a strong indication of our ability to land new customers with higher spending levels and expand usage of our platform by our existing customers. We calculate ARPU on a monthly basis as our total revenue from Learners, Builders and Scalers in that period divided by the total number of Learner, Builder and Scaler customers determined as of the last day of that period. For a quarterly or annual period, ARPU is determined as the weighted average monthly ARPU over such three or 12-month period.

### ***ARR***

Given the recurring nature of our business, we view annual run-rate revenue as an important indicator of our current progress towards meeting our revenue targets and projected growth rate going forward. We calculate ARR at a point in time by multiplying the latest monthly period's revenue by 12. For our ARR calculations, we include the total revenue from all customers, including Testers, Learners, Builders and Scalers.

### ***Net Dollar Retention Rate***

Our ability to maintain long-term revenue growth and achieve profitability is dependent on our ability to retain and grow revenue from our existing customers. We have a history of retaining customers for multiple years and in many cases increasing their spend with us over time. To help us measure our performance in this area, we monitor our net dollar retention rate. We calculate net dollar retention rate monthly by starting with the revenue from the cohort of all customers during the corresponding month 12 months prior, or the Prior Period Revenue. We then calculate the revenue from these same customers as of the current month, or the Current Period Revenue, including any expansion and net of any contraction or attrition from these customers over the last 12 months. The calculation also includes revenue from customers that generated revenue before, but not in, the corresponding month 12 months prior, but subsequently generated revenue in the current month and are therefore reflected in the Current Period Revenue. We include this group of re-engaged customers in this calculation because our customers frequently use our platform for projects that stop and start over time. We then divide the total Current Period Revenue by the total Prior Period Revenue to arrive at the net dollar retention rate for the relevant month. For our net dollar retention rate calculations, we include the total revenue from all customers, including Testers, Learners, Builders and Scalers. For a quarterly or annual period, the net dollar retention rate is determined as the average monthly net dollar retention rates over such three or 12-month period.



## **Components of Results of Operations**

### ***Revenue***

We offer mission-critical solutions across Infrastructure-as-a-Service (IaaS), including our Droplet virtual machines, storage and networking offerings; Platform-as-a-Service (PaaS), including our Managed Database and Managed Kubernetes offerings; Software-as-a-Service (SaaS), including our Managed Hosting and Marketplace offerings; and AI/ML, including our Machines, Notebooks and Deployments offerings. We recognize revenue based on the customer utilization of these resources. Customer contracts are primarily month-to-month and generally do not include any minimum guaranteed quantities or fees. Fees are billed monthly, and payment is typically due upon invoicing. Revenue is recognized net of allowances for credits and any taxes collected from customers, which are subsequently remitted to governmental authorities.

We may offer sales incentives in the form of promotional and referral credits and grant credits to encourage customers to use our services. These types of promotional and referral credits typically expire in two months or less if not used. For credits earned with a purchase, they are recorded as contract liabilities when earned and recognized at the earlier of redemption or expiration. The majority of credits are redeemed in the month they are earned.

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

Cost of revenue consists primarily of fees related to operating in third-party co-location facilities, personnel expenses for those directly supporting our data centers and non-personnel costs, including amortization of acquired technology, amortization of capitalized internal-use software development costs, and depreciation of our data center equipment. Third-party co-location facility costs include data center rental fees, power costs, maintenance fees, network and bandwidth. Personnel expenses include salaries, bonuses, benefits, and stock-based compensation.

We intend to continue to invest additional resources in our infrastructure to support our product portfolio and the scalability of our customer base. The level, timing and relative investment in our infrastructure could affect our cost of revenue in the future.

### ***Operating Expenses***

#### ***Research and Development Expenses***

Research and development expenses consist primarily of personnel costs including salaries, bonuses, benefits and stock-based compensation. Research and development expenses also include amortization of capitalized internal-use software development costs for research and development activities, which are amortized over three years, and professional services, as well as costs related to our efforts to add new features to our existing offerings, develop new offerings, and ensure the security, performance, and reliability of our global cloud platform. We expect research and development expenses to increase in absolute dollars as we continue to invest in our platform and product offerings.

#### ***Sales and Marketing Expenses***

Sales and marketing expenses consist primarily of personnel costs of our sales, marketing and customer support employees including salaries, bonuses, benefits and stock-based compensation. Sales and marketing expenses also include costs for marketing programs, commissions, advertising and professional service fees. We expect sales and marketing expenses to increase in absolute dollars as we enhance our product offerings and implement new marketing strategies.

#### ***General and Administrative Expenses***

General and administrative expenses consist primarily of personnel costs of our human resources, legal, finance and other administrative functions including salaries, bonuses, benefits, and stock-based compensation. General and administrative expenses also include provision for expected credit losses, software, payment processing fees, business insurance, depreciation and amortization expenses, rent and facilities costs, impairment of long-lived assets, acquisition related compensation, and other administrative costs. We also expect general and administrative expenses to increase in absolute dollars as we continue to grow our business.

### *Restructuring and other charges*

Restructuring and other charges consist primarily of personnel costs, such as notice period, employee severance payments and termination benefits, as well as stock-based compensation related to vesting of certain equity awards. The restructuring plan was substantially completed by the end of the third quarter of 2023.

### **Other Income (Expense), net**

Other income (expense), net consists primarily of accretion/amortization of premium/discounts and interest income from our marketable securities, amortization of deferred financing fees on our convertible notes, loss on extinguishment of debt, and gains or losses on foreign currency exchange.

### **Income Tax (Expense) Benefit**

Income tax (expense) benefit is attributable to the mix of income in the jurisdictions in which we conduct business. We maintain a full valuation allowance on our U.S. federal and state deferred tax assets as we have concluded that it is more likely than not that the deferred assets will not be realized.

### **Results of Operations**

The following table sets forth our results of operations for the periods presented:

	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
	<b>(in thousands)</b>	
Revenue	\$ 184,730	\$ 165,134
Cost of revenue <sup>(1)</sup>	72,644	71,879
Gross profit	112,086	93,255
Operating expenses:		
Research and development <sup>(1)</sup>	33,971	38,272
Sales and marketing <sup>(1)</sup>	20,804	18,231
General and administrative <sup>(1)</sup>	45,773	48,939
Restructuring and other charges <sup>(1)</sup>	—	20,869
Total operating expenses	100,548	126,311
Income (loss) from operations	11,538	(33,056)
Other income, net	2,717	5,205
Income (loss) before income taxes	14,255	(27,851)
Income tax (expense) benefit	(116)	11,481
Net income (loss) attributable to common stockholders	\$ 14,139	\$ (16,370)

(1) Includes stock-based compensation as follows:

	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
	<b>(in thousands)</b>	
Cost of revenue	\$ 522	\$ 392
Research and development	9,386	9,590
Sales and marketing	3,781	3,332
General and administrative	9,188	14,280
Restructuring and other charges	—	3,937
Total stock-based compensation	\$ 22,877	\$ 31,531



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

	Three Months Ended March 31,	
	2024	2023
Revenue	100 %	100 %
Cost of revenue	39	44
Gross profit	61	56
Operating expenses:		
Research and development	18	23
Sales and marketing	11	11
General and administrative	25	30
Restructuring and other charges	—	13
Total operating expenses*	54	76
Income (loss) from operations	6	(20)
Other income, net	1	3
Income (loss) before income taxes	8	(17)
Income tax (expense) benefit	—	7
Net income (loss) attributable to common stockholders*	8 %	(10)%

\*May not foot due to rounding

## Comparison of the Three Months Ended March 31, 2024 and 2023

### Revenue

	Three Months Ended March 31,		\$ Change	% Change
	2024	2023		
	(in thousands)			
Revenue	\$ 184,730	\$ 165,134	\$ 19,596	12 %

Revenue increased \$19.6 million, or 12%, for the three months ended March 31, 2024 compared to the three months ended March 31, 2023, primarily due to contributions from acquiring new customers, and increases in utilization from the existing customer base, our Managed Hosting offering and our AI/ML offerings. The increase in our existing customer base was primarily driven by an 8% increase in ARPU to \$95.13 from \$88.35, and a 13% increase in revenue from Builders and Scalers. The increase in ARPU was primarily driven by continued adoption of our products by our customers leading to higher average usage on our platform.

### Cost of Revenue

	Three Months Ended March 31,		\$ Change	% Change
	2024	2023		
	(in thousands)			
Cost of revenue	\$ 72,644	\$ 71,879	\$ 765	1 %

Cost of revenue increased \$0.8 million, or 1%, for the three months ended March 31, 2024 compared to the three months ended March 31, 2023. The increase is primarily due to increases in amortization from acquired finance leases and acquired developed technology and in various other expenses, partially offset by decreases in ancillary equipment and bandwidth expenses due to a reduction in our consumption from certain vendors. Gross profit increased to 61% for the three months ended March 31, 2024 from 56% for the three months ended March 31, 2023, primarily due to a decrease in ancillary equipment and bandwidth expenses as a percentage of revenue.

## Operating Expenses

	Three Months Ended March 31,		\$ Change	% Change
	2024	2023		
	(in thousands)			
Research and development	\$ 33,971	\$ 38,272	\$ (4,301)	(11)%
Sales and marketing	20,804	18,231	2,573	14 %
General and administrative	45,773	48,939	(3,166)	(6)%
Restructuring and other charges	—	20,869	(20,869)	(100)%
Total operating expenses	\$ 100,548	\$ 126,311	\$ (25,763)	(20)%

Research and development expenses decreased \$4.3 million, or 11%, for the three months ended March 31, 2024 compared to the three months ended March 31, 2023. The decrease is largely due to a reduction in personnel costs primarily relating to the restructuring we announced in February 2023, and decreases in amortization of capitalized software and acquired intangibles, and in other expenses.

Sales and marketing expenses increased \$2.6 million, or 14% for the three months ended March 31, 2024 compared to the three months ended March 31, 2023. The increase is primarily due to increases in affiliate fees, advertising expenses, amortization of acquired intangible assets, and stock-based compensation, partially offset by decreases in personnel costs.

General and administrative expenses decreased \$3.2 million, or 6%, for the three months ended March 31, 2024 compared to the three months ended March 31, 2023. The decrease is primarily due to a reduction in stock-based compensation largely as a result of the departure of our former CEO, and decreases in deferred compensation and business insurance, partially offset by increases in costs relating to the executive reorganization, professional service fees, and personnel costs.

There were \$20.9 million in Restructuring and other charges during the three months ended March 31, 2023 and no such charges during the three months ended March 31, 2024. These charges were primarily due to one-time severance and benefit payments, as well as stock-based compensation related to vesting of certain equity awards in connection with the restructuring we announced in February 2023 which was substantially completed by the third quarter of 2023.

## Other Income, net

	Three Months Ended March 31,		\$ Change	% Change
	2024	2023		
	(in thousands)			
Other income, net	\$ 2,717	\$ 5,205	\$ (2,488)	(48)%

Other income, net decreased \$2.5 million, or 48%, for the three months ended March 31, 2024 compared to the three months ended March 31, 2023, primarily due to the maturity of interest bearing marketable securities in order to fund our share repurchases throughout 2023 and into 2024.

## Income Tax Expense

	Three Months Ended March 31,		\$ Change	% Change
	2024	2023		
	(in thousands)			
Income tax (expense) benefit	\$ (116)	\$ 11,481	\$ (11,597)	(101)%

Income tax expense increased \$11.6 million, or 101%, for the three months ended March 31, 2024 compared to the three months ended March 31, 2023, primarily as a result of U.S. pre-tax losses creating a tax benefit in 2023 as compared to U.S. pre-tax income creating a tax expense in 2024.

## Liquidity and Capital Resources

We have funded our operations since inception primarily with cash flow generated by operations, private offerings of our equity and debt securities, borrowings under our existing credit facility and capital expenditure financings. Cash provided from these sources is used primarily for operating expenses, such as personnel and co-location costs, and capital expenditures, including our investments in AI/ML and core product offerings. From time to time, we may also use excess cash for share repurchases and investments in marketable securities and cash equivalents.

We believe our existing cash and cash equivalents, cash flow from operations and availability under our Credit Facility (as defined below) will be sufficient to support working capital and capital expenditure requirements and our outstanding contractual commitments for at least the next 12 months and in the long term.

In February 2024, our Board of Directors approved an additional repurchase program of up to an aggregate of \$140 million of our common stock through fiscal year 2025. For the three months ended March 31, 2024, we repurchased and retired 200,258 shares of common stock for an aggregate purchase price of \$7.8 million. The program will expire on December 31, 2025.

As of March 31, 2024, we had \$419.1 million in cash and cash equivalents. Our cash and cash equivalents primarily consist of cash and money market funds.

We may from time to time seek to retire or purchase our outstanding equity or debt, including the repurchase of our common stock or the Convertible Notes, through cash purchases and/or exchanges for equity securities, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions, and other factors. The amounts involved in any such transactions, individually or in the aggregate, may be material. Further, any such purchases or exchanges may result in us acquiring and retiring a substantial amount of such indebtedness, which could impact the trading liquidity of such indebtedness.

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

<i>(In thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
Net cash provided by operating activities	\$ 66,693	\$ 36,215
Net cash provided by investing activities	46,447	107,956
Net cash used in financing activities	(11,247)	(264,230)
Increase (decrease) in cash, cash equivalents and restricted cash	101,827	(120,088)

### **Operating Activities**

Our largest source of operating cash is cash collections from sales to our customers. Our primary uses of cash from operating activities are for personnel costs, data center co-location expenses, payment processing fees, bandwidth and connectivity, server maintenance and software licensing fees.

Net cash provided by operating activities was \$66.7 million and \$36.2 million for the three months ended March 31, 2024 and 2023, respectively. The increase was primarily driven by an increase in cash collections from higher revenues and less severance payments associated with our restructuring and reorganization plan. These increases were partially offset by payments for leases, acquisition related compensation and timing of insurance premiums.

### **Investing Activities**

Net cash provided by investing activities was \$46.4 million for the three months ended March 31, 2024 compared to \$108.0 million for the three months ended March 31, 2023. The decrease in cash provided by investing activities was primarily driven by a \$43.9 million reallocation of our marketable securities portfolio to cash equivalents and an increase of \$20.4 million in cash payments for capital expenditures, partially offset by a \$2.5 million increase in cash activity for asset acquisitions.

## ***Financing Activities***

Net cash used in financing activities of \$11.2 million and \$264.2 million for the three months ended March 31, 2024 and 2023, respectively, was primarily due to the repurchase and retirement of our common stock for \$8.8 million and \$265.9 million, respectively.

## **Contractual Obligations and Commitments**

There have been no material changes to our obligations under our operating leases and purchase commitments as compared to those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

## **Critical Accounting Policies and Estimates**

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

There have been no material changes to our critical accounting policies as compared to those disclosed in the Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

## **Recently Adopted Accounting Pronouncements**

There were no accounting pronouncements recently issued that had or are expected to have a material impact on our consolidated financial statements. For a list of our new and recently adopted accounting pronouncements, see Note 2, Summary of Significant Accounting Policies, in our Notes to consolidated financial statements included in "Part II, Item 8. Financial Statements and Supplementary Data" included in the Form 10-K.

## **Non-GAAP Financial Measures**

To supplement our consolidated financial statements, which are prepared and presented in accordance with generally accepted accounting principles in the United States, or GAAP, we provide investors with non-GAAP financial measures including: (i) adjusted EBITDA and adjusted EBITDA margin and (ii) non-GAAP net income and non-GAAP diluted net income per share. These measures are presented for supplemental informational purposes only, have limitations as analytical tools and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. Our calculations of each of these measures may differ from the calculations of measures with the same or similar titles by other companies and therefore comparability may be limited. Because of these limitations, when evaluating our performance, you should consider each of these non-GAAP financial measures alongside other financial performance measures, including the most directly comparable financial measure calculated in accordance with GAAP and our other GAAP results. A reconciliation of each of our non-GAAP financial measures to the most directly comparable financial measure calculated in accordance with GAAP is set forth below.

### ***Adjusted EBITDA and Adjusted EBITDA Margin***

We define adjusted EBITDA as net income (loss) attributable to common stockholders, adjusted to exclude depreciation and amortization, stock-based compensation, interest expense, acquisition related compensation, acquisition and integration related costs, income tax expense, restructuring and other charges, restructuring related charges, impairment of long-lived assets, and other income, net. We define adjusted EBITDA margin as adjusted EBITDA as a percentage of revenue. We believe that adjusted EBITDA, when taken together with our GAAP financial results, provides meaningful supplemental information regarding our operating performance and facilitates internal comparisons of our historical operating performance on a more consistent basis by excluding certain items that may not be indicative of our business, results of operations or outlook. In particular, we believe that the use of adjusted EBITDA is helpful to our investors as it is a measure used by management in assessing the health of our business, evaluating our operating performance, and for internal planning and forecasting purposes.

Our calculation of adjusted EBITDA and adjusted EBITDA margin may differ from the calculations of adjusted EBITDA and adjusted EBITDA margin by other companies and therefore comparability may be limited. Because of these limitations, when evaluating our performance, you should consider adjusted EBITDA and adjusted EBITDA margin alongside other financial performance measures, including our net income (loss) attributable to common stockholders and other GAAP results.



The following table presents a reconciliation of Net income (loss) attributable to common stockholders, the most directly comparable financial measure stated in accordance with GAAP, to adjusted EBITDA for each of the periods presented:

<i>(In thousands)</i>	<b>Three Months Ended March 31,</b>	
	<b>2024</b>	<b>2023</b>
GAAP Net income (loss) attributable to common stockholders	\$ 14,139	\$ (16,370)
Adjustments:		
Depreciation and amortization	31,887	28,913
Stock-based compensation <sup>(1)</sup>	22,730	27,594
Interest expense	2,304	2,189
Acquisition related compensation	4,530	7,601
Acquisition and integration related costs	19	1,301
Income tax expense	116	(11,481)
Restructuring and other charges <sup>(1)</sup>	—	20,869
Restructuring related charges <sup>(1)(2)</sup>	3,620	1,907
Impairment of long-lived assets	—	553
Other income, net <sup>(3)</sup>	(5,021)	(7,394)
Adjusted EBITDA	\$ 74,324	\$ 55,682
As a percentage of revenue:		
Net income (loss) margin	8 %	(10)%
Adjusted EBITDA margin	40 %	34 %

(1) For the three months ended March 31, 2024, non-GAAP stock-based compensation excludes \$0.1 million as it is presented in Restructuring related charges. For the three months ended March 31, 2023, non-GAAP stock-based compensation excludes \$3.9 million as it is presented in Restructuring and other charges.

(2) For the three months ended March 31, 2024, primarily consists of executive reorganization charges. For the three months ended March 31, 2023, primarily consists of salary continuation charges.

(3) For the three months ended March 31, 2024 and 2023, primarily consists of interest and accretion income from our marketable securities.

#### **Non-GAAP Net Income and Non-GAAP Diluted Net Income Per Share**

We define non-GAAP net income as net income (loss) attributable to common stockholders, excluding stock-based compensation, acquisition related compensation, amortization of acquired intangibles, acquisition and integration related costs, restructuring and other charges, restructuring related charges, impairment of long-lived assets, and other unusual or non-recurring transactions as they occur. We define non-GAAP diluted net income per share as non-GAAP net income divided by the weighted-average diluted shares outstanding, which includes the potentially dilutive effect of our stock options, RSUs, PRSUs, and Convertible Notes.

We believe non-GAAP diluted net income per share provides our management and investors consistency and comparability with our past financial performance and facilitates period-to-period comparisons of operations, as this metric generally eliminates the effects of unusual or non-recurring items from period to period for reasons unrelated to overall operating performance.

The following table presents a reconciliation of Net income (loss) attributable to common stockholders, the most directly comparable financial measure stated in accordance with GAAP, to Non-GAAP Net income for each of the periods presented:

	Three Months Ended March 31,	
	2024	2023
<i>(In thousands, except per share amounts)</i>		
GAAP Net income (loss) attributable to common stockholders	\$ 14,139	\$ (16,370)
Stock-based compensation <sup>(1)</sup>	22,730	27,594
Acquisition related compensation	4,530	7,601
Amortization of acquired intangible assets	5,735	3,790
Acquisition and integration related costs	19	1,301
Restructuring and other charges <sup>(1)</sup>	—	20,869
Restructuring related charges <sup>(1)(2)</sup>	3,620	1,907
Impairment of long-lived assets	—	553
Non-GAAP income tax adjustment <sup>(3)</sup>	(8,026)	(17,560)
Non-GAAP Net income	\$ 42,747	\$ 29,685
Non-cash charges related to convertible notes <sup>(4)</sup>	\$ 1,586	\$ 1,559
Non-GAAP Net income used to compute net income per share, diluted	\$ 44,333	\$ 31,244
GAAP Net income (loss) per share attributable to common stockholders, diluted	\$ 0.15	\$ (0.17)
Stock-based compensation <sup>(1)</sup>	0.22	0.26
Acquisition related compensation	0.04	0.07
Amortization of acquired intangible assets	0.05	0.03
Acquisition and integration related costs	—	0.01
Restructuring and other charges <sup>(1)</sup>	—	0.19
Restructuring related charges <sup>(1)(2)</sup>	0.03	0.02
Impairment of long-lived assets	—	0.01
Non-cash charges related to convertible notes <sup>(4)</sup>	0.02	0.01
Non-GAAP income tax adjustment <sup>(3)</sup>	(0.08)	(0.15)
Non-GAAP Net income per share, diluted	\$ 0.43	\$ 0.28
GAAP weighted-average shares used to compute net income (loss) per share, diluted	93,787	95,565
Weighted-average dilutive effect of potentially dilutive securities	8,403	15,659
Non-GAAP weighted-average shares used to compute net income per share, diluted	102,190	111,224

- (1) For the three months ended March 31, 2024, non-GAAP stock-based compensation excludes \$0.1 million as it is presented in Restructuring related charges. For the three months ended March 31, 2023, non-GAAP stock-based compensation excludes \$3.9 million as it is presented in Restructuring and other charges.
- (2) For the three months ended March 31, 2024, primarily consists of executive reorganization charges. For the three months ended March 31, 2023, primarily consists of salary continuation charges.
- (3) For the periods in fiscal year 2024, we used a tax rate of 16%, which we believe is a reasonable estimate of our long-term effective tax rate applicable to non-GAAP pre-tax income for 2024. For the periods in fiscal year 2023, we used a tax rate of 17%, which we believe was a reasonable estimate of our long-term effective tax rate applicable to non-GAAP pre-tax income for 2023.
- (4) Consists of non-cash interest expense for amortization of deferred financing fees related to the Convertible Notes.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no material changes in market risk from the information provided in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

### **ITEM 4. CONTROLS AND PROCEDURES**

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

We maintain “disclosure controls and procedures,” as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Exchange Act that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2024. Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer, concluded that, as of March 31, 2024, our disclosure controls and procedures were not effective due to the material weakness in our internal control over financial reporting described below.

#### ***Material Weakness in Internal Control over Financial Reporting***

As previously disclosed, we identified a material weakness in our internal control over financial reporting that continued to exist as of March 31, 2024. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company’s annual or interim financial statements will not be prevented or detected on a timely basis. We did not design and maintain effective controls over the accounting for income taxes. Specifically, we did not have the appropriate skills and level of experience to assess complicated tax matters. Additionally, we did not properly identify, risk assess, design and maintain effective controls related to the income tax provision, including controls related to the evaluation of tax deductions and the impact on our tax provision. This material weakness resulted in immaterial errors to the income tax expense, deferred taxes, accrued tax liabilities and income tax disclosures which were adjusted in the Company’s revised consolidated financial statements for the year ended December 31, 2022. The material weakness also resulted in material errors to the income tax expense, deferred taxes and accrued tax liabilities which were adjusted in the Company’s restated consolidated financial statements for the three months ended March 31, 2023. This material weakness could result in a misstatement of the aforementioned account balances or disclosures that would result in a material misstatement to the annual or interim financial statements that would not be prevented or detected.

#### ***Remediation Plan with Respect to Material Weakness***

Management is committed to taking the necessary steps to remediate the above identified material weakness. We are implementing a plan to remediate the material weakness as follows:

- a. In March 2023, we hired a VP of Tax with over 25 years of tax leadership experience.
- b. In the first quarter of 2024, we augmented our team with additional tax personnel who have the appropriate knowledge, training and experience to analyze, record and disclose tax accounting matters timely and accurately, and to design and maintain appropriate accounting policies, procedures and controls over income taxes, commensurate with our financial reporting requirements.
- c. We have supplemented our tax resources through the use of a third-party tax advisor and intend to continue utilizing the third-party tax advisor.
- d. In the first quarter of 2024, we continued to evaluate the design of newly implemented controls to address the identification, accounting, reporting and review of complex tax transactions.

The Company continues to execute upon its remediation plan for the material weakness and reports the status of the remediation plan to the Audit Committee on a regular basis.

We have made progress remediating the material weakness, and we believe our remediation plan to be sufficient to remediate the identified material weakness. However, the implementation of these remediation measures requires validation and testing of the design and operating effectiveness of internal control over a sustained period of



reporting prior to reaching a determination that the material weakness has been remediated. As we continue to validate and test our internal control over financial reporting, we may determine that additional measures or modifications to the remediation plan are necessary or appropriate.

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

Except as described above, there was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the quarter ended March 31, 2024 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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

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

## PART II - OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in various legal proceedings. Defending such proceedings can be 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.

On September 12, 2023, a putative class action lawsuit was filed in the United States District Court for the Southern District of New York against us and certain of our current and former executive officers for alleged violations of the U.S. federal securities laws. The complaint in the lawsuit, captioned Agarwal v. DigitalOcean Holdings, Inc., et. al. (Case 1:23-cv-08060), asserted claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 on behalf of a proposed class consisting of those who acquired our common stock between February 16, 2023 and August 25, 2023 (the “Putative Class Period”), and alleged that we made materially false and misleading statements regarding our business during the Putative Class Period. On January 3, 2024, the plaintiff in the federal class action lawsuit voluntarily dismissed the action without prejudice.

On December 12, 2023 and December 14, 2023, respectively, we were named a nominal defendant in two putative stockholder derivative actions filed in the United States District Court for the District of Delaware against our directors and our former chief executive officer and member of the board. The complaints in the two lawsuits, captioned Flanagan v. Spruill, et al. (Case No. 1:23-cv-01424-RGA) and Reynolds v. Spruill, et al. (Case No. 1:23-cv-01433-RGA), alleged, among other things, violations of federal law and breaches of fiduciary duty, in relation to substantially the same factual allegations as the above-described federal class action lawsuit captioned Agarwal v. DigitalOcean Holdings, Inc., et. al. (Case 1:23-cv-08060). On January 12, 2024, the two cases were consolidated. On February 7, 2024, the consolidated action was voluntarily dismissed without prejudice.

### ITEM 1A. RISK FACTORS

Please refer to Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2023 for a description of certain significant risks and uncertainties to which our business, financial condition and results of operations are subject. There have been no material changes to the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2023.

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

#### (c) Issuer Purchases of Equity Securities

The following table provides information with respect to repurchases of shares of common stock by the Company during the three months ended March 31, 2024:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program <sup>(1)</sup>	Approximate Dollar Value (in thousands) of Shares that May Yet Be Purchased Under the Program <sup>(1)</sup>
January 1-31, 2024	—	\$ —	—	\$ 140,000
February 1-29, 2024	34,544	37.63	34,544	138,700
March 1-31, 2024	165,714	39.19	165,714	132,205
Total	200,258	\$ 38.92	200,258	

- (1) On February 20, 2024, the Company’s Board of Directors approved the repurchase of up to an aggregate of \$140 million of the Company’s common stock (the “2024 Share Buyback Program”). Pursuant to the 2024 Share Buyback Program, repurchases of the Company’s common stock will be made at prevailing market prices through open market purchases or in negotiated transactions off the market. The repurchase program is authorized through fiscal year 2025; however, the Company is not obligated to acquire any particular amount of common stock and the program may be extended, modified, suspended or discontinued at any time at the Company’s discretion.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.



#### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

#### **ITEM 5. OTHER INFORMATION**

##### ***Trading Arrangements***

None.

## ITEM 6. EXHIBITS

Incorporated by Reference					
Exhibit No.	Exhibit Description	Form	File No.	Exhibit	Filing Date Herewith
31.1	<a href="#">Certification of Padmanabhan Srinivasan, Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>				X
31.2	<a href="#">Certification of W. Matthew Steinfert, Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>				X
32.1*	<a href="#">Certifications of Padmanabhan Srinivasan, Chief Executive Officer, and W. Matthew Steinfert, Chief 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				X
101.SCH	Inline XBRL Taxonomy Extensions Schema				X
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase				X
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase				X
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase				X
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase				X
104	Cover Page Interactive File (formatted as Inline XBRL and contained in Exhibit 101)				X

\* Furnished herewith and not deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

## SIGNATURES

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

Date: May 10, 2024

**DigitalOcean Holdings, Inc.**

By: /s/ Padmanabhan Srinivasan

Padmanabhan Srinivasan  
Chief Executive Officer  
(Principal Executive Officer)

Date: May 10, 2024

By: /s/ W. Matthew Steinfert

W. Matthew Steinfert  
Chief Financial Officer  
(Principal Financial Officer)