

**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 January 31, 2022

OR

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

For the transition period from _____ to _____

Commission File Number: 001-39744

C3.ai, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

1300 Seaport Blvd, Suite 500

Redwood City, CA

(Address of principal executive offices)

26-3999357

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

94063

(Zip code)

Registrant's telephone number, including area code: (650) 503-2200

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, par value \$0.001 per share	AI	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 and post such files). Yes No

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

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

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

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

As of February 28, 2022, the registrant had outstanding 102,871,811 shares of Class A common stock and 3,499,992 shares of Class B common stock.

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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, plans and objectives of management for future operations, and the benefits and timing of the rollout of new technology, 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. These forward-looking statements include, but are not limited to, statements concerning the following:

- our expectations regarding our revenue, expenses, and other operating results, including statements relating to the portion of our remaining performance obligations that we expect to be recognized as revenue in future periods;
- our ability to acquire new customers and successfully retain existing customers;
- our ability to increase usage of our C3 AI Software, which includes our C3 AI Suite, C3 AI Applications, C3 AI Ex Machina, C3 AI CRM and C3 AI Data Vision;
- our ability to achieve or sustain profitability;
- future investments in our business, our anticipated capital expenditures, and our estimates regarding our capital requirements;
- the costs and success of our sales and marketing efforts, and our ability to promote our brand;
- our growth strategies for our C3 AI Software;
- our expectations regarding our C3 AI Software;
- the estimated addressable market opportunity for our C3 AI Software;
- our reliance on key personnel and our ability to identify, recruit, and retain skilled personnel;
- our ability to effectively manage our growth, including any international expansion;
- our ability to protect our intellectual property rights and any costs associated therewith;
- the effects of the ongoing coronavirus, or COVID-19, pandemic or other public health crises;
- our ability to compete effectively with existing competitors and new market entrants; and
- the growth rates of the markets in which we compete.

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 the section titled “Risk Factors” contained in Part II, Item 1A of this Quarterly Report on Form 10-Q and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. 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 that such 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.

SELECTED RISKS AFFECTING OUR BUSINESS

Investing in our Class A common stock involves numerous risks, including the risks described in the section titled “Risk Factors” in Part II, Item 1A of this Quarterly Report on Form 10-Q. Below is a summary of some of the risks and uncertainties as of the date of the filing of this Quarterly Report on Form 10-Q, any one of which could materially adversely affect our business, financial condition, operating results, and prospects. You should read this summary together with the more detailed description of each risk factor contained below.

Risks Related to Our Business and Our Industry

- We have a limited operating history, which makes it difficult to evaluate our prospects and future results of operations.
- Historically, a limited number of customers have accounted for a substantial portion of our revenue. If existing customers do not renew their contracts with us, or if our relationships with our largest customers are impaired or terminated, our revenue could decline, and our results of operations would be adversely impacted.
- Our business depends on our ability to attract new customers and on our existing customers purchasing additional subscriptions from us and renewing their existing subscriptions.
- We have a history of operating losses and may not achieve or sustain profitability in the future.
- We face intense competition and could lose market share to our competitors, which could adversely affect our business, financial condition and results of operations.
- Our sales cycles can be long and unpredictable, particularly with respect to large subscriptions, and our sales efforts require considerable time and expense.
- If the market for our C3 AI Software fails to grow as we expect, or if businesses fail to adopt our C3 AI Software, our business, operating results, and financial condition could be adversely affected.
- If we fail to respond to rapid technological changes, extend our C3 AI Software, or develop new features and functionality, our ability to remain competitive could be impaired.
- If we were to lose the services of our Chief Executive Officer, or CEO, or other members of our senior management team, we may not be able to execute our business strategy.
- The COVID-19 pandemic had and could continue to have an adverse impact on our business, our operations, and the markets and communities in which we, our partners, and our customers operate.
- Our actual or perceived failure to comply with privacy or data protection laws, regulations, or obligations could harm our business.
- If we or our service providers experience a security breach or unauthorized parties otherwise obtain access to our customers’ data, our data, or our C3 AI Software, our C3 AI Software may be perceived as not being secure, our reputation may be harmed, demand for our software may be reduced, and we may incur significant liabilities.
- Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could adversely affect our financial results or financial condition.

Risks Related to Our International Operations

- We are continuing to expand our operations outside the United States, where we may be subject to increased business and economic risks that could harm our business.
- We are subject to governmental export and import controls that could impair our ability to compete in international markets or subject us to liability if we are not in compliance with applicable laws.

Risks Related to Taxes

- Our results of operations may be harmed if we are required to collect sales or other related taxes for our subscriptions in jurisdictions where we have not historically done so.

Risks Related to Our Intellectual Property

- We are currently, and may be in the future, party to intellectual property rights claims and other litigation matters, which, if resolved adversely, could harm our business.
- Indemnity provisions in various agreements potentially expose us to substantial liability for intellectual property infringement and other losses.
- Our failure to protect our intellectual property rights and proprietary information could diminish our brand and other intangible assets.
- Our use of third-party open source software could negatively affect our ability to offer and sell subscriptions to our C3 AI Software and subject us to possible litigation.

Risks Related to Ownership of Our Class A Common Stock

- The trading price of our Class A common stock may be volatile, and you could lose all or part of your investment.
- The dual class structure of our common stock has the effect of concentrating voting control to our Chairman and CEO, Thomas M. Siebel.
- Provisions in our corporate charter documents and under Delaware law may prevent or frustrate attempts by our stockholders to change our management or hinder efforts to acquire a controlling interest in us, and the market price of our Class A common stock may be lower as a result.

General Risks

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

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

C3.AI, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except for share and per share data)
(Unaudited)

	January 31, 2022	April 30, 2021
Assets		
Current assets		
Cash and cash equivalents	\$ 204,531	\$ 115,355
Short-term investments	764,104	978,020
Accounts receivable, net of allowance of \$57 and \$812 as of January 31, 2022 and April 30, 2021, respectively ⁽¹⁾	68,178	65,460
Prepaid expenses and other current assets ⁽²⁾	25,754	14,302
Total current assets	1,062,567	1,173,137
Property and equipment, net	5,297	6,133
Goodwill	625	625
Long-term investments	54,012	—
Other assets, non-current ⁽³⁾	65,006	16,582
Total assets	\$ 1,187,507	\$ 1,196,477
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable ⁽⁴⁾	\$ 14,478	\$ 12,075
Accrued compensation and employee benefits	22,588	21,829
Deferred revenue, current ⁽⁵⁾	58,524	72,263
Accrued and other current liabilities ⁽⁶⁾	33,598	18,318
Total current liabilities	129,188	124,485
Deferred revenue, non-current	924	2,964
Other long-term liabilities ⁽⁷⁾	30,720	7,853
Total liabilities	160,832	135,302
Commitments and contingencies (note 6)		
Stockholders' equity		
Class A common stock, \$0.001 par value. 1,000,000,000 shares authorized as of January 31, 2022 and April 30, 2021; 102,784,741 and 98,667,121 shares issued and outstanding as of January 31, 2022 and April 30, 2021, respectively	103	99
Class B common stock, \$0.001 par value; 3,500,000 shares authorized as of January 31, 2022 and April 30, 2021; 3,499,992 and 3,499,992 shares issued and outstanding as of January 31, 2022 and April 30, 2021, respectively	3	3
Additional paid-in capital	1,510,343	1,410,325
Accumulated other comprehensive (loss) income	(796)	81
Accumulated deficit	(482,978)	(349,333)
Total stockholders' equity	1,026,675	1,061,175
Total liabilities and stockholders' equity	\$ 1,187,507	\$ 1,196,477

- (1) Including amounts from a related party of \$15,727 and \$15,180 as of January 31, 2022 and April 30, 2021, respectively.
(2) Including amounts from a related party of \$5,010 and \$1,662 as of January 31, 2022 and April 30, 2021, respectively.
(3) Including amounts from a related party of \$17,356 and \$6,602 as of January 31, 2022 and April 30, 2021, respectively.
(4) Including amounts from a related party of \$2,415 and \$56 as of January 31, 2022 and April 30, 2021, respectively.
(5) Including amounts from a related party of \$575 and \$7,697 as of January 31, 2022 and April 30, 2021, respectively.
(6) Including amounts from a related party of \$18,534 and \$3,413 as of January 31, 2022 and April 30, 2021, respectively.
(7) Including amounts from a related party of \$2,448 and \$4,895 as of January 31, 2022 and April 30, 2021, respectively.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

C3.AI, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2022	2021	2022	2021
Revenue				
Subscription ⁽¹⁾	\$ 57,084	\$ 42,699	\$ 150,614	\$ 114,248
Professional services ⁽²⁾	12,689	6,410	29,828	16,685
Total revenue	69,773	49,109	180,442	130,933
Cost of revenue				
Subscription ⁽³⁾	12,275	7,023	32,880	22,694
Professional services	5,079	5,203	13,470	10,113
Total cost of revenue	17,354	12,226	46,350	32,807
Gross profit	52,419	36,883	134,092	98,126
Operating expenses				
Sales and marketing ⁽⁴⁾	43,146	28,450	126,134	64,898
Research and development	40,931	18,748	104,166	48,145
General and administrative	15,748	8,184	43,391	21,433
Total operating expenses	99,825	55,382	273,691	134,476
Loss from operations	(47,406)	(18,499)	(139,599)	(36,350)
Interest income	410	129	1,077	997
Other income (expense), net	7,742	1,721	5,471	4,163
Net loss before provision for income taxes	(39,254)	(16,649)	(133,051)	(31,190)
Provision for income taxes	193	203	594	456
Net loss	\$ (39,447)	\$ (16,852)	\$ (133,645)	\$ (31,646)
Net loss per share attributable to Class A common shareholders, basic and diluted	\$ (0.38)	\$ (0.23)	\$ (1.29)	\$ (0.64)
Net loss per share attributable to Class A-1 common shareholders, basic and diluted	\$ —	\$ (0.10)	\$ —	\$ (0.52)
Net loss per share attributable to Class B common shareholders, basic and diluted	\$ (0.38)	\$ (0.13)	\$ (1.29)	\$ (0.12)
Weighted-average shares used in computing net loss per share attributable to Class A common stockholders, basic and diluted	101,593	68,648	100,341	43,481
Weighted-average shares used in computing net loss per share attributable to Class A-1 common stockholders, basic and diluted	—	6,667	—	6,667
Weighted-average shares used in computing net loss per share attributable to Class B common stockholders, basic and diluted	3,500	3,500	3,500	3,500

- (1) Including related party revenue of \$19,740 and \$7,951 for the three months ended January 31, 2022 and 2021, respectively, and \$39,960 and \$21,571 for the nine months ended January 31, 2022 and 2021, respectively.
- (2) Including related party revenue of \$4,892 and nil for the three months ended January 31, 2022 and 2021, respectively, and \$12,890 and nil for the nine months ended January 31, 2022 and 2021, respectively.
- (3) Including related party cost of revenue of \$191 and nil for the three months ended January 31, 2022 and 2021, respectively, and \$388 and nil for the nine months ended January 31, 2022 and 2021, respectively.
- (4) Including related party sales and marketing expense of \$2,398 and nil for the three months ended January 31, 2022 and 2021, respectively, and \$2,590 and nil for the nine months ended January 31, 2022 and 2021, respectively.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

C3.AI, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	<u>Three Months Ended January 31,</u>		<u>Nine Months Ended January 31,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Net loss	\$ (39,447)	\$ (16,852)	\$ (133,645)	\$ (31,646)
Other comprehensive loss				
Unrealized loss on available-for-sale marketable securities, net of tax	(556)	(49)	(877)	(411)
Total comprehensive loss	<u>\$ (40,003)</u>	<u>\$ (16,901)</u>	<u>\$ (134,522)</u>	<u>\$ (32,057)</u>

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

C3.AI, INC.
CONDENSED CONSOLIDATED STATEMENTS OF REDEEMABLE CONVERTIBLE PREFERRED STOCK,
REDEEMABLE CONVERTIBLE CLASS A-1 COMMON STOCK AND STOCKHOLDERS' EQUITY
(In thousands)
(Unaudited)

	Redeemable Convertible Preferred Stock		Redeemable Convertible A-1 Common Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
		—	\$ —	—	\$ —	104,871				
Balance as of October 31, 2021										
Issuance of Class A common stock upon exercise of stock options, net of repurchases	—	—	—	—	1,397	1	8,323	—	—	8,324
Vesting of early exercised Class A common stock options	—	—	—	—	—	—	483	—	—	483
Vesting of restricted stock units	—	—	—	—	17	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	—	—	31,361	—	—	31,361
Other comprehensive loss	—	—	—	—	—	—	—	(556)	—	(556)
Net loss	—	—	—	—	—	—	—	—	(39,447)	(39,447)
Balance as of January 31, 2022	—	\$ —	—	\$ —	106,285	\$ 106	\$ 1,510,343	\$ (796)	\$ (482,978)	\$ 1,026,675

	Redeemable Convertible Preferred Stock		Redeemable Convertible A-1 Common Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
		—	\$ —	—	\$ —	102,167				
Balance as of April 30, 2021										
Issuance of Class A common stock upon exercise of stock options, net of repurchases	—	—	—	—	4,064	4	19,814	—	—	19,818
Vesting of early exercised Class A common stock options	—	—	—	—	—	—	2,391	—	—	2,391
Vesting of restricted stock units	—	—	—	—	54	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	—	—	77,813	—	—	77,813
Other comprehensive loss	—	—	—	—	—	—	—	(877)	—	(877)
Net loss	—	—	—	—	—	—	—	—	(133,645)	(133,645)
Balance as of January 31, 2022	—	\$ —	—	\$ —	106,285	\$ 106	\$ 1,510,343	\$ (796)	\$ (482,978)	\$ 1,026,675

	Three Months Ended January 31, 2021									
	Redeemable Convertible Preferred Stock		Redeemable Convertible A-1 Common Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance as of October 31, 2020	37,129	\$ 399,753	6,667	\$ 18,800	32,981	\$ 33	\$ 124,009	\$ 62	\$ (308,431)	\$ (184,327)
Conversion of redeemable convertible preferred stock to common stock upon initial public offering	(37,129)	(399,753)	(6,667)	(18,800)	43,796	44	418,509	—	—	418,553
Issuance of common stock upon initial public offering and private placements, net of underwriting discounts	—	—	—	—	21,396	21	844,625	—	—	844,646
Issuance of Class A common stock upon exercise of stock options	—	—	—	—	2,759	3	4,800	—	—	4,803
Vesting of early exercised Class A common stock options	—	—	—	—	—	—	749	—	—	749
Stock-based compensation expense	—	—	—	—	—	—	6,589	—	—	6,589
Other comprehensive loss	—	—	—	—	—	—	—	(49)	—	(49)
Net loss	—	—	—	—	—	—	—	—	(16,852)	(16,852)
Balance as of January 31, 2021	—	\$ —	—	\$ —	100,932	\$ 101	\$ 1,399,281	\$ 13	\$ (325,283)	\$ 1,074,112

	Nine Months Ended January 31, 2021									
	Redeemable Convertible Preferred Stock		Redeemable Convertible A-1 Common Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance as of April 30, 2020	37,129	\$ 375,207	6,667	\$ 18,800	31,210	\$ 31	\$ 110,485	\$ 424	\$ (293,637)	\$ (182,697)
Repayment of shareholder loan	—	24,546	—	—	—	—	1,457	—	—	1,457
Conversion of redeemable convertible preferred stock to common stock upon initial public offering	(37,129)	(399,753)	(6,667)	(18,800)	43,796	44	418,509	—	—	418,553
Issuance of common stock upon initial public offering and private placements, net of underwriting discounts	—	—	—	—	21,396	21	844,625	—	—	844,646
Issuance of Class A common stock upon exercise of stock options	—	—	—	—	4,530	5	7,862	—	—	7,867
Vesting of early exercised Class A common stock options	—	—	—	—	—	—	2,073	—	—	2,073
Stock-based compensation expense	—	—	—	—	—	—	14,270	—	—	14,270
Other comprehensive loss	—	—	—	—	—	—	—	(411)	—	(411)
Net loss	—	—	—	—	—	—	—	—	(31,646)	(31,646)
Balance as of January 31, 2021	—	\$ —	—	\$ —	100,932	\$ 101	\$ 1,399,281	\$ 13	\$ (325,283)	\$ 1,074,112

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

C3.AI, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended January 31,	
	2022	2021
Cash flows from operating activities:		
Net loss	\$ (133,645)	\$ (31,646)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	3,761	3,189
Non-cash operating lease cost	2,369	2,474
Stock-based compensation expense	77,813	14,270
Other	255	(115)
Changes in operating assets and liabilities		
Accounts receivable ⁽¹⁾	(1,963)	588
Prepaid expenses, other current assets and other assets ⁽²⁾	(21,108)	(6,931)
Accounts payable ⁽³⁾	2,237	7,447
Accrued compensation and employee benefits	759	4,303
Operating lease liabilities	(2,303)	(2,636)
Other liabilities ⁽⁴⁾	14,304	1,213
Deferred revenue ⁽⁵⁾	(15,779)	2,016
Net cash used in operating activities	(73,300)	(5,828)
Cash flows from investing activities:		
Purchases of property and equipment	(2,183)	(1,166)
Capitalized software development costs	(500)	—
Proceeds from sale of non-marketable equity security	—	725
Purchases of investments	(540,290)	(232,287)
Maturities and sales of investments	698,312	280,997
Net cash provided by investing activities	155,339	48,269
Cash flows from financing activities:		
Proceeds from initial public offering and private placements, net of underwriting discounts	—	851,859
Proceeds from repayment of shareholder loan	—	26,003
Payment of deferred offering costs	(105)	(6,710)
Proceeds from exercise of Class A common stock options	19,334	13,825
Net cash provided by financing activities	19,229	884,977
Net increase in cash, cash equivalents and restricted cash	101,268	927,418
Cash, cash equivalents and restricted cash at beginning of period	116,255	33,604
Cash, cash equivalents and restricted cash at end of period	\$ 217,523	\$ 961,022
Cash and cash equivalents	\$ 204,531	\$ 960,122
Restricted cash included in other assets	12,992	900
Total cash, cash equivalents and restricted cash	\$ 217,523	\$ 961,022
Supplemental disclosure of cash flow information—cash paid for income taxes	\$ 677	\$ 435
Supplemental disclosures of non-cash investing and financing activities:		
Purchases of property and equipment included in accounts payable and accrued liabilities	\$ 483	\$ 349
Right-of-use assets obtained in exchange for lease obligations	\$ 26,529	\$ —
Unpaid liabilities related to intangible purchases	\$ 2,500	\$ —
Receivable from exercise of stock options included in prepaid expenses, other current assets and other assets	\$ 45	\$ —
Deferred offering costs included in accounts payable and accrued liabilities	\$ —	\$ 503
Vesting of early exercised stock options	\$ 2,391	\$ 2,073

(1) Including changes in related party balances of \$547 and \$(780) for the nine months ended January 31, 2022 and 2021, respectively.

(2) Including changes in related party balances of \$14,102 and nil for the nine months ended January 31, 2022 and 2021, respectively.

(3) Including changes in related party balances of \$2,359 and nil for the nine months ended January 31, 2022 and 2021, respectively.

(4) Including changes in related party balances of \$12,674 and nil for the nine months ended January 31, 2022 and 2021, respectively.

(5) Including changes in related party balances of \$(7,122) and \$7,859 for the nine months ended January 31, 2022 and 2021, respectively.

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

C3.AI, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Summary of Business and Significant Accounting Policies

Business

C3.ai, Inc. (including its subsidiaries, “C3 AI” or “the Company”) is an enterprise artificial intelligence (“AI”) software provider. C3 AI supports accelerating digital transformation in various industries with its C3 AI Suite, its C3 AI Ex Machina, C3 AI CRM and C3 AI Data Vision solutions, and its prebuilt and configurable C3 AI Applications for a variety of business use cases including predictive maintenance, fraud detection, sensor network health, supply network optimization, energy management, anti-money laundering, and customer engagement. The Company supports customers in the United States, Europe, and the rest of the world. The Company was initially formed as a limited liability company in Delaware on January 8, 2009 and converted to a Delaware corporation in June 2012.

Reclassification and Reverse Stock Split

In November 2020, the Company amended and restated its certificate of incorporation to effect a reclassification of the Company’s prior Class B common stock and Class C common stock into Class A common stock, and redeemable convertible Class B-1 common stock into a new redeemable convertible Class A-1 common stock. The rights, including the liquidation, dividend, and voting rights, are substantially identical for each class of common stock reclassified. All references to prior Class B common stock and Class C common stock have been recast to Class A common stock, and all references to redeemable convertible Class B-1 common stock have been recast to redeemable convertible Class A-1 common stock in these condensed consolidated financial statements to give retrospective effect to the reclassification for all periods presented. The Company also authorized a new Class B common stock. The rights, including the liquidation and dividend rights, of the Class A common stock and the new Class B common stock are substantially identical, other than the voting rights and conversion rights upon transfer of the Class B common stock. See *Note 8. Stockholders’ Equity* for more information.

Additionally, the Company effected a 6-for-1 reverse stock split of the Company’s outstanding common stock, preferred stock, and stock option awards. The par value of the common stock and preferred stock was not adjusted as a result of the reverse stock split. The authorized shares of the Class A common stock, new Class A-1 common stock, new Class B common stock and preferred stock were also adjusted to 390,000,000 shares, 6,666,667 shares, 21,000,000 shares, and 233,107,379 shares, respectively. All authorized, issued, and outstanding shares of common stock, preferred stock, stock option awards, and per share data included in these condensed consolidated financial statements have been recast to give retrospective effect to the adjusted authorized shares and reverse stock split for all periods presented.

Initial Public Offering and Concurrent Private Placements

In December 2020, the Company completed its initial public offering (“IPO”), in which the Company issued and sold 17,825,000 shares of its Class A common stock at \$42.00 per share, which included 2,325,000 shares issued upon the exercise of the underwriters’ over-allotment option to purchase additional shares. The Company received net proceeds of \$694.6 million after deducting underwriting discounts and other offering expenses. In connection with the IPO:

- all 33,628,776 shares of the Company’s outstanding redeemable convertible preferred stock, except the Series A* preferred stock, automatically converted into an equivalent number of shares of Class A common stock on a one-to-one basis;
- all 3,499,992 shares of the Company’s outstanding redeemable convertible Series A* preferred stock automatically converted into an equivalent number of shares of Class B common stock on a one-to-one basis;
- all 6,666,665 shares of the Company’s outstanding redeemable convertible Class A-1 common stock automatically converted into an equivalent number of shares of Class A common stock on a one-to-one basis; and
- the Company amended and restated its certificate of incorporation which became effective upon completion of the IPO.

C3.AI, INC.
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Deferred offering costs consist primarily of direct and incremental accounting, legal and other fees related to the Company's IPO. Prior to the IPO, all deferred offering costs incurred were capitalized and included in other assets on the condensed consolidated balance sheet. Upon completion of the IPO, \$7.2 million of deferred offering costs were reclassified into stockholders' equity as a reduction of the IPO proceeds.

The Company also completed a concurrent private placement immediately subsequent to the closing of the IPO, in which the Company issued and sold 2,380,952 and 1,190,476 shares, respectively, of its Class A common stock at \$42.00 per share to Spring Creek Capital LLC, an affiliate of Koch Industries, Inc., and Microsoft Corporation (the "Concurrent Private Placement"). The Company received aggregate proceeds of \$150.0 million and did not pay underwriting discounts with respect to the shares of Class A common stock that were sold in the Concurrent Private Placement.

Basis of Presentation and Principles of Consolidation

The Company prepares its unaudited condensed consolidated financial statements in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") and applicable rules and regulations of the U.S. Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Accordingly, they do not include all disclosures normally required in annual consolidated financial statements prepared in accordance with U.S. GAAP. Therefore, these unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2021, which was filed with the SEC on June 25, 2021.

In management's opinion, these unaudited condensed consolidated financial statements have been prepared on the same basis as the annual financial statements and reflect all adjustments, which include only normal recurring adjustments necessary for the fair statement of the Company's financial position as of January 31, 2022, and the results of operations for the three and nine months ended January 31, 2022. The results of operations for the three and nine months ended January 31, 2022, are not necessarily indicative of the results to be expected for the full year or any other future interim or annual period.

The condensed consolidated financial statements include the accounts of C3.ai, Inc. and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the accompanying unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenue and expenses. Actual results and outcomes could differ significantly from the Company's estimates, judgments, and assumptions. Significant estimates include determining standalone selling price for performance obligations in contracts with customers and estimating variable consideration, the estimated expected benefit period for deferred contract acquisition costs, the useful lives of long-lived assets and other assumptions used to measure stock-based compensation, and the valuation of deferred income tax assets and uncertain tax positions. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. The Company adjusts such estimates and assumptions when facts and circumstances dictate. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods. As future events and their effects cannot be determined with precision, actual results could materially differ from those estimates and assumptions.

Fiscal Year

The Company's fiscal year ends on April 30.

Summary of Significant Accounting Policies

The Company's significant accounting policies are discussed in *Note 1. Summary of Business and Significant Accounting Policies* in the Notes to Consolidated Financial Statements in its Annual Report on Form 10-K for the fiscal year ended April 30, 2021, which was filed with the SEC on June 25, 2021. There have been no significant changes to these policies during the three and nine months ended January 31, 2022.

C3.AI, INC.
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Recent Accounting Pronouncements

The Company currently qualifies as an “emerging growth company” under the Jumpstart Our Business Startups Act of 2012 (the “JOBS Act”). Accordingly, the Company is provided the option to adopt new or revised accounting guidance either (1) within the same periods as those otherwise applicable to public business entities or (2) within the same time periods as private companies, including early adoption when permissible. The Company has elected to adopt new or revised accounting guidance within the same time period as private companies.

Based on the market value of the Company’s Class A common stock held by non-affiliates as of the last business day of the Company’s fiscal second quarter ended October 31, 2021, the Company will cease to be an emerging growth company as of April 30, 2022.

Recently Adopted Accounting Standards

In August 2018, the FASB issued ASU 2018-15, *Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*, which requires a customer in a cloud computing arrangement that is a service contract to follow the internal-use software guidance in ASC 350-40 to determine which implementation costs to defer and recognize as an asset. The guidance is effective for the fiscal year beginning May 1, 2021. Early adoption is permitted. The Company adopted this guidance effective May 1, 2021 on a prospective basis, and the adoption did not have a material impact on its condensed consolidated financial statements and related disclosures.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740)—Simplifying the Accounting for Income Taxes*. The amendments in this update simplify various aspects of the accounting for income tax by eliminating certain exceptions to the general approach under existing accounting guidance provided by ASC 740, Income Taxes, and clarifies certain aspects of the existing guidance to promote more consistent application. The amendments in this new standard include, the elimination of exceptions related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The new standard also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill and that single-member limited liability companies and similar disregarded entities that are not subject to income tax are not required to recognize an allocation of consolidated income tax expense in their separate financial statements, but could elect to do so. The guidance is effective for the Company beginning May 1, 2022. Early adoption is permitted. The Company adopted this guidance effective May 1, 2021, and the adoption did not have a material impact on its condensed consolidated financial statements and related disclosures.

2. Revenue

Disaggregation of Revenue

The following table presents revenue by geographical region (in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2022	2021	2022	2021
North America ⁽¹⁾	\$ 56,846	\$ 29,488	\$ 136,995	\$ 86,100
Europe, the Middle East and Africa ⁽¹⁾	11,108	17,141	36,116	39,922
Asia Pacific ⁽¹⁾	1,819	1,655	7,331	4,086
Rest of World ⁽¹⁾	—	825	—	825
Total revenue	\$ 69,773	\$ 49,109	\$ 180,442	\$ 130,933

(1) The United States comprised 81% and 60% of the Company’s revenue for the three months ended January 31, 2022 and 2021, respectively, and 76% and 65% of the Company’s revenue in the nine months ended January 31, 2022 and 2021, respectively. France comprised 8% and 12% of the Company’s revenue for the three months ended January 31, 2022 and 2021, respectively, and 11% and 12% of the Company’s revenue for the nine months ended January 31, 2022 and 2021, respectively. No other country comprised 10% or greater of the Company’s revenue for each of the three and nine months ended January 31, 2022 and 2021.

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Deferred Revenue

The following table reflects the deferred revenue balance (in thousands):

	As of January 31, 2022	As of April 30, 2021
Deferred revenue, current	\$ 58,524	\$ 72,263
Deferred revenue, non-current	924	2,964
Total deferred revenue	\$ 59,448	\$ 75,227

Significant changes in the deferred revenue balances during the nine months ended January 31, 2022 and 2021 were as follows (in thousands):

	Deferred Revenue
April 30, 2021	\$ 75,227
Performance obligations satisfied during the period that were included in the deferred revenue balance at the beginning of the year	(68,787)
Increases due to invoicing prior to satisfaction of performance obligations	53,008
January 31, 2022	\$ 59,448
April 30, 2020	\$ 60,295
Performance obligations satisfied during the period that were included in the deferred revenue balance at the beginning of the year	(53,086)
Increases due to invoicing prior to satisfaction of performance obligations	55,101
January 31, 2021	\$ 62,310

Remaining Performance Obligation

Remaining performance obligations are committed and represent non-cancellable contracted revenue that has not yet been recognized and will be recognized as revenue in future periods. Some contracts allow customers to cancel the contracts without a significant penalty, and the cancellable amount of contract value is not included in the remaining performance obligations.

The Company excludes amounts related to performance obligations and usage-based royalties that are billed and recognized as they are delivered or billed and recognized in the same period. This primarily consists of monthly usage-based runtime and hosting charges in the duration of some revenue contracts.

Revenue expected to be recognized from remaining performance obligations was approximately \$469.3 million and \$293.8 million as of January 31, 2022 and April 30, 2021, respectively, of which \$171.6 million and \$145.2 million is expected to be recognized over the next 12 months and the remainder thereafter, respectively.

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Customer Concentration and Accounts Receivable

All of the Company's Customer-Entities (as defined below) consist of corporate and governmental entities. A limited number of Customer-Entities have accounted for a large part of the Company's revenue and accounts receivable to date. For the purpose of determining customer concentration and accounts receivable, unbilled receivables have been excluded from accounts receivable balance. Two separate Customer-Entities accounted for 36% and 10%, respectively, of revenue for the three months ended January 31, 2022. Two separate Customer-Entities accounted for 16% and 12%, respectively, of revenue for the three months ended January 31, 2021. Two separate Customer-Entities accounted for 30% and 10%, respectively, of revenue for the nine months ended January 31, 2022. Two separate Customer-Entities accounted for 16% and 12%, respectively, of revenue for the nine months ended January 31, 2021. Five separate Customer-Entities accounted for 21%, 19%, 14%, 12% and 10% of accounts receivable at January 31, 2022. Four separate Customer-Entities accounted for 18%, 14%, 14% and 11% of accounts receivable at April 30, 2021. A Customer-Entity is defined as each entity that is the ultimate parent of a party contracting with the Company.

Accounts receivable includes billed and unbilled receivables, net of allowance of doubtful accounts. Trade accounts receivable are recorded at invoiced amounts and do not bear interest. The expectation of collectability is based on a review of credit profiles of customers, contractual terms and conditions, current economic trends, and historical payment experience. The Company regularly reviews the adequacy of the allowance for doubtful accounts by considering the age of each outstanding invoice and the collection history of each customer to determine the appropriate amount of allowance for doubtful accounts. Accounts receivable included unbilled receivables as of January 31, 2022 and April 30, 2021 of \$5.1 million and \$3.8 million, respectively.

3. Fair Value Measurements

The Company's financial instruments consist primarily of cash equivalents, restricted cash, available-for-sale marketable securities, accounts receivable, and accounts payable. Cash and cash equivalents and available-for-sale marketable securities are reported at their respective fair values on the condensed consolidated balance sheets. The remaining financial instruments are reported on the condensed consolidated balance sheets at amounts that approximate current fair values.

The following table summarizes the types of assets measured at fair value on a recurring basis by level within the fair value hierarchy (in thousands):

	As of January 31, 2022				As of April 30, 2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash equivalents:								
Money market funds	\$ 129,753	\$ —	\$ —	\$ 129,753	\$ 43,401	\$ —	\$ —	\$ 43,401
Commercial paper	—	10,998	—	10,998	—	—	—	—
Corporate debt securities	—	1,506	—	1,506	—	—	—	—
Available-for-sale marketable securities:								
U.S. treasury securities	—	—	—	—	—	57,998	—	57,998
Certificates of deposit	—	300,381	—	300,381	—	422,978	—	422,978
U.S. government agencies securities	—	14,015	—	14,015	—	—	—	—
Commercial paper	—	308,208	—	308,208	—	494,676	—	494,676
Corporate debt securities	—	195,512	—	195,512	—	2,368	—	2,368
Total cash equivalents and available-for-sale marketable securities	\$ 129,753	\$ 830,620	\$ —	\$ 960,373	\$ 43,401	\$ 978,020	\$ —	\$ 1,021,421

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The estimated fair value of securities classified as Level 2 financial instruments was determined based on third-party pricing services. The pricing services utilize industry standard valuation models, including both income- and market-based approaches, for which all significant inputs are observable, either directly or indirectly, to estimate fair value. Inputs used for fair value measurement categorized as Level 2 include benchmark yields, reported trades, broker or dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications.

4. Investments

Cash Equivalents and Available-for-Sale Marketable Securities

The following table summarizes the Company's cash equivalents and available-for-sale marketable securities (in thousands):

	As of January 31, 2022				As of April 30, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Cash equivalents:								
Money market funds	\$ 129,753	\$ —	\$ —	\$ 129,753	\$ 43,401	\$ —	\$ —	\$ 43,401
Commercial paper	10,998	—	—	10,998	—	—	—	—
Corporate debt securities	1,506	—	—	1,506	—	—	—	—
Available-for-sale marketable securities:								
U.S. treasury securities	—	—	—	—	57,993	5	—	57,998
Certificates of deposit	300,377	4	—	300,381	422,952	32	(6)	422,978
U.S. government agencies securities	14,120	—	(105)	14,015	—	—	—	—
Commercial paper	308,205	3	—	308,208	494,625	64	(13)	494,676
Corporate debt securities	196,210	—	(698)	195,512	2,369	—	(1)	2,368
Total cash equivalents and available-for-sale marketable securities	\$ 961,169	\$ 7	\$ (803)	\$ 960,373	\$ 1,021,340	\$ 101	\$ (20)	\$ 1,021,421

The following table summarizes the Company's available-for-sale marketable securities by contractual maturity (in thousands):

	As of January 31, 2022		As of April 30, 2021	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	\$ 764,589	\$ 764,104	\$ 977,939	\$ 978,020
After one year through five years	54,323	54,012	—	—
Total	\$ 818,912	\$ 818,116	\$ 977,939	\$ 978,020

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The following table summarizes the fair values and unrealized losses of the Company's available-for-sale marketable securities classified by length of time that the securities have been in a continuous unrealized loss position but were not deemed to be other-than-temporarily impaired, as of January 31, 2022 (in thousands):

	As of January 31, 2022					
	Less Than 12 Months		12 Months or Greater		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Certificates of deposit	\$ —	\$ 12,500	\$ —	\$ —	\$ —	\$ 12,500
U.S. government agencies securities	—	—	(105)	14,015	(105)	14,015
Commercial paper	—	14,493	—	—	—	14,493
Corporate debt securities	(490)	154,515	(208)	38,297	(698)	192,812
Total	\$ (490)	\$ 181,508	\$ (313)	\$ 52,312	\$ (803)	\$ 233,820

As of January 31, 2022, the Company had 185 investment positions in an unrealized loss position. As of April 30, 2021, the Company had eight investment positions that were in an unrealized loss position. The Company considers factors such as the duration, the magnitude and the reason for the decline in value, the potential recovery period, creditworthiness of the issuers of the securities and its intent to sell. For marketable securities, it also considers whether (i) it is more likely than not that the Company will be required to sell the debt securities before recovery of their amortized cost basis, and (ii) the amortized cost basis cannot be recovered as a result of credit losses. No significant facts or circumstances have arisen to indicate that there has been any significant deterioration in the creditworthiness of the issuers of the securities held by the Company. Based on the Company's review of these securities, including the assessment of the duration and severity of the unrealized losses and the Company's ability and intent to hold the investments until maturity, there were no other-than-temporary impairments for these marketable securities at January 31, 2022.

5. Balance Sheet Details

Property and Equipment

Property and equipment consisted of the following at January 31, 2022 and April 30, 2021 (in thousands):

	Useful Life (in months)	As of January 31, 2022	As of April 30, 2021
Leasehold improvements	*	\$ 8,895	\$ 8,658
Computer equipment	36	3,860	2,539
Office furniture and equipment	60	348	339
Capital in progress	NA	873	—
Property and equipment—gross		13,976	11,536
Less: accumulated depreciation and amortization		(8,679)	(5,403)
Property and equipment—net		\$ 5,297	\$ 6,133

* Leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the remaining lease term.
NA = Not Applicable

Depreciation and amortization expense related to property and equipment was \$1.1 million and \$1.0 million for the three months ended January 31, 2022 and 2021, respectively, and \$3.3 million and \$3.0 million for the nine months ended January 31, 2022 and 2021, respectively.

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Accrued Compensation and Employee Benefits

Accrued compensation and employee benefits consisted of the following at January 31, 2022 and April 30, 2021 (in thousands):

	As of January 31, 2022	As of April 30, 2021
Accrued bonus	\$ 12,768	\$ 12,216
Accrued vacation	3,479	3,935
Accrued payroll taxes and benefits	3,119	3,405
Accrued commission	808	1,863
Accrued salaries	2,414	410
Accrued compensation and employee benefits	<u>\$ 22,588</u>	<u>\$ 21,829</u>

Accrued and Other Current Liabilities

Accrued and other current liabilities consisted of the following at January 31, 2022 and April 30, 2021 (in thousands):

	As of January 31, 2022	As of April 30, 2021
Liability for common stock exercised prior to vesting	\$ 2,449	\$ 5,331
Accrued general expenses	5,154	3,588
Operating lease liabilities, current	3,246	3,894
Commissions payable to a related party	18,534	3,413
Other	4,215	2,092
Accrued and other current liabilities	<u>\$ 33,598</u>	<u>\$ 18,318</u>

Cares Act Loan

On May 1, 2020, the Company entered into a Paycheck Protection Program (“PPP”) Promissory Note and Agreement with Bank of America, pursuant to which the Company received loan proceeds of \$6.3 million (the “PPP Loan”). The PPP Loan was made under, and was subject to the terms and conditions of, the PPP which was established under the CARES Act and is administered by the U.S. Small Business Administration. The term of the PPP Loan was two years with a maturity date of May 1, 2022 and contains a favorable fixed annual interest rate of 1.00%. Payments of principal and interest on the PPP Loan were deferred for the first six months of the term of the PPP Loan until November 1, 2020. Principal and interest were payable monthly and could be prepaid by the Company at any time prior to maturity with no prepayment penalties. On August 18, 2020, the Company repaid in full the PPP loan outstanding, including accrued interest of \$0.1 million, in the amount of \$6.4 million.

6. Commitments and Contingencies**Noncancelable Purchase Commitments**

The Company entered into a noncancelable arrangement with a web-hosting services provider in November 2019. Under the arrangement, the Company committed to spend an aggregate of at least \$30.0 million between November 2019 and November 2022, with a minimum amount of \$10.0 million in each of the three years, on services with this vendor. The Company has incurred costs totaling \$3.8 million and \$3.5 million during the three months ended January 31, 2022 and 2021, respectively, and \$10.4 million and \$9.6 million during the nine months ended January 31, 2022 and 2021, respectively, under the arrangement.

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C3.ai Digital Transformation Institute Grants

In February 2020, the Company entered into an agreement establishing the C3.ai Digital Transformation Institute (“C3.ai DTI”), a program established to attract many of the world’s leading research institutions to join in a coordinated and innovative effort to advance the digital transformation of business, government, and society. As part of the agreement, the Company has agreed to issue grants to C3.ai DTI, which are subject to compliance with certain obligations. The grants shall be paid by the Company over five years in the form of cash, publicly traded securities, or other property of equivalent net value. As of January 31, 2022 and April 30, 2021, the total potential remaining contributions are \$34.5 million and \$43.1 million, respectively. The future grant payments are conditional in nature and subject to execution of the program in line with specific requirements.

Leases

On August 25, 2021, the Company entered into a new lease to acquire approximately 283,015 square feet of office space in several phases in Redwood City, California. Total undiscounted base rent payments over the term of this lease are approximately \$103.1 million. In addition to base rent, the Company will be responsible for the Company’s allocated share of costs incurred and expenditures made by the landlord in the operation and management of the leased space. Under the terms of the lease agreement, the Company has a rent abatement with respect to each phase for the initial six months following the rent commencement date for such phase, with initial monthly base rent payments expected to commence April 1, 2023, which will be approximately \$0.5 million at commencement and will increase up to a maximum monthly base rent of approximately \$1.0 million. The lease agreement also includes an aggregate tenant improvement allowance of \$44.2 million for certain costs. The term of the lease is 126 months from the date that rent commences with respect to phase one of the leased space, which will be nine months after the date when phase one of the leased space is delivered to the Company. Pursuant to the lease agreement, the Company provided the landlord an unconditional and irrevocable letter of credit of \$12.6 million, which is subject to reduction pursuant to the terms of the lease agreement. The lease commencement date of the first two phases was determined to have occurred in the quarter ended January 31, 2022, when the landlord delivered the leased space to the Company. The Company recorded \$26.5 million of lease liability in other long-term liabilities and corresponding right-of-use asset in other assets, non-current in the condensed consolidated balance sheets.

Legal Proceedings

The Company is involved in various legal proceedings and periodically receives claims arising in the ordinary course of business. In the Company’s opinion, resolution of these matters is not expected to have a material adverse impact on its condensed consolidated statement of operations, cash flows, or balance sheet.

Blattman et al. v. Siebel et al., 15-cv-00530 (D. Del.)

On October 28, 2014, Eric Blattman and other former unitholders of E2.0 LLC (“E2.0”), and collectively, the Plaintiffs, filed suit in federal court against Thomas M. Siebel and David Schmaier, alleging violation of Section 10(b) of the Securities Exchange Act of 1934 and common law fraud based on alleged misrepresentations made during negotiations leading up to an April 30, 2012 merger between E2.0 and the Company. Plaintiffs thereafter amended their complaint to add the Company as a defendant, and to add breach of contract claims based on alleged violations of certain earn-out and indemnification provisions in the parties’ merger agreement. A bench trial was held in February 2019, and in a January 29, 2020 opinion the court ruled in favor of defendants the Company, Siebel and Schmaier on all claims. The court also awarded defendants their reasonable attorneys’ fees and costs in defending the action.

In February 2020, Plaintiffs appealed only the portion of the district court’s ruling related to the alleged breach of contract indemnification claim to the Third Circuit Court of Appeals. On February 17, 2021, the Third Circuit affirmed the judgment and orders of the district court in the Company’s and defendants’ favor. On August 10, 2021, the special master appointed by the district court to consider an order on recovery of fees and costs issued a recommendation that the Company be awarded \$9.7 million in fees and expenses. Plaintiffs objected to the special master’s recommendation and requested an award of \$8.3 million, which the Company opposed. On December 6, 2021, the district court issued an order awarding \$9.4 million in attorney’s fees and costs to the Company. The Company received the award in January 2022 and recorded \$9.4 million in other income (expenses), in the condensed consolidated statement of operations for the three and nine months ended January 31, 2022.

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7. Redeemable Convertible Preferred Stock and Redeemable Convertible A-1 Common Stock

Upon completion of the IPO, all 33,628,776 shares of the Company's outstanding redeemable convertible preferred stock, except the Series A* preferred stock, automatically converted into an equivalent number of shares of Class A common stock on a one-to-one basis and all 3,499,992 shares of the Company's outstanding redeemable convertible Series A* preferred stock automatically converted into an equivalent number of shares of the Company's Class B common stock on a one-to-one basis. The carrying value of \$399.8 million of all classes of the Company's outstanding redeemable convertible preferred stock was reclassified into stockholders' equity. Additionally, all 6,666,665 shares of the Company's outstanding redeemable convertible Class A-1 common stock automatically converted into an equivalent number of shares of Class A common stock on a one-to-one basis and their carrying value of \$18.8 million was reclassified into stockholders' equity. As of January 31, 2022, there were no shares of redeemable convertible preferred stock issued and outstanding. See *Note 1. Summary of Business and Significant Accounting Policies* for more information.

8. Stockholders' Equity

Preferred Stock

The Company has authorized the issuance of 200,000,000 shares of undesignated preferred stock with a par value of \$0.001 per share with rights and preferences, including voting rights, designated from time to time by the board of directors. As of January 31, 2022, there were no shares of Preferred Stock issued or outstanding.

Common Stock

The Company has authorized the issuance of 1,000,000,000 shares of Class A common stock and 3,500,000 shares of Class B common stock. The shares of Class A common stock and Class B common stock are identical, except with respect to voting, conversion, and transfer rights. Each share of Class A common stock is entitled to one vote. Each share of Class B common stock is entitled to 50 votes. Class A and Class B common stock have a par value of \$0.001 per share and are referred to as common stock throughout the notes to the unaudited condensed consolidated financial statements, unless otherwise noted. Holders of common stock are entitled to receive any dividends as may be declared from time to time by the board of directors.

Shares of Class B common stock may be converted to Class A common stock at any time at the option of the stockholder. Each share of Class B common stock will be automatically converted into one share of Class A common stock upon the earliest of the following: (i) the date that is six months following the death or incapacity of Mr. Siebel; (ii) the date that is six months following the date that Mr. Siebel is no longer providing services to the Company as an officer, employee, director, or consultant; (iii) December 11, 2040, which is the twentieth anniversary of the completion of the IPO; or (iv) the date specified by the holders of a majority of the then outstanding shares of Class B common stock, voting as a separate class. Future transfers by holders of Class B common stock will generally result in those shares converting to Class A common stock.

Common Stock Subject to Repurchase

Under the Company's Amended and Restated 2012 Equity Incentive Plan (the "2012 Incentive Plan") and the Company's Amended and Restated 2020 Equity Incentive Plan (the "2020 Incentive Plan"), certain optionholders are allowed to exercise stock options to purchase Class A common stock prior to vesting. The Company has the right to repurchase at the original purchase price any unvested but outstanding common shares upon termination of service of the optionholder. The consideration received for an early exercise of a stock option is considered to be a deposit of the exercise price and the related amount is recorded as a liability. The net proceeds from the early exercise of such options were nil and \$4.5 million during the three months ended January 31, 2022 and 2021, respectively, and nil and \$6.0 million during the nine months ended January 31, 2022 and 2021, respectively. The liability is reclassified into equity on a ratable basis as the stock options vest. Unvested Class A common stock of 479,327 and 1,091,306 shares as of January 31, 2022 and April 30, 2021, respectively, were subject to such repurchase right and are legally issued and outstanding as of each period presented. See *Note 9. Stock-Based Compensation* for more information.

C3.AI, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Stock Repurchase Program

In December 2021, the Company's board of directors approved a stock repurchase program for the repurchase of up to \$100.0 million of the Company's outstanding shares of Class A common stock for the 18 months following the date of such approval. Under the program, the Company may purchase stock in the open market or through privately negotiated transactions in accordance with applicable securities laws. The timing and actual amount of the stock repurchases will depend on several factors including price, capital availability, regulatory requirements, alternative investment opportunities and other market conditions.

During the three and nine months ended January 31, 2022, the Company has not repurchased any shares of its Class A common stock.

9. Stock-Based Compensation

On June 29, 2012, the Company adopted the 2012 Incentive Plan. The 2012 Incentive Plan provided for the grant of stock-based awards to employees, non-employee directors, and other service providers of the Company. The 2012 Incentive Plan was terminated in December 2020 in connection with the IPO but continues to govern the terms of outstanding awards that were granted prior to the termination of the 2012 Incentive Plan. No further equity awards will be granted under the 2012 Incentive Plan. With the establishment of the 2020 Incentive Plan as further discussed below, upon the expiration, forfeiture, cancellation, or reacquisition of any shares of Class A common stock underlying outstanding stock-based awards granted under the 2012 Incentive Plan, an equal number of shares of Class A common stock will become available for grant under the 2020 Plan.

On November 27, 2020, the Company's board of directors adopted, and its stockholders approved, the 2020 Incentive Plan, which became effective in connection with the IPO. The 2020 Incentive Plan provides for the grant of incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock awards, restricted stock unit ("RSU") awards, performance awards and other equity awards. The number of shares of Class A common stock reserved for issuance under the 2020 Incentive Plan is subject to automatic evergreen increases annually through (and including) May 1, 2030 pursuant to the terms of the 2020 Incentive Plan. There was an automatic annual increase on May 1, 2021 in the number of shares reserved for future issuance pursuant to the 2020 Incentive Plan in an amount equal to five percent (5%) of the total number of shares of the Company's Class A common stock and Class B common stock outstanding on April 30, 2021.

On November 27, 2020, the Company's board of directors also adopted, and its stockholders also approved, the 2020 Employee Stock Purchase Plan (the "2020 ESPP"), which became effective immediately prior to the IPO. The 2020 ESPP authorizes the issuance of shares of Class A common stock pursuant to purchase rights granted to employees. A total of 3,000,000 shares of Class A common stock were initially reserved for future issuance under the 2020 ESPP. The number of shares of Class A common stock reserved for issuance under the 2020 ESPP is subject to automatic evergreen increases annually through (and including) May 1, 2030 pursuant to the terms of the 2020 ESPP. There was an automatic annual increase on May 1, 2021 in the number of shares reserved for future issuance pursuant to the 2020 ESPP in an amount equal to one percent (1%) of the total number of shares of the Company's Class A common stock and Class B common stock outstanding on April 30, 2021. The 2020 ESPP permits participants to purchase shares of Class A common stock in an amount not exceeding 15% of their earnings during the relevant offering period. The offering dates and purchase dates for the 2020 ESPP are determined at the discretion of the Company's board of directors. As of January 31, 2022, the Company had not yet launched its 2020 ESPP.

Stock Options to Acquire Class A Common Stock

These stock options generally expire 10 years from the date of grant, or earlier if services are terminated. Generally, each stock option for common stock is subject to a vesting schedule such that one fifth of the award vests after the first-year anniversary and one-sixtieth of the award vests each month thereafter over the remaining four years, subject to continuous service.

C3.AI, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

A summary of the Company's option activity during the nine months ended January 31, 2022 is as follows:

	Options Outstanding			
	Number of Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Aggregate Intrinsic Value
	(in thousands)			(in thousands)
Balance as of April 30, 2021	38,487	\$ 6.39	7.98	\$ 2,304,714
Options granted	6,127	46.23		
Options exercised	(4,174)	4.76		
Options cancelled	(3,290)	13.71		
Balance as of January 31, 2022	37,150	\$ 12.47	7.59	\$ 515,266
Vested and exercisable as of January 31, 2022	15,195	\$ 5.10	6.50	\$ 322,749
Vested and expected to vest as of January 31, 2022 ⁽¹⁾	37,629	\$ 12.47	7.59	\$ 521,914

(1) The number of options vested and expected to vest as of January 31, 2022 includes early exercised, unvested Class A common stock. Refer to *Note 8. Stockholders' Equity* for more information.

As of January 31, 2022, there was \$166.3 million of unrecognized compensation cost related to stock options which are expected to be recognized over an estimated weighted-average period of 3.4 years.

The grant-date fair value of the options issued for the nine months ended January 31, 2022 is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The weighted average assumptions underlying the fair value estimation are provided in the following table:

	As of January 31,	
	2022	2021
Valuation assumptions:		
Expected dividend yield	— %	— %
Expected volatility	43.5 %	43.8 %
Expected term (years)	6.5	6.3
Risk-free interest rate	1.4 %	0.4 %

Restricted Stock Units

During the fourth quarter of the fiscal year ended April 30, 2021, the Company began granting RSUs to its employees. No RSUs were granted prior to the IPO. The RSUs are typically subject to service-based vesting conditions satisfied over five years with one-fifth of the award vesting after the first-year anniversary and one-twenty-fifth of the award vesting quarterly thereafter. The related stock-based compensation is recognized on a straight-line basis over the requisite service period.

C3.AI, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

A summary of the Company's RSU activity during the nine months ended January 31, 2022 is as follows:

	RSUs Outstanding	
	Number of RSUs (in thousands)	Weighted Average Grant Date Fair Value Per Share
Unvested Balance as of April 30, 2021	447	\$ 74.52
RSUs granted	7,829	49.60
RSUs vested	(54)	66.24
RSUs forfeited	(1,297)	58.77
Unvested Balance as of January 31, 2022	6,925	\$ 49.36

As of January 31, 2022, there was \$296.2 million of unrecognized stock-based compensation expense related to outstanding RSUs granted to employees that is expected to be recognized over a weighted-average period of 3.9 years.

Stock-based Compensation Expense

The following table summarizes the effects of stock-based compensation on the Company's condensed consolidated statements of operations (in thousands):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2022	2021	2022	2021
Cost of subscription	\$ 2,639	\$ 214	\$ 5,824	\$ 557
Cost of professional services	704	164	1,991	301
Sales and marketing	8,850	2,790	28,540	5,835
Research and development	12,846	846	25,860	1,952
General and administrative	6,322	2,575	15,598	5,625
Total stock-based compensation expense	\$ 31,361	\$ 6,589	\$ 77,813	\$ 14,270

Shareholder Loan

In January 2018, in connection with the Series F preferred stock financing, the Company issued 1,251,921 shares of Series F preferred stock in exchange for a note receivable of \$24.5 million from its chief executive officer ("CEO"). Prior to the automatic conversion of all Series F preferred stock outstanding into Class A common stock upon the completion of the IPO, the underlying shares of Series F preferred stock were legally outstanding though were not included in the carrying amounts of preferred stock as the note receivable is treated as an equity classified stock-based option grant. In September 2020, the Company's CEO paid the outstanding full recourse promissory note and accrued interest in the amount of \$26.0 million. No interest income was recorded for the note. Refer to *Note 12. Related Party Transactions* for more information.

10. Income Taxes

Accounting for income taxes for interim periods generally requires the provision for income taxes to be determined by applying an estimate of the annual effective tax rate for the full fiscal year to income or loss before income taxes, adjusted for discrete items, if any, for the reporting period. The Company updates its estimate of the annual effective tax rate each quarter and makes a cumulative adjustment in such period.

The Company recorded income tax expense of \$0.2 million and \$0.2 million for the three months ended January 31, 2022 and 2021, respectively, and \$0.6 million and \$0.5 million for the nine months ended January 31, 2022 and 2021, respectively. Income tax expense consists primarily of income taxes in foreign jurisdictions in which the Company conducts business. Due to the Company's history of losses in the United States, a full valuation allowance on substantially all of the Company's deferred tax assets, including net operating loss carryforwards, research and development tax credits, and other book versus tax differences, was maintained.

The American Rescue Plan Act of 2021 (“ARPA”) was enacted by the United States on March 11, 2021. The ARPA did not have a material impact on the Company’s provision for income taxes for the three and nine months ended January 31, 2022.

11. Net Loss Per Share Attributable to Common Stockholders

Basic and diluted net loss per share attributable to common stockholders is presented in conformity with the two-class method required for participating securities. Class A and B common shares have identical liquidation and distribution rights. Prior to the automatic conversion of all shares of redeemable convertible Class A-1 common stock into Class A common stock upon the completion of the IPO, the shares of redeemable convertible Class A-1 common stock had a liquidation preference, but were legal form common stock and participated in losses equally with all common stockholders.

Prior to the automatic conversion of all of its redeemable convertible preferred stock outstanding into Class A and Class B common stock upon the completion of the IPO, the Company considered all redeemable convertible preferred stock to be participating securities because they participated in any dividends declared on the Company’s common stock on an as-if-converted basis. Redeemable convertible preferred stock did not participate in the net loss per share with common stockholders as the holders of the convertible preferred did not have a contractual obligation to share in the Company’s losses.

Accordingly, under the two-class method, the net loss is not allocated to the redeemable convertible preferred stock such that the resulting net loss for all periods presented was allocated on a proportionate basis to shares of Class A, Class A-1, and Class B common stock for the number of days that each class was issued and outstanding during the period.

Basic net loss per share attributable to common stockholders is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period, less shares subject to repurchase. Diluted net loss per share attributable to common stockholders is computed by giving effect to all potential dilutive common stock equivalents outstanding for the period to the extent they are dilutive. For purposes of this calculation, the convertible preferred, stock options, and early exercised stock options subject to repurchase are considered to be potential common stock equivalents but have been excluded from the calculation of diluted net loss per share attributable to common stockholders as their effect is anti-dilutive. Basic net loss per share was the same as diluted net loss per share for the periods presented because the Company was in a loss position for the three and nine months ended January 31, 2022 and 2021.

The following table sets forth the computation of basic and diluted net loss per share attributable to common stockholders (in thousands, except per share data):

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2022	2021	2022	2021
Numerator				
Net loss attributable to common stockholders	\$ (39,447)	\$ (16,852)	\$ (133,645)	\$ (31,646)
Denominator				
Basic and diluted weighted-average Class A common shares outstanding	101,593	68,648	100,341	43,481
Basic and diluted weighted-average Class A-1 common shares outstanding	—	6,667	—	6,667
Basic and diluted weighted-average Class B common shares outstanding	3,500	3,500	3,500	3,500
Basic and diluted net loss per share attributable to common stockholders				
Basic and diluted net loss per Class A common shares outstanding	\$ (0.38)	\$ (0.23)	\$ (1.29)	\$ (0.64)
Basic and diluted net loss per Class A-1 common shares outstanding	\$ —	\$ (0.10)	\$ —	\$ (0.52)
Basic and diluted net loss per Class B common shares outstanding	\$ (0.38)	\$ (0.13)	\$ (1.29)	\$ (0.12)

The potential shares of common stock that were excluded from the computation of diluted net loss per share attributable to common stockholders for the period presented because including them would have had an antidilutive effect were as follows:

	As of January 31,	
	2022	2021
Stock options	37,628,988	41,286,541
RSUs	6,925,310	—

12. Related Party Transactions

Shareholder Loan

In January 2018, the Company issued 1,251,921 shares of Series F Preferred Stock in exchange for a non-recourse promissory note to Thomas M. Siebel, the Company's CEO, in the amount of \$24.5 million. The promissory note has a term of five years with the ability to renew for up to four successive one year periods and bears interest at a rate of 2.18% per annum, compounded annually. In September 2020, Mr. Siebel paid the outstanding promissory note in full including accrued interest in the total amount of \$26.0 million. Refer to *Note 9. Stock-Based Compensation* for more information.

Revenue Transactions with Baker Hughes Company

In June 2019, the Company entered into multiple agreements with Baker Hughes Company ("Baker Hughes") under which Baker Hughes received a three-year subscription to use the Company's software. These agreements were revised in June 2020 to extend the term to five years and modify the subscription fees due. Under the agreements as revised in June 2020, Baker Hughes made minimum, non-cancelable revenue commitments, inclusive of their direct subscription fees and third-party revenue generated through a joint marketing arrangement with Baker Hughes, in the amount of \$46.7 million in fiscal year 2020, \$53.3 million in fiscal year 2021, \$75.0 million in fiscal year 2022, \$125.0 million in fiscal year 2023, and \$150.0 million in fiscal year 2024. The Company also agreed to pay Baker Hughes a sales commission on subscriptions and services offerings it resold in excess of these minimum revenue commitments.

The Company and Baker Hughes further revised these agreements in October 2021 to extend the term by an additional year, for a total of six years, with an expiration date in the fiscal year ending April 30, 2025, to modify the amount of Baker Hughes' annual commitments to \$85.0 million in fiscal year 2023, \$110.0 million in fiscal year 2024, and \$125.0 million in fiscal year 2025, and to revise the structure of the arrangement to further incentivize Baker Hughes' sales of the Company's products and services. Beginning in fiscal year 2023, Baker Hughes' annual commitments will be reduced by any revenue the Company generates from certain customers. The revenue recorded for Baker Hughes will be reviewed quarterly and adjusted, as needed, to reflect the Company's current assumptions.

Pursuant to the revised arrangement, the Company acknowledged that Baker Hughes had met its minimum annual revenue commitment for the current fiscal year and recognized \$16.0 million of sales commission as deferred costs during the fiscal quarter ended October 31, 2021 related to this arrangement, which will be amortized over an expected period of five years.

During the nine months ended January 31, 2022, the Company recognized total revenue of \$70.9 million related to its arrangement with Baker Hughes. The remaining performance obligations related to Baker Hughes, which includes both direct subscriptions and reseller arrangements, is comprised of \$2.3 million related to deferred revenue and \$234.9 million of commitments from non-cancellable contracts as of January 31, 2022 and \$8.5 million related to deferred revenue and \$95.5 million from non-cancellable contracts as of April 30, 2021.

The Company recognized subscription revenue from direct subscription fees from Baker Hughes of \$19.7 million and \$8.0 million during the three months ended January 31, 2022 and 2021, respectively, and \$40.0 million and \$21.6 million during the nine months ended January 31, 2022 and 2021, respectively. The Company recognized professional services revenue from Baker Hughes of \$4.9 million and nil during the three months ended January 31, 2022 and 2021, respectively, and \$12.9 million and nil during the nine months ended January 31, 2022 and 2021, respectively. As of January 31, 2022 and April 30, 2021, accounts receivable, net (inclusive of unbilled receivables) included \$15.7 million and \$15.2 million and deferred revenue, current included \$0.6 million and \$7.7 million, respectively.

The Company recognized cost of subscription revenue related to services purchased from Baker Hughes of \$0.2 million and nil during the three months ended January 31, 2022 and 2021, respectively, and \$0.4 million and nil during the nine months ended January 31, 2022 and 2021, respectively. The Company recognized sales and marketing expenses related to Baker Hughes of \$2.4 million and nil during the three months ended January 31, 2022 and 2021, respectively, and \$2.6 million and nil during the nine months ended January 31, 2022 and 2021, respectively. As of January 31, 2022 and April 30, 2021, accounts payable included \$2.4 million and \$0.1 million, respectively.

As of January 31, 2022 and April 30, 2021, the current portion of deferred costs of \$5.0 million and \$1.7 million, respectively, were included in prepaid expenses and other current assets and the non-current portion of \$17.4 million and \$6.6 million, respectively, were included in other assets, non-current. The Company amortized \$1.2 million and \$2.0 million of deferred commissions during the three and nine months ended January 31, 2022, and this amount was included in sales and marketing expense in the condensed consolidated statements of operations.

The Company recognized \$8.3 million and \$16.0 million of sales commission as deferred costs during the fiscal year ended April 30, 2021 and the fiscal quarter ended January 31, 2022, respectively, related to this arrangement. The sales commissions of \$8.3 million recognized in the fiscal year ended April 30, 2021 is payable to Baker Hughes over the term of three years based on the agreements, of which the Company paid \$3.4 million during the nine months ended January 31, 2022. The sales commissions of \$16.0 million recognized in the fiscal quarter ended January 31, 2022 will be amortized over an expected period of five years.

As of January 31, 2022 and April 30, 2021, accrued and other current liabilities included \$18.5 million and \$3.4 million, respectively, and other long-term liabilities included \$2.4 million and \$4.9 million, respectively.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and 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" for the fiscal year ended April 30, 2021 included in the Annual Report on Form 10-K for the fiscal year ended April 30, 2021, which was filed with the Securities and Exchange Commission, or SEC, on June 25, 2021. This discussion, particularly information with respect to our future results of operations or financial condition, business strategy and plans, and objectives of management for future operations, includes forward-looking statements that involve risks and uncertainties as described under the heading "Special Note Regarding Forward-Looking Statements" in this Quarterly Report on Form 10-Q. You should review the disclosure under the heading "Risk Factors" in this Quarterly Report on Form 10-Q for a discussion of important factors that could cause our actual results to differ materially from those anticipated in these forward-looking statements. Unless the context otherwise requires, all references in this report to "C3.ai," "C3 AI," the "Company", "we," "our," "us," or similar terms refer to C3.ai, Inc. and its subsidiaries.

Overview

C3 AI is an Enterprise AI software company.

We have built an integrated family of software applications that enables our customers to rapidly develop, deploy, and operate large-scale Enterprise AI applications across any infrastructure. Customers can deploy C3 AI solutions on all major public cloud infrastructures, private cloud or hybrid environments, or directly on their servers and processors. We provide five primary families of software solutions, which we collectively refer to as our C3 AI Software:

- The C3 AI Suite, our core technology, is a comprehensive application development and runtime environment that is designed to allow our customers to rapidly design, develop, and deploy Enterprise AI applications of any type. Our C3 AI Suite enables developers to rapidly build applications by using conceptual models of all the elements required by an Enterprise AI application instead of having to write complex, lengthy, structured programming code to define, control, and integrate the many requisite data and microservices components to work together.
- C3 AI Applications, built using the C3 AI Suite, include a large and growing family of industry-specific and application-specific turnkey AI solutions, ready for installation and deployment.
- C3 AI Ex Machina, our no-code solution that provides secure, easy access to analysis-ready data, and enables business analysts without data science training to rapidly perform data science tasks such as building, configuring, and training AI models.
- C3 AI CRM is a family of fully AI-enabled, industry-specific CRM solutions that combine the CRM technology leadership and market reach of our partner ecosystem. The C3 AI CRM product family includes sales, marketing, and customer service functionality. The products are available in vertical market-specific offerings specifically designed to meet the needs of industries such as financial services, healthcare, telecommunications, oil and gas, manufacturing, utilities, aerospace, automotive, public sector, defense, and intelligence.
- C3 AI Data Vision allows analysts to visualize, understand and leverage the hidden relationships between data entities. This product unifies data from across systems to enable deep exploration and insights in near real-time, enabling collaborative data analysis using interactive, intuitive graph network visualizations.

These solutions, and our patented model-driven architecture, enable organizations to simplify and accelerate Enterprise AI application development, deployment, and administration. We significantly reduce the effort and complexity of the AI software engineering problem.

How We Generate Revenue

We generate revenue primarily from the sale of subscriptions, which accounted for 82% and 87% of our total revenue in the three months ended January 31, 2022 and 2021, respectively, and 83% and 87% of our total revenue in the nine months ended January 31, 2022 and 2021, respectively. Our cloud-native software offerings allow us to manage, update, and monitor the software regardless of whether the software is deployed in our public cloud environment, in our customers' self-managed private or public cloud environments, or in a hybrid environment. Our subscription contracts are generally non-cancelable and non-refundable.

We define a Customer-Entity as each entity that is the ultimate parent of a party contracting with us.

Our Customer-Entity count is as follows:

	January 31, 2021	April 30, 2021	July 31, 2021	October 31, 2021	January 31, 2022
Customer-Entities	39	32	44	53	50

We commonly enter into enterprise-wide agreements with Customer-Entities that include multiple operating units or divisions. We count as a Customer each distinct division, department, business unit, or group within a Customer-Entity that uses our product(s). In situations where our Customer (or Customer-Entity) has developed software using our C3 AI Suite or developed derivative works of our C3 AI Applications and has sold that software or service to its end customer(s), we also include such end customers in our Customer count. In addition, where our software is sold to a third-party under a reseller arrangement, we include the end customer of such arrangement in our Customer count. We only count Customers and Customer-Entities for which there is revenue in the period through a Customer-Entity contract. We exclude free trials from both our Customer-Entity and Customer counts.

During the period ended January 31, 2022, we performed an analysis of our Customer-Entity usage. We found that despite the definition our previous Customer count did not capture all the distinct divisions, departments, business units, or groups that were using our software or services. We also identified that while our previous Customer count included situations where (i) our Customer (or Customer-Entity) had developed software using our C3 AI Suite or derivative works of our C3 AI Applications and had sold that software or service to its end customer(s), and (ii) our software or services were sold to a third-party under a reseller arrangement, our previously stated definition did not explicitly include those scenarios.

Based on the revised approach, our best estimate of Customer count is as follows:

	January 31, 2021	April 30, 2021	July 31, 2021	October 31, 2021	January 31, 2022
Customer count					
Revised calculation	120	151	180	203	218

Based on the prior calculation, our historical Customer count is as follows:

	January 31, 2021	April 30, 2021	July 31, 2021	October 31, 2021	January 31, 2022
Customer count					
Prior calculation	75	89	98	104	110

For clarity, we have provided our Customer count historically using both the prior and current methodology. We intend to only present the revised calculation of Customer on a go-forward basis, as we believe it is a more accurate representation.

Due to the revisions reflected in the above definitions, the Customer-Entity and Customer count data included above is not comparable to the historical customer count data included in our previously filed Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Form S-1 Registration Statements, outside of the quarterly data included in the table above.

We primarily recognize revenue from subscriptions over the contract term on a ratable basis. In addition, customers typically pay a usage-based runtime fee for production use of our C3 AI Software for specified levels of capacity. Customers who choose to run the software in our cloud environment pay the hosting costs charged by our cloud providers. Our subscriptions also include our maintenance and support services. Additionally, we offer premium stand-ready support services through our C3 AI Center of Excellence, or COE, which are included as part of the subscription when purchased.

We also generate revenue from professional services, which primarily include implementation services, training and prioritized engineering services. Professional services revenue represented 18% and 13% of our total revenue for the three months ended January 31, 2022 and 2021, respectively, and 17% and 13% of our total revenue for the nine months ended January 31, 2022 and 2021, respectively. Our professional services are provided both onsite and remotely, and can include training, application design, project management, system design, data modeling, data integration, application design, development support, data science, and application and C3 AI Software administration support. Professional services fees are based on the level of effort required to perform the specified tasks and the services are typically provided under a fixed-fee engagement with defined deliverables and a duration of less than 12 months. We recognize revenue from our professional services over the period of delivery as services are performed.

We are growing rapidly, with total revenue of \$69.8 million and \$180.4 million for the three and nine months ended January 31, 2022, respectively, representing a 42% and 38% increase compared to the same periods last year. Our subscription revenue grew to \$57.1 million and \$150.6 million for the three and nine months ended January 31, 2022, respectively, representing a 34% and 32% increase compared to the same periods last year.

Go-to-Market Strategy

Our go-to-market strategy is focused on large organizations recognized as leaders in their respective industries or public sectors, and who are attempting to solve complicated business problems by digitally transforming their operations. These large organizations, or lighthouse customers, include companies and public agencies within the oil and gas, power and utilities, aerospace and defense, industrial products, life sciences, and financial services industries, among others. This has resulted in C3 AI powering some of the largest and most complex Enterprise AI applications worldwide. These lighthouse customers serve as proof points for other potential customers in their particular industries. Today, we have a customer base of a relatively small number of large organizations that generate high average total subscription contract value, but we expect that, over time, as more customers adopt our technology based on the proof points provided by these lighthouse customers, the revenue represented by these customers will decrease as a percentage of total revenue. As our C3 AI Suite and much of our other C3 AI Software is industry agnostic, we also expect to expand into other industries as we grow.

Acquiring new customers and expanding our business with our existing customers is the intent of our go-to-market effort and drivers of our growth. Making new and existing customers successful is critical to our long-term success. After we help our customers solve their initial use cases, they typically identify incremental opportunities within their operations and expand their use of our products by either purchasing additional C3 AI Software or by subscribing to the C3 AI Suite to develop their own AI applications.

The size and sophistication of our customers' businesses demonstrate the flexibility, speed, and scale of our products, and maximize the potential value to our customers. To be a credible partner to our customers, who often are industry leaders, we deploy a motivated and highly educated team of C3 AI personnel and partners. We go-to-market primarily leveraging our direct sales force. We also complement and supplement our sales force with a number of go-to-market partners.

- *Industry Partners.* We have developed an alliance program to partner with recognized leaders in their respective industries, such as Baker Hughes, Fidelity National Information Services, or FIS, and Raytheon, to develop, market, and sell solutions that are natively built on or tightly integrated with the C3 AI Suite.
- *Consulting and Services Partners.* We partner with a number of systems integrators specializing in Enterprise AI implementations.
- *Hyperscale Cloud and Infrastructure.* We have formed global strategic go-to-market alliances with hyperscale cloud providers including Amazon, FIS, Google, and Microsoft. In addition, we have strategic alliances with leading hardware infrastructure providers to deliver our software optimized for their technology. These partners include Hewlett Packard Enterprise and Intel. These partners supply infrastructure solutions, data management and processing services, or hardware and networking devices (e.g., IoT gateways) to support C3.ai product implementations and complement C3 AI's products.
- *Independent Software Vendors.* We partner with Independent Software Vendors who develop, market, and sell application solutions that are natively built on or tightly integrated with the C3 AI Suite.

Key Business Metric

We monitor remaining performance obligations, or RPO, as a key metric to help us evaluate the health of our business, identify trends affecting our growth, formulate goals and objectives, and make strategic decisions. RPO is not necessarily indicative of future revenue growth because it does not account for the timing of customers' consumption or their consumption of more than their contracted capacity. Moreover, RPO is influenced by several factors, including the timing of renewals, the timing of purchases of additional capacity, average contract terms, and seasonality. Due to these factors, it is important to review RPO in conjunction with revenue and other financial metrics disclosed elsewhere in this Quarterly Report on Form 10-Q. RPO was \$469.3 million and \$293.8 million as of January 31, 2022 and April 30, 2021, respectively. We may experience variations in our RPO from period to period, but RPO has generally increased over the long term as a result of contracts with new customers and increasing the value of contracts with existing customers. These increases are partially offset by revenue recognized on existing contracts during the period.

RPO represents the amount of our contracted future revenue that has not yet been recognized, including both deferred revenue and non-cancelable contracted amounts that will be invoiced and recognized as revenue in future periods. Our RPO as of January 31, 2022 is comprised of \$59.4 million related to deferred revenue and \$409.8 million of commitments from non-cancellable contracts. Our RPO as of April 30, 2021 is comprised of \$75.2 million related to deferred revenue and \$218.6 million of commitments from non-cancellable contracts.

RPO excludes amounts related to performance obligations and usage-based royalties that are billed and recognized as they are delivered. This primarily consists of monthly usage-based runtime and hosting charges in the duration of some revenue contracts. RPO also excludes any future resale commitments by our strategic partners until those end customer contracts are signed. Cancellable backlog, not included in RPO, was \$67.5 million and \$51.3 million as of January 31, 2022 and April 30, 2021, respectively.

Factors Affecting Our Performance

We believe that our future success and financial performance depend on a number of factors that present significant opportunities for our business but also pose risks and challenges, including those discussed below and in the section of this Quarterly Report on Form 10-Q in Part II, Item 1A titled "Risk Factors", that we must successfully address to sustain our growth, improve our results of operations, and establish and maintain profitability.

Customer Acquisition, Retention, and Expansion

We are focused on continuing to grow our customer base, retaining existing customers and expanding customers' usage of our C3 AI Software by addressing new use cases across multiple departments and divisions, adding users, and developing and deploying additional applications. All of these factors increase the adoption and relevance of our C3 AI Software to our customers' business and, as an outcome, increases their runtime usage.

We have built a customer-focused culture and have implemented proactive programs and processes designed to drive customer success. These include a robust customer support and success function. For example, as part of our subscription offerings, we provide our customers with the ability to establish a COE, accessing our experienced and specialized resources in key technical areas like application development, data integration, and data science to accelerate and ensure our customers' success developing applications on our C3 AI Suite. We closely monitor the health and status of every customer account through multiple activities, including real-time monitoring, daily and weekly reports to management, as well as quarterly reviews with our customers.

We also intend to attract new customers across multiple industries where we have limited meaningful presence today, yet represent very large market opportunities such as telecommunications, pharmaceuticals, smart cities, transportation, and healthcare, among others.

Historically, we have had a relatively small number of customers with large total subscription contract values. As a result, revenue growth can vary significantly based on the timing of customer acquisition, changes in product mix, and contract durations, renewals, or terminations. We expect the number of customers to increase compared to prior fiscal years as organizations address the importance of digital transformation. The average total subscription contract value as well as the revenue represented by our lighthouse customers as a percentage of total revenue is decreasing and we expect them to continue to decrease as we have restructured our sales organization and expanded our market-partner ecosystem to effectively address small, medium, and large enterprise sales opportunities.

Technology Innovation

We intend to continue to invest in our research and development capabilities to extend our C3 AI Software, to expand within existing accounts, and to gain new customers. Our investments in research and development drive core technology innovation and bring new products to market. Our model-driven architecture enables us and our customers to rapidly address new use cases by building new applications and extending and enhancing the features and functionality of current C3 AI Software. By investing to make it easier to develop applications on our C3 AI Suite, our customers have become active developers. With our support, our customers have developed and deployed almost two-thirds of the applications currently in production and running on the C3 AI Suite. Research and development spending has fueled enhancements to our existing C3 AI Suite.

We expect to maintain high levels of investment in product innovation over the coming years as we continue to introduce new applications which address new industry use cases, and new features and functionality for the C3 AI Software. As our business scales over a longer-term horizon, we anticipate research and development spend as a percent of total revenue to decline.

Brand Awareness

We believe we are in the early stages of a large and expanding new market for AI enabled digital transformation. As a result, we intend to continue to invest in brand awareness, market education, and thought leadership. We engage the market through digital, radio, outdoor, airport, and print advertising; virtual and physical events, including our C3 AI Transform annual customer conference; and C3 AI Live, a series of livestreamed events featuring C3 AI customers, C3 AI partners, and C3 AI experts in AI, machine learning, and data science.

We anticipate continuing to make significant investments in marketing over the next several years. Over the long term we expect marketing spend to decline as a percent of total revenue as we make ongoing progress establishing C3 AI's brand and reputation and as our business scales.

Grow Our Go-to-Market and Partnership Ecosystem

In addition to the activities of our field sales organization, our success in attracting new customers will depend on our ability to expand our ecosystem of strategic partners and the number of industry verticals that they serve. Our strategic go-to-market alliances vastly extend our reach globally. Some of our most notable partners include Baker Hughes, FIS, Infor, and Microsoft. Each strategic partner is a leader in its industry, with a substantial installed customer base and extensive marketing, sales, and services resources that we can leverage to engage and serve customers anywhere in the world. Using our C3 AI Suite as the development suite, we leverage our model-driven architecture to efficiently build new cross-industry and industry-specific applications based on identifying requirements across our customer base of industry leaders and through our industry partners. Our strategy with strategic partners is to establish a significant use case and prove the value of our C3 AI Suite with a flagship customer in each industry in which we participate. We have done this with our strategic vertical industry partner in oil and gas, Baker Hughes, as well as with our iconic global customers, some of whom are deploying C3 AI technology to optimize thousands of critical assets globally across their upstream, midstream, and downstream operations. We establish formal sales and marketing plans with each partner, including specific sales goals and dedicated budgets, and we work closely with these partners to identify specific target accounts. We intend to grow the business we do with each partner and to add more partners as we expand the vertical markets we serve. We also offer revenue generating trials of our applications as part of our customer acquisition strategy.

In June 2019, we entered into a three-year arrangement with Baker Hughes as both a leading customer and as a partner in the oil and gas industry. This arrangement included a subscription to our C3 AI Suite for their own operations (which we refer to below as direct subscription fees), the exclusive right for Baker Hughes to resell our offerings worldwide in the oil and gas industry, and the non-exclusive right to resell our offerings in other industries. Under the arrangement, Baker Hughes made minimum, non-cancelable, total revenue commitments to us of \$50.0 million, \$100.0 million, and \$170.0 million, for each of the fiscal years ending April 30, 2020, 2021, and 2022, respectively. Baker Hughes revenue commitments were inclusive of their direct subscription fees of \$39.5 million per year with the remainder to be generated from the resale of our solutions by the Baker Hughes sales organization. During the fiscal year ended April 30, 2020, we recognized as revenue the full value of the first year of the direct subscription agreement and the value of deals brought in by Baker Hughes through the reseller arrangement. This arrangement was revised in June 2020 to extend the term by an additional two years, for a total of five years, with an expiration date in the fiscal year ending April 30, 2024 and to modify the annual amount of Baker Hughes' commitments to \$53.3 million, \$75.0 million, \$125.0 million, and \$150.0 million, over the fiscal years ending April 30, 2021, 2022, 2023, and 2024, respectively. We are obligated to pay Baker Hughes a sales commission on subscriptions to our products and services offerings it resells in excess of these minimum revenue commitments.

We and Baker Hughes further revised these agreements in October 2021 to extend the term by an additional year, for a total of six years, with an expiration date in the fiscal year ending April 30, 2025, to modify the amount of Baker Hughes' annual commitments to \$85.0 million in fiscal year 2023, \$110.0 million in fiscal year 2024, and \$125.0 million in fiscal year 2025, and to revise the structure of the arrangement to further incentivize Baker Hughes' sales of our products and services. Beginning in fiscal year 2023, Baker Hughes' annual commitments will be reduced by any revenue we generate from certain customers. The revenue recorded for Baker Hughes will be reviewed quarterly and adjusted, as needed, to reflect our current assumptions.

Pursuant to the revised arrangement, we acknowledged that Baker Hughes had met its minimum annual revenue commitment for the current fiscal year and recognized \$16.0 million of sales commission as deferred costs during the fiscal quarter ended October 31, 2021 related to this arrangement, which will be amortized over an expected period of five years.

Our RPO related to Baker Hughes, which includes both direct subscriptions and reseller arrangements, is comprised of \$2.3 million related to deferred revenue and \$234.9 million of commitments from non-cancellable contracts as of January 31, 2022 and \$8.5 million related to deferred revenue and \$95.5 million from non-cancellable contracts as of April 30, 2021.

As of January 31, 2022, the total estimated amount of Baker Hughes' commitments not yet contracted under the direct subscription fee or reseller arrangement under the entire arrangement was \$46.4 million.

As of October 31, 2021, July 31, 2021 and April 30, 2021, the total remaining amount of Baker Hughes' minimum revenue commitments not yet contracted under the direct subscription fee or reseller arrangement, and thus subject to the shortfall annual provisions, under the entire arrangement was \$23.7 million, \$204.4 million and \$219.3 million, respectively.

We purchase services from Baker Hughes from time to time to support our end customers in relation to our contracts with those customers. These costs are recorded as cost of subscription revenue in the condensed consolidated statement of operations.

International Expansion

The international market opportunity for Enterprise AI software is large and growing, and we believe there is a significant opportunity to continue to grow our international customer base. We believe that the demand for our C3 AI Software will continue growing as international awareness of the benefits of digital transformation and Enterprise AI software grows. We plan to continue to make investments to expand geographically by increasing our direct sales team in international markets and supplementing the direct sales effort with strategic partners to significantly expand our reach and market coverage. We derived approximately 19% and 40% of our total revenue for the three months ended January 31, 2022 and 2021, respectively, and 24% and 35% of our total revenue for the nine months ended January 31, 2022 and 2021, respectively, from international customers.

Impact of COVID-19

The ongoing COVID-19 pandemic has caused general business disruption worldwide beginning in January 2020. The full extent to which the COVID-19 pandemic will directly or indirectly impact our business, results of operations, cash flows, and financial condition will depend on future developments that are uncertain. As a result of global business disruption, the COVID-19 pandemic had a significant adverse impact on our conclusion of new and additional business agreements in 2021 and 2020 and may continue to pose challenges until the effects of the pandemic abate.

As a result of the COVID-19 pandemic, we temporarily closed our headquarters and other offices, required our employees and contractors to work remotely, and implemented travel restrictions, all of which represented a significant change in how we operate our business. The operations of our partners and customers have likewise been altered. While the duration and extent of the COVID-19 pandemic depends on future developments that cannot be accurately predicted at this time, such as the extent and effectiveness of containment actions, the emergence and spread of current and future variants of the COVID-19 virus, and the effectiveness, acceptance, and availability of vaccines against the COVID-19 virus and its variants, the COVID-19 pandemic has already had an adverse effect on the global economy and the ultimate societal and economic impact of the COVID-19 pandemic remains unknown. In particular, the conditions caused by this pandemic are likely to affect the rate of global IT spending and could adversely affect demand for our C3 AI Software, lengthen our sales cycles, reduce the value or duration of subscriptions, reduce the level of subscription renewals, negatively impact collections of accounts receivable, reduce expected spending from new customers, cause some of our paying customers to go out of business, limit the ability of our direct sales force to travel to customers and potential customers, and affect contraction or attrition rates of our paying customers, all of which could adversely affect our business, results of operations, and financial condition during fiscal 2022 and potentially future periods.

We will continue to evaluate the nature and extent of the impact of the COVID-19 pandemic on our business. For further discussion of the potential impacts of the ongoing COVID-19 pandemic on our business, operating results, and financial condition, see the section titled “Risk Factors” included in Part II, Item 1A of this Quarterly Report on Form 10-Q. Other factors affecting our performance are discussed below, although we caution you that the ongoing COVID-19 pandemic may also further impact these factors.

Components of Results of Operations

Revenue

Subscription Revenue. Our subscription revenue is primarily comprised of term licenses, stand-ready COE support services, trials of our applications, and software-as-a-service offerings. Sales of our term licenses grant our customers the right to use our software, either on their own cloud instance or their internal hardware infrastructure, over the contractual term. We also offer a premium stand-ready service through our COE. Sales of our software-as-a-service offerings include a right to use our software over the contractual term. Our subscription contracts are generally non-cancelable and non-refundable, and we recognize revenue over the contract term on a ratable basis. In addition, customers pay a usage-based runtime fee for our C3 AI Software for specified levels of capacity. Our subscriptions also include our maintenance and support services, which include critical and continuous updates to the software that are integral to maintaining the intended utility of the software over the contractual term. Our software subscriptions and maintenance and support services are highly interdependent and interrelated and represent a single distinct performance obligation within the context of the contract. We currently have a small number of public utility customers that license our offerings under a perpetual license model, and we expect that may continue for the foreseeable future for certain customers due to their specific contracting requirements.

Professional Services Revenue. Our professional services revenue primarily includes implementation services, training and prioritized engineering services. We offer a complete range of professional service support both onsite and remotely, including training, application design, project management, system design, data modeling, data integration, application design, development support, data science, and application and C3 AI Software administration support. Professional services fees are based on the level of effort required to perform the specified tasks and are typically a fixed-fee engagement with defined deliverables and a duration of less than 12 months. We recognize revenue for our professional services over the period of delivery as services are performed.

Cost of Revenue

Cost of Subscription Revenue. Cost of subscription revenue consists primarily of costs related to compensation, including salaries, bonuses, benefits, stock-based compensation and other related expenses for the production environment, support and COE staff, hosting of our C3 AI Software, including payments to outside cloud service providers, and allocated overhead and depreciation for facilities.

Cost of Professional Services Revenue. Cost of professional services revenue consists primarily of compensation, including salaries, bonuses, benefits, stock-based compensation and other related costs associated with our professional service personnel, third-party system integration partners, and allocated overhead and depreciation for facilities.

Gross Profit and Gross Margin

Gross profit is total revenue less total cost of revenue. Gross margin is gross profit expressed as a percentage of total revenue. Our gross margin has fluctuated historically and may continue to fluctuate from period to period based on a number of factors, including the timing and mix of the product offerings we sell as well as the geographies into which we sell, in any given period. Our gross margins are lower when we provide hosting services to our customers as compared to when a customer hosts our software in their self-managed private or public cloud environments. Our subscription gross margin may experience variability over time as we continue to invest and continue to scale our business. Our professional services gross margin may also experience variability from period to period due to the use of our own resources and third-party system integration partners in connection with the performance of our fixed price agreements.

Operating Expenses

Our operating expenses consist of sales and marketing, research and development, and general and administrative expenses. We expect our operating expenses as a percentage of total revenue to increase as we continue to invest to grow our business. Over the long-term, we expect those percentages to stabilize and then move lower as our business matures.

Sales and Marketing. Sales and marketing expenses consist of expenditures related to advertising, media, marketing, promotional events, brand awareness activities, business development, customer success and corporate partnerships. Sales and marketing expenses also include employee-related costs, including salaries, bonuses, benefits, stock-based compensation, and commissions for our employees engaged in sales and marketing activities, and allocated overhead and depreciation for facilities.

We expect our sales and marketing expenses will increase in absolute dollar amounts as we continue to invest in brand awareness and programmatic spend to generate demand. We also expect to hire additional sales personnel to increase sales coverage of target industry vertical and geographic markets. Consequently, sales and marketing expense as a percent of total revenue will remain high in the near-term. As our business scales through customer expansion and market awareness, we anticipate that sales and marketing expense as a percent of total revenue to decline over time.

Research and Development. Our research and development efforts are aimed at continuing to develop and refine our C3 AI Software, including adding new features and modules, increasing functionality and speed, and enhancing the usability of our C3 AI Software. Research and development expenses consist primarily of employee-related costs, including salaries, bonuses, benefits, and stock-based compensation for our employees associated with research and development related activities. Research and development expenses also include cloud infrastructure costs related to our research and development efforts, and allocated overhead and depreciation for facilities. Research and development costs are expensed as incurred.

We expect research and development expense to increase in absolute dollars as we continue to invest in our existing and future product offerings. We may experience variations from period to period with our total research and development expense as a percentage of revenue as we develop and deploy new applications targeting new use cases and new industries. Over a longer horizon, we anticipate that research and development expense as a percent of total revenue to decline.

General and Administrative. General and administrative expense consists primarily of employee-related costs, including salaries, bonuses, benefits, stock-based compensation and other related costs associated with administrative services such as executive management and administration, legal, human resources, accounting, and finance. General and administrative expense also includes facilities costs, such as depreciation and rent expense, professional fees, and other general corporate costs, including allocated overhead and depreciation for facilities.

We expect our general and administrative expense to increase in absolute dollars as we continue to grow our business. As a result of the closing of our IPO, we have incurred and expect to continue to incur additional expenses as a result of operating as a public company, including expenses necessary to comply with the rules and regulations applicable to companies listed on a national securities exchange and related to compliance and reporting obligations pursuant to the rules and regulations of the SEC, as well as higher expenses for general and director and officer insurance, investor relations, and professional services. We expect that general and administrative expense as a percent of total revenue will decline over the long-term as we benefit from the scale of our business infrastructure.

Interest Income

Interest income consists primarily of interest income earned on our cash, cash equivalents, and available-for-sale marketable securities. It also includes amortization of premiums and accretion of discount related to our available-for-sale marketable securities. Interest income varies each reporting period based on our average balance of cash, cash equivalents, and available-for-sale marketable securities during the period and market interest rates.

Other Income (Expense), Net

Other income (expense), net consists primarily of foreign currency exchange gains and losses, gains from legal settlements, losses from impairment of investments, and realized gains and losses on sales of available-for-sale marketable securities. Our foreign currency exchange gains and losses relate to transactions and asset and liability balances denominated in currencies other than the U.S. dollar. We expect our foreign currency gains and losses to continue to fluctuate in the future due to changes in foreign currency exchange rates.

Provision for Income Taxes

Our income tax provision consists of an estimate of federal, state, and foreign income taxes based on enacted federal, state, and foreign tax rates, as adjusted for allowable credits, deductions, uncertain tax positions, changes in the valuation of our deferred tax assets and liabilities, and changes in tax laws. We maintain a full valuation allowance on our federal and state deferred tax assets as we have concluded that it is not more likely than not that the deferred tax assets will be realized.

Results of Operations

The following tables set forth our condensed consolidated statements of operations for the periods presented:

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
Revenue				
Subscription	\$ 57,084	\$ 42,699	\$ 150,614	\$ 114,248
Professional services	12,689	6,410	29,828	16,685
Total revenue	69,773	49,109	180,442	130,933
Cost of revenue				
Subscription ⁽¹⁾	12,275	7,023	32,880	22,694
Professional services ⁽¹⁾	5,079	5,203	13,470	10,113
Total cost of revenue	17,354	12,226	46,350	32,807
Gross profit	52,419	36,883	134,092	98,126
Operating expenses				
Sales and marketing ⁽¹⁾	43,146	28,450	126,134	64,898
Research and development ⁽¹⁾	40,931	18,748	104,166	48,145
General and administrative ⁽¹⁾	15,748	8,184	43,391	21,433
Total operating expenses	99,825	55,382	273,691	134,476
Loss from operations	(47,406)	(18,499)	(139,599)	(36,350)
Interest income	410	129	1,077	997
Other income (expense), net	7,742	1,721	5,471	4,163
Net loss before provision for income taxes	(39,254)	(16,649)	(133,051)	(31,190)
Provision for income taxes	193	203	594	456
Net loss	\$ (39,447)	\$ (16,852)	\$ (133,645)	\$ (31,646)

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2022	2021	2022	2021
	(in thousands)		(in thousands)	
Cost of subscription	\$ 2,639	\$ 214	\$ 5,824	\$ 557
Cost of professional services	704	164	1,991	301
Sales and marketing	8,850	2,790	28,540	5,835
Research and development	12,846	846	25,860	1,952
General and administrative	6,322	2,575	15,598	5,625
Total stock-based compensation expense	\$ 31,361	\$ 6,589	\$ 77,813	\$ 14,270

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

	Three Months Ended January 31,		Nine Months Ended January 31,	
	2022	2021	2022	2021
Revenue				
Subscription	82 %	87 %	83 %	87 %
Professional services	18	13	17	13
Total revenue	100	100	100	100
Cost of revenue				
Subscription	18	14	18	17
Professional services	7	11	8	8
Total cost of revenue	25	25	26	25
Gross profit	75	75	74	75
Operating expenses				
Sales and marketing	62	58	70	50
Research and development	59	38	58	37
General and administrative	23	17	25	16
Total operating expenses	144	113	153	103
Loss from operations	(69)	(38)	(77)	(28)
Interest income	1	—	1	1
Other income (expense), net	11	4	3	3
Net loss before provision for income taxes	(57)	(34)	(73)	(24)
Provision for income taxes	—	—	—	—
Net loss	(57)%	(34)%	(73)%	(24)%

Comparison of the Three and Nine Months Ended January 31, 2022 and 2021

Revenue

	Three Months Ended January 31,				Nine Months Ended January 31,			
	2022	2021	\$ Change	% Change	2022	2021	\$ Change	% Change
	(in thousands)				(in thousands)			
Revenue								
Subscription	\$ 57,084	\$ 42,699	\$ 14,385	34 %	\$ 150,614	\$ 114,248	\$ 36,366	32 %
Professional services	12,689	6,410	6,279	98 %	29,828	16,685	13,143	79 %
Total revenue	\$ 69,773	\$ 49,109	\$ 20,664	42 %	\$ 180,442	\$ 130,933	\$ 49,509	38 %

Subscription revenue accounted for 82% and 87% of our total revenue for the three months ended January 31, 2022 and 2021, respectively. Subscription revenue increased by \$14.4 million, or 34%, for the three months ended January 31, 2022, compared to the same period last year, predominantly driven by revenue growth of \$14.4 million from new customers or expanding relationships with existing C3 AI customers.

Subscription revenue accounted for 83% and 87% of our total revenue for the nine months ended January 31, 2022 and 2021, respectively. Subscription revenue increased by \$36.4 million, or 32%, for the nine months ended January 31, 2022, compared to the same period last year, predominantly driven by revenue growth of \$36.4 million from new customers or expanding relationships with existing C3 AI customers.

Professional services revenue increased by \$6.3 million, or 98%, for the three months ended January 31, 2022, compared to the same period last year, predominantly due to the timing and mix of services projects for new and existing C3 AI customers.

Professional services revenue increased by \$13.1 million, or 79%, for the nine months ended January 31, 2022, compared to the same period last year, predominantly due to the timing and mix of services projects for new and existing C3 AI customers.

Cost of Revenue

	Three Months Ended January 31,				Nine Months Ended January 31,			
	2022	2021	\$ Change	% Change	2022	2021	\$ Change	% Change
	(in thousands)				(in thousands)			
Cost of revenue								
Subscription	\$ 12,275	\$ 7,023	\$ 5,252	75 %	\$ 32,880	\$ 22,694	\$ 10,186	45 %
Professional services	5,079	5,203	(124)	(2)%	13,470	10,113	3,357	33 %
Total cost of revenue	\$ 17,354	\$ 12,226	\$ 5,128	42 %	\$ 46,350	\$ 32,807	\$ 13,543	41 %

The increase in cost of subscription revenue for the three months ended January 31, 2022 compared to the same period last year was primarily due to higher personnel related costs of \$3.8 million, higher third-party outsourcing costs of \$0.9 million, and higher overhead costs of \$0.2 million.

The increase in cost of subscription revenue for the nine months ended January 31, 2022 compared to the same period last year was primarily due to higher personnel related costs of \$7.7 million, and higher third-party outsourcing costs of \$2.7 million, partially offset by lower overhead costs of \$0.5 million.

The decrease in cost of professional services revenue for the three months ended January 31, 2022 compared to the same period last year was primarily due to lower third-party outsourcing costs of \$0.5 million, partially offset by higher overhead costs of \$0.4 million.

The increase in cost of professional services revenue for the nine months ended January 31, 2022 compared to the same period last year was primarily due to higher overhead costs of \$1.6 million, higher third-party outsourcing costs of \$1.3 million, and higher personnel-related costs of \$0.5 million.

Gross Profit and Gross Margin

	Three Months Ended January 31,				Nine Months Ended January 31,			
	2022	2021	\$ Change	% Change	2022	2021	\$ Change	% Change
	(in thousands)				(in thousands)			
Gross profit	\$ 52,419	\$ 36,883	\$ 15,536	42 %	\$ 134,092	\$ 98,126	\$ 35,966	37 %
Gross margin								
Subscription	78 %	84 %			78 %	80 %		
Professional services	60 %	19 %			55 %	39 %		
Total gross margin	75 %	75 %			74 %	75 %		

The increases in gross profit was primarily driven by revenue growth from new and existing contracts. Overall, total gross margins were flat for the three months ended January 31, 2022 compared to the same period last year, and decreased for the three and nine months ended January 31, 2022 compared to the same periods last year, due to higher personnel-related costs.

Operating Expenses

	Three Months Ended January 31,				Nine Months Ended January 31,			
	2022	2021	\$ Change	% Change	2022	2021	\$ Change	% Change
	(in thousands)				(in thousands)			
Operating expenses								
Sales and marketing	\$ 43,146	\$ 28,450	\$ 14,696	52 %	\$ 126,134	\$ 64,898	\$ 61,236	94 %
Research and development	40,931	18,748	22,183	118 %	104,166	48,145	56,021	116 %
General and administrative	15,748	8,184	7,564	92 %	43,391	21,433	21,958	102 %
Total operating expenses	\$ 99,825	\$ 55,382	\$ 44,443	80 %	\$ 273,691	\$ 134,476	\$ 139,215	104 %

Sales and Marketing. The increase in sales and marketing expense for the three months ended January 31, 2022 compared to the same period last year was primarily due to higher personnel-related costs as a result of headcount growth of \$8.8 million, and higher advertising spend of \$5.3 million.

The increase in sales and marketing expense for the nine months ended January 31, 2022 compared to the same period last year was primarily due to higher personnel-related costs as a result of headcount growth of \$33.9 million, and higher advertising spend of \$25.0 million.

Research and Development. The increase in research and development expense for the three months ended January 31, 2022 compared to the same period last year was primarily due higher personnel-related costs as a result of headcount growth of \$17.9 million, higher C3.ai DTI contributions of \$2.9 million, and higher overhead costs of \$2.0 million.

The increase in research and development expense for the nine months ended January 31, 2022 compared to the same period last year was primarily due higher personnel-related costs as a result of headcount growth of \$41.1 million, higher C3.ai DTI contributions of \$7.4 million, higher overhead costs of \$4.9 million, and higher cloud computing costs of \$2.1 million.

General and Administrative. The increase in general and administrative expense for the three months ended January 31, 2022 compared to the same period last year was primarily due to higher personnel-related costs as a result of headcount growth of \$5.4 million, higher corporate insurance costs of \$0.9 million, and higher professional services costs of \$0.6 million.

The increase in general and administrative expense for the nine months ended January 31, 2022 compared to the same period last year was primarily due to higher personnel-related costs as a result of headcount growth of \$14.1 million, higher corporate insurance costs of \$4.6 million, and higher professional services costs of \$1.3 million.

Interest Income

	Three Months Ended January 31,				Nine Months Ended January 31,			
	2022	2021	\$ Change	% Change	2022	2021	\$ Change	% Change
	(in thousands)				(in thousands)			
Interest income	\$ 410	\$ 129	\$ 281	218 %	\$ 1,077	\$ 997	\$ 80	8 %

The increase in interest income for the three months ended January 31, 2022 compared to the same period last year was primarily due to an increase in volume of investments, offset by investments that yielded lower returns such as money market funds and government securities.

The increase in interest income for the nine months ended January 31, 2022 compared to the same period last year was primarily due to an increase in volume of investments, offset by investments that yielded lower returns such as money market funds and government securities.

Other Income (Expense), Net

	Three Months Ended January 31,				Nine Months Ended January 31,			
	2022	2021	\$ Change	% Change	2022	2021	\$ Change	% Change
	(in thousands)				(in thousands)			
Other income (expense), net	\$ 7,742	\$ 1,721	\$ 6,021	350 %	\$ 5,471	\$ 4,163	\$ 1,308	31 %

The increase in other income (expense), net for the three months ended January 31, 2022 compared to the same period last year was due to income from an award of attorney's fees and costs in connection with a legal proceeding of \$9.4 million, partially offset by foreign currency losses on the remeasurement of Euro-denominated cash and accounts receivable balances.

The increase in other income (expense), net for the nine months ended January 31, 2022 compared to the same period last year was due to income from an award of attorney's fees and costs in connection with a legal proceeding of \$9.4 million, partially offset by foreign currency losses on the remeasurement of Euro-denominated cash and accounts receivable balances.

Provision for Income Taxes

	Three Months Ended January 31,				Nine Months Ended January 31,			
	2022	2021	\$ Change	% Change	2022	2021	\$ Change	% Change
	(in thousands)				(in thousands)			
Provision for income taxes	\$ 193	\$ 203	\$ (10)	(5)%	\$ 594	\$ 456	\$ 138	30 %

The change in provision for the nine months ended January 31, 2022 compared with the same period last year was primarily related to foreign and state tax expense.

Non-GAAP Financial Measure

In addition to our financial results determined in accordance with generally accepted accounting principles in the United States, or GAAP, we believe free cash flow, a non-GAAP financial measure, is useful in evaluating liquidity and provides information to management and investors about our ability to fund future operating needs and strategic initiatives. We calculate free cash flow as net cash used in operating activities less purchases of property and equipment and capitalized software development costs. Free cash flow has limitations as an analytical tool, and it should not be considered in isolation or as a substitute for analysis of other GAAP financial measures, such as net cash used in operating activities. This non-GAAP financial measure may be different than similarly titled measures used by other companies. Additionally, the utility of free cash flow is further limited as it does not represent the total increase or decrease in our cash balances for a given period. The following table provides a reconciliation of free cash flow to the GAAP measure of net cash provided by operating activities for the periods presented.

	Nine Months Ended January 31,	
	2022	2021
	(in thousands)	
Net cash used in operating activities	\$ (73,300)	\$ (5,828)
Less:		
Purchases of property and equipment	(2,183)	(1,166)
Capitalized software development costs	(500)	—
Free cash flow	\$ (75,983)	\$ (6,994)
Net cash provided by investing activities	\$ 155,339	\$ 48,269
Net cash provided by financing activities	\$ 19,229	\$ 884,977

Liquidity and Capital Resources

Since inception, we have financed operations primarily through sales generated from our customers and sales of equity securities. As of January 31, 2022 and April 30, 2021, we had \$204.5 million and \$115.4 million of cash and cash equivalents and \$764.1 million and \$978.0 million of investments, respectively, which were held for working capital purposes. In December 2020, we completed our IPO, which resulted in aggregate net proceeds of \$694.6 million, after underwriting discounts and other offering expenses. We also received aggregate proceeds of \$150.0 million related to our Concurrent Private Placement and did not pay any underwriting discounts or commissions with respect to the shares that were sold in these private placements. Our investments generally consist of high-grade U.S. treasury securities, certificates of deposit, U.S. government agency securities, commercial paper and corporate debt securities. We have generated operating losses from our operations as reflected in our accumulated deficit of \$483.0 million as of January 31, 2022. We expect to continue to incur operating losses and may generate negative cash flows from operations for the foreseeable future due to the investments we intend to make in our business, and as a result we may require additional capital to execute on our strategic initiatives to grow the business.

We believe that existing cash and cash equivalents and investments will be sufficient to support working capital and capital expenditure requirements for at least the next 12 months. Our principal uses of cash in recent periods have been funding our operations and investing in capital expenditures. Our future capital requirements will depend on many factors, including our revenue growth rate, the timing and the amount of cash received from customers, the expansion of sales and marketing activities, the timing and extent of spending to support development efforts, expenses associated with our international expansion, the introduction of C3 AI Software enhancements, and the continuing market adoption of our C3 AI Software. In the future, we may enter into arrangements to acquire or invest in complementary businesses, products, and technologies. We may be required to seek additional equity or debt financing. If we require additional financing, we may not be able to raise such financing on terms acceptable to us or at all. If we are unable to raise additional capital or generate cash flows necessary to expand our operations and invest in continued innovation, we may not be able to compete successfully, which would harm our business, results of operations, and financial condition.

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

	Nine Months Ended January 31,	
	2022	2021
	(in thousands)	
Cash used in operating activities	\$ (73,300)	\$ (5,828)
Cash provided by investing activities	\$ 155,339	\$ 48,269
Cash provided by financing activities	\$ 19,229	\$ 884,977
Net increase in cash, cash equivalents, and restricted cash	\$ 101,268	\$ 927,418

Operating Activities. Net cash used in operating activities of \$73.3 million for the nine months ended January 31, 2022 was due to our net loss of \$133.6 million in addition to non-cash charges for stock-based compensation of \$77.8 million, depreciation and amortization of \$3.8 million, and non-cash operating lease cost of \$2.4 million. The \$23.9 million cash outflows related to changes in operating assets and liabilities was primarily attributable to an increase in prepaid expenses, other current assets and other assets of \$21.1 million, a decrease to deferred revenue of \$15.8 million inclusive of a decrease in related party balances of \$7.1 million, a decrease in lease liabilities of \$2.3 million and an increase in accounts receivable of \$2.0 million inclusive of an increase in related party balances of \$0.5 million. This was partially offset by cash inflows related to an increase in other liabilities of \$14.3 million, an increase in accounts payable of \$2.2 million and an increase to accrued compensation and employee benefits of \$0.8 million.

Net cash used in operating activities of \$5.8 million for the nine months ended January 31, 2021 was due to our net loss of \$31.6 million in addition to non-cash charges for stock-based compensation of \$14.3 million, depreciation and amortization of \$3.2 million, and non-cash operating lease cost of \$2.5 million. The \$6.0 million cash inflow related to changes in operating assets and liabilities was primarily attributable to an increase to deferred revenue of \$2.0 million inclusive of an increase in related party balances of \$7.9 million, an increase to accrued compensation and employee benefits of \$4.3 million, an increase in other liabilities of \$1.2 million and an increase in accounts payable of \$7.5 million. This was partially offset by cash outflows related to a decrease in prepaid expenses, other current assets and other assets of \$6.9 million, a decrease in accounts receivable of \$0.6 million inclusive of an increase in related party balances of \$0.8 million and a decrease in lease liabilities of \$2.6 million.

Investing Activities. Net cash provided by investing activities of \$155.3 million for the nine months ended January 31, 2022 was primarily attributable to the maturities and sales of investments of \$698.3 million, partially offset by purchases of investments of \$540.3 million and capital expenditures of \$2.7 million.

Net cash provided by investing activities of \$48.3 million for the nine months ended January 31, 2021 was primarily attributable to the maturity and sale of short-term investments of \$281.0 million, partially offset by purchases of investments of \$232.3 million and capital expenditures of \$1.2 million.

Financing Activities. Net cash provided by financing activities of \$19.2 million during the nine months ended January 31, 2022 was primarily due to \$19.3 million of proceeds from the exercise of stock options for Class A common stock.

Net cash provided by financing activities of \$884.9 million during the nine months ended January 31, 2021 was primarily due to \$851.9 million of net proceeds from our initial public offering and concurrent private placements, \$26.0 million of proceeds from the repayment of the full recourse promissory note due from our Chief Executive Officer, which was issued in connection with our Series F preferred stock financing and \$13.8 million of proceeds from the exercise of stock options for Class A common stock, partially offset by the payment of deferred offering costs related to our IPO of \$6.7 million.

Contractual Obligations and Commitments

Our contractual obligations and commitments primarily consist of operating lease commitments for our facilities and non-cancelable purchase commitments related to third-party cloud hosting services.

For additional information, refer to *Note 6. Commitments and Contingencies* to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. Except as already disclosed in *Note 6. Commitments and Contingencies* to our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q, there has been no other material change in our contractual obligations and commitments other than in the ordinary course of business since our fiscal year ended April 30, 2021. See our Annual Report on Form 10-K for the fiscal year ended April 30, 2021, which was filed with the SEC on June 25, 2021, for additional information regarding our contractual obligations.

Critical Accounting Policies and Estimates

Our unaudited condensed consolidated financial statements and the accompanying notes thereto included elsewhere in this Quarterly Report on Form 10-Q are prepared in accordance with GAAP. The preparation of 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. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from our estimates. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations, and cash flows will be affected.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates discussed in the Annual Report on Form 10-K for the fiscal year ended April 30, 2021, which was filed with the SEC on June 25, 2021.

Recently Adopted Accounting Pronouncements

See *Note 1. Summary of Business and Significant Accounting Policies* to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for more information regarding recently issued accounting pronouncements.

Emerging Growth Company Status

In April 2012, the Jumpstart Our Business Startups Act, or the JOBS Act, was enacted. Section 107 of the JOBS Act provides that an “emerging growth company” may take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. Therefore, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have elected to use the extended transition period under the JOBS Act until the earlier of the date we (1) are no longer an emerging growth company or (2) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our condensed consolidated financial statements may not be comparable to companies that comply with new or revised accounting pronouncements as of public company effective dates.

Based on the market value of our Class A common stock held by non-affiliates as of the last business day of our fiscal second quarter ended October 31, 2021, we will cease to be an emerging growth company as of April 30, 2022 and will no longer be able to take advantage of these various exemptions.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily the result of fluctuations in foreign currency exchange rates and interest rates. We do not hold or issue financial instruments for trading purposes.

Interest Rate Risk

As of January 31, 2022, we had cash, cash equivalents, and investments of \$1.0 billion. As of April 30, 2021, we had cash, cash equivalents, and investments of \$1.1 billion. Interest-earning instruments carry a degree of interest rate risk. We do not enter into investments for trading or speculative purposes and have not used any derivative financial instruments to manage our interest rate risk exposure. As of January 31, 2022, a hypothetical 10% relative change in interest rates would not have had a material impact on the value of our cash equivalents or investment portfolio. Any realized gains or losses resulting from such interest rate changes would only occur if we sold the investments prior to maturity.

Foreign Currency Risk

Our functional currency is the U.S. dollar. For the three months ended January 31, 2022 and 2021, approximately 12% and 28%, respectively, and for the nine months ended January 31, 2022 and 2021, approximately 15% and 26%, respectively of our sales were denominated in euros, respectively, and therefore our revenue, accounts receivable, and cash deposits are subject to foreign currency risk. Our foreign operating expenses are denominated in the local currencies of the countries in which we operate. Our condensed consolidated results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates. A hypothetical 10% change in foreign currency exchange rates may result in a material impact on our unaudited condensed consolidated financial statements. To date, we have not had a formal hedging program with respect to foreign currencies, but we may do so in the future if our exposure to foreign currencies should become more significant. As our international operations grow, we will continue to reassess our approach to manage our risk relating to fluctuations in currency rates.

Inflation Risk

We do not believe that inflation has had a material effect on our business, results of operations, or financial condition.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, our management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable assurance that the objectives of the disclosure controls and procedures are met. Based on such evaluation, our management, including our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Controls

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

Inherent Limitations on Effectiveness of Controls

The effectiveness of any system of internal control over financial reporting, including ours, is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, in designing and evaluating the disclosure controls and procedures, management recognizes that any system of internal control over financial reporting, including ours, no matter how well designed and operated, can only provide reasonable, not absolute assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. We intend to continue to monitor and upgrade our internal controls as necessary or appropriate for our business, but cannot assure you that such improvements will be sufficient to provide us with effective internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we may become involved in legal proceedings relating to claims arising from the ordinary course of business. Our management believes that there are currently no claims or actions pending against us, the ultimate disposition of which could have a material adverse effect on our results of operations, financial condition or cash flows.

For additional information on legal proceedings, refer to *Note 6. Commitments and Contingencies—Legal Proceedings* in our condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

ITEM 1A. RISK FACTORS

You should consider carefully the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q, including the section titled “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our condensed consolidated financial statements and related notes. Our business, results of operations, financial condition and prospects could also be harmed by risks and uncertainties that are not presently known to us or that we currently believe are not material. If any of the risks actually occur, our business, results of operations, financial condition, and prospects could be materially and adversely affected. Unless otherwise indicated, references to our business being harmed in these risk factors will include harm to our business, C3 AI Software (which includes our C3 AI Suite, C3 AI Applications, C3 AI Ex Machina, C3 AI CRM and C3 AI Data Vision), reputation, brand, financial condition, results of operations, and prospects. In such event, the market price of our Class A common stock could decline, and you could lose all or part of your investment.

Risks Related to Our Business and Our Industry

We have a limited operating history, which makes it difficult to evaluate our prospects and future results of operations.

We were founded in 2009. As a result of our limited operating history, our ability to forecast our future results of operations is limited and subject to a number of uncertainties, including our ability to plan for and model future growth. Our historical revenue growth should not be considered indicative of our future performance. Further, in future periods, we expect our revenue growth to slow. A number of factors could cause our growth rate to be adversely impacted, including any reduction in demand for our C3 AI Software, increased competition, contraction of our overall market, our inability to accurately forecast demand for our C3 AI Software, or our failure, for any reason, to capitalize on growth opportunities. We have encountered and will encounter risks and uncertainties frequently experienced by growing companies in rapidly changing industries, such as the risks and uncertainties described herein. If our assumptions regarding these risks and uncertainties, which we use to plan our business, are incorrect or change, or if we do not address these risks successfully, our business will be harmed.

Historically, a limited number of customers have accounted for a substantial portion of our revenue. If existing customers do not renew their contracts with us, or if our relationships with our largest customers are impaired or terminated, our revenue could decline, and our results of operations would be adversely impacted.

We commonly enter into enterprise-wide agreements with Customer-Entities that include multiple operating units or divisions. We count as a Customer each distinct division, department, business unit, or group within a Customer-Entity. In situations where our Customer (or Customer-Entity) has developed software using our AI Suite or our C3 AI Applications and has sold that software or service to its end customer(s), we also include such end customers in our Customer count. In addition, where our software is sold to a third-party under a reseller arrangement, we include the end customer of such arrangement in our Customer count. We only count Customers and Customer-Entities for which there is revenue in the period through a Customer-Entity contract. We exclude free trials from such metric(s).

Certain of our customers, including customers that, at the time, represented a significant portion of our business, have in the past reduced their spend with us or decided to not renew their subscriptions with us, which has reduced our anticipated future payments or revenue from these customers. It is not possible for us to predict the future level of demand from our larger customers for our C3 AI Software. In addition, our average total subscription contract value is decreasing, and we expect it to continue to decrease as we expand our customer base beyond a small number of large customers to a larger number of smaller customers.

Our customers generally have no obligation to renew, upgrade, or expand their subscriptions with us after the terms of their existing subscriptions expire. In addition, our customers may opt to decrease their usage of our C3 AI Software. As a result, we cannot provide assurance that our customers will renew, upgrade, or expand their subscriptions with us, if they renew at all. If one or more of our customers elect not to renew their subscriptions with us, or if our customers renew their subscriptions with us for shorter time periods, or if our customers decrease their usage of our C3 AI Software, or if our customers otherwise seek to renegotiate terms of their existing agreements on terms less favorable to us, our business and results of operations would be adversely affected. This adverse impact would be even more pronounced for customers that represent a material portion of our revenue or business operations.

Our business depends on our ability to attract new customers and on our existing customers purchasing additional subscriptions from us and renewing their existing subscriptions.

To increase our revenue, we must continue to attract new customers. Our success will depend to a substantial extent on the widespread adoption of our C3 AI Software. Although demand for data management, machine learning, analytics, and artificial intelligence platforms and applications has grown in recent years, the market for these platforms and applications continues to evolve. Numerous factors may impede our ability to add new customers, including but not limited to, our failure to compete effectively against alternative products or services, to attract and effectively train new sales and marketing personnel, to develop or expand relationships with partners and resellers, to successfully innovate and deploy new applications and other solutions, to provide a quality customer experience and customer support, or to ensure the effectiveness of our marketing programs. If we are not able to attract new customers, it will have an adverse effect on our business, financial condition and results of operations.

In addition, our future success depends on our ability to sell additional subscriptions for our C3 AI Software to our existing customers, and our customers renewing their subscriptions when the contract term expires. Our customers generally have no contractual obligation to renew, upgrade, or expand their subscriptions after the terms of their existing subscriptions expire. In addition, our customers may opt to decrease their usage of our C3 AI Software. Given our limited operating history, we may not be able to accurately predict customer renewal rates. Our customers' renewal and expansion commitments may decline or fluctuate as a result of a number of factors, including, but not limited to, their satisfaction with our C3 AI Software and our customer support, the frequency and severity of software and implementation errors or other reliability issues, the pricing of our subscriptions or competing solutions, changes in their IT budget, the effects of global economic conditions, and our customers' financial circumstances, including their ability to maintain or expand their spending levels or continue their operations. In order for us to maintain or improve our results of operations, it is important that our customers renew or expand their subscriptions with us. If our customers do not purchase additional subscriptions, increase their usage of our software, or renew their subscriptions with us, our business, financial condition, and results of operations may be harmed.

We have limited historical experience with supporting or selling to smaller, non-enterprise customers. We intend to grow our customer base and further contribute to our overall growth by introducing product offerings with a lower entry price point, such as our no-code offering C3 AI Ex Machina. However, by broadening our customer base to include smaller or mid-size customers, we will be faced with risks that may not be present or that are present to a lesser extent with respect to sales to large organizations. Because of our limited experience in supporting or selling to smaller, non-enterprise customers, we may be unsuccessful in our efforts to get future smaller customers to renew or expand their subscriptions to our offerings. If such customers do not renew their agreements or renew on less favorable terms or for less usage, our revenue may grow more slowly than expected or decline, and our business, financial condition, and results of operations may be harmed.

Achieving renewal or expansion of usage and subscriptions may require us to engage increasingly in sophisticated and costly sales and support efforts that may not result in additional sales. In addition, the rate at which our customers expand the deployment of our C3 AI Software depends on a number of factors. If our efforts to expand our relationships with our customers are not successful, our business, financial condition, and results of operations may be harmed.

Because we derive substantially all of our revenue from our C3 AI Software, failure of Enterprise AI solutions in general and our C3 AI Software in particular to satisfy customer demands or to achieve increased market acceptance would adversely affect our business, results of operations, financial condition, and growth prospects.

We derive and expect to continue for the foreseeable future to derive substantially all of our revenue from our C3 AI Software. As such, the market acceptance of Enterprise AI solutions in general, and our C3 AI Software in particular, are critical to our continued success. Market acceptance of an Enterprise AI solution depends in part on market awareness of the benefits that Enterprise AI can provide over legacy products, emerging point products, and manual processes. In addition, in order for cloud-based Enterprise AI solutions to be widely accepted, organizations must overcome any concerns with placing sensitive information on a cloud-based platform. Demand for our C3 AI Software in particular is affected by a number of other factors, some of which are beyond our control. These factors include continued market acceptance of our C3 AI Software, the pace at which existing customers realize benefits from the use of our C3 AI Software and decide to expand deployment of our C3 AI Software across their business, the timing of development and release of new products by our competitors, technological change, reliability and security, the pace at which enterprises undergo digital transformation, and developments in data privacy regulations. We expect that the needs of our customers will continue to rapidly change and increase in complexity. We will need to improve the functionality and performance of our C3 AI Software continually to meet those rapidly changing, complex demands. If we are unable to continue to meet customer demands or to achieve more widespread market acceptance of Enterprise AI solutions in general or our C3 AI Software in particular, our business operations, financial results, and growth prospects will be materially and adversely affected.

Our current C3 AI Software, as well as applications, features, and functionality that we may introduce in the future, may not be widely accepted by our customers, may receive negative attention or may require us to compensate or reimburse third parties, any of which may lower our margins and harm our business.

Our ability to engage, retain, and increase our base of customers and to increase our revenue will depend on our ability to successfully create new applications, features, and functionality, both independently and together with third parties. We may introduce significant changes to our existing C3 AI Software or develop and introduce new and unproven applications, including technologies with which we have little or no prior development or operating experience. These new applications and updates may fail to engage, retain, and increase our base of customers or may suffer from lag in adoption. New applications may initially suffer from performance and quality issues that may negatively impact our ability to market and sell such applications to new and existing customers. The short- and long-term impact of any major change to our C3 AI Software, or the introduction of new applications, is particularly difficult to predict. If new or enhanced applications fail to engage, retain, and increase our base of customers, we may fail to generate sufficient revenue, operating margin, or other value to justify our investments in such applications, any of which may harm our business.

In addition, we are required to compensate or reimburse third parties in connection with certain sales of our current C3 AI Software as part of our partner relationships. New applications, features and functionality that we introduce in the future or new partner relationships may increase the amount of compensation or reimbursement we pay to third parties. Any future requirement or increase in the rate that we compensate or reimburse third parties would lower our profit margins and harm our business.

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

We incurred net losses in each period since our founding in 2009. We generated net losses of approximately \$39.4 million and \$16.9 million for the three months ended January 31, 2022 and 2021, respectively, and \$133.6 million and \$31.6 million for the nine months ended January 31, 2022 and 2021, respectively, and net losses of approximately \$55.7 million and \$69.4 million for the fiscal years ended April 30, 2021 and 2020, respectively. As a result, we had an accumulated deficit of \$483.0 million as of January 31, 2022. We expect to continue to incur net losses for the foreseeable future. These losses and accumulated deficit reflect the substantial investments we made to acquire new customers, commercialize our C3 AI Software, and continue to develop our C3 AI Software. While we have experienced revenue growth in recent periods, we do not know whether or when we will generate sufficient revenue to sustain or increase our growth or achieve or maintain profitability in the future. We also expect our costs and expenses to increase in future periods, which could negatively affect our future results of operations if our revenue does not increase. In particular, we intend to continue to expend significant funds to further develop our C3 AI Software and business, including:

- investments in our research and development team and in the development of new features and enhancements of our C3 AI Software, including the hiring of additional development staff, and fees paid to third parties for related enhancements;
- investments in sales, marketing, and services, including expanding our sales force and our customer service team, increasing our customer base, increasing market awareness of our C3 AI Software, and development of new technologies;
- expanding our operations and infrastructure; and
- hiring additional employees.

We will also face increased compliance costs associated with growth, the expansion of our customer base, and being a public company. Our efforts to grow our business may be costlier than we expect, our revenue growth may be slower than we expect, and we may not be able to increase our revenue enough to offset our increased operating expenses. We may incur significant losses in the future for a number of reasons, such as the other risks described herein, unforeseen expenses, difficulties, complications or delays, and other unknown events. If we are unable to achieve and sustain profitability, the value of our business and Class A common stock may significantly decrease.

We face intense competition and could lose market share to our competitors, which could adversely affect our business, financial condition and results of operations.

The market for our products is intensely competitive and characterized by rapid changes in technology, customer requirements, and industry standards, and frequent new platform and application introductions and improvements. We anticipate continued competitive challenges from current competitors who address different aspects of our offerings. We also expect competitive challenges from new entrants into the industry. If we are unable to anticipate or effectively react to these competitive challenges, our competitive position could weaken, and we could experience a decline in our growth rate and revenue that could adversely affect our business and results of operations.

Our main sources of current and potential competition fall into several categories:

- internal IT organizations that develop internal solutions and provide self-support for their enterprises;
- commercial enterprise and point solution software providers;
- open source software providers with data management, machine learning, and analytics offerings;
- public cloud providers offering discrete tools and micro-services with data management, machine learning, and analytics functionality;
- system integrators that develop and provide custom software solutions;
- legacy data management product providers; and
- strategic and technology partners who may also offer our competitors' technology or otherwise partner with them, including our strategic partners who may offer a substantially similar solution based on a competitor's technology or internally developed technology that is competitive with ours.

Many of our existing competitors have, and some of our potential competitors could have, substantial competitive advantages such as:

- greater name recognition, longer operating histories, and larger customer bases;
- larger sales and marketing budgets and resources and the capacity to leverage their sales efforts and marketing expenditures across a broader portfolio of products;
- broader, deeper, or otherwise more established relationships with technology, channel, and distribution partners and customers;

- wider geographic presence or greater access to larger customer bases;
- greater focus in specific geographies or industries;
- lower labor and research and development costs;
- larger and more mature intellectual property portfolios; and
- substantially greater financial, technical, and other resources to provide support, make acquisitions, hire talent, and develop and introduce new products.

Some of our larger competitors have substantially broader and more diverse platform and application offerings and may be able to leverage their relationships with distribution partners and customers based on other products or incorporate functionality into existing products to gain business in a manner that discourages potential customers from subscribing to our C3 AI Software, including by selling at zero or negative margins, bundling with other offerings, or offering closed technology platforms. Potential customers may also prefer to purchase from their existing suppliers rather than a new supplier regardless of platform or application performance or features. As a result, even if the features of our C3 AI Software are superior, potential customers may not purchase our offerings. These larger competitors often have broader product lines and market focus or greater resources and may therefore not be as susceptible to economic downturns or other significant reductions in capital spending by customers. If we are unable to sufficiently differentiate our solutions from the integrated or bundled products of our competitors, such as by offering enhanced functionality, performance or value, we may see a decrease in demand for our offerings, which could adversely affect our business, operating results, and financial condition.

Moreover, new innovative start-up companies, and larger companies that are making significant investments in research and development, may introduce products that have greater performance or functionality, are easier to implement or use, or incorporate technological advances that we have not yet developed or implemented, or may invent similar or superior technologies that compete with ours. Our current and potential competitors may also establish cooperative relationships among themselves or with third parties that may further enhance their resources.

Some of our competitors have made or could make acquisitions of businesses that allow them to offer more competitive and comprehensive solutions. As a result of such acquisitions, our current or potential competitors may be able to accelerate the adoption of new technologies that better address customer needs, devote greater resources to bring these platforms and applications to market, initiate or withstand substantial price competition, or develop and expand their product and service offerings more quickly than we can. These competitive pressures in our market or our failure to compete effectively may result in fewer orders, reduced revenue and gross margins, and loss of market share. In addition, it is possible that industry consolidation may impact customers' perceptions of the viability of smaller or even mid-size software firms and consequently customers' willingness to purchase from such firms.

We may not compete successfully against our current or potential competitors. If we are unable to compete successfully, or if competing successfully requires us to take costly actions in response to the actions of our competitors, our business, financial condition, and results of operations could be adversely affected. In addition, companies competing with us may have an entirely different pricing or distribution model. Increased competition could result in fewer customer orders, price reductions, reduced operating margins, and loss of market share. Further, we may be required to make substantial additional investments in research, development, marketing, and sales in order to respond to such competitive threats, and we cannot assure you that we will be able to compete successfully in the future.

Our sales cycles can be long and unpredictable, particularly with respect to large subscriptions, and our sales efforts require considerable time and expense.

Our results of operations may fluctuate, in part, because of the complexity of customer problems that our C3 AI Software address, the resource-intensive nature of our sales efforts, the length and variability of the sales cycle for our C3 AI Software, and the difficulty in making short-term adjustments to our operating expenses. The timing of our sales is difficult to predict. The length of our sales cycle, from initial evaluation to payment for our subscriptions is generally six to nine months but can vary substantially from customer to customer and can extend over a number of years for some customers. Our sales efforts involve educating our customers about the use, technical capabilities, and benefits of our C3 AI Software. Customers often undertake a prolonged evaluation process, which frequently involves not only our C3 AI Software but also those of other companies. In addition, the size of potential customers may lead to longer sales cycles. For instance, we invest resources into sales to large organizations and large organizations typically undertake a significant evaluation and negotiation process due to their leverage, size, organizational structure and approval requirements, all of which can lengthen our sales cycle. We may also face unexpected deployment challenges with large organizations or more complicated deployment of our C3 AI Software. Large organizations may demand additional features, support services, and pricing concessions or require additional security management or control features. Some organizations may also require an on-premise solution rather than a cloud solution, which potentially requires additional implementation time and potentially a longer sales cycle. We may spend substantial time, effort and money on sales efforts to large organizations without any assurance that our efforts will produce any sales or that these customers will deploy our C3 AI Software widely enough across their organization to justify our substantial upfront investment. As a result, it is difficult to predict exactly when, or even if, we will make a sale to a potential customer or if we can increase sales to our existing customers.

An individual sale typically represents a large proportion of our overall sales during any given period, which impacts our ability to plan and manage cash flows and margins. These large individual sales have, in some cases, occurred in quarters or years subsequent to those we anticipated, or have not occurred at all. If our sales cycle lengthens or our substantial upfront investments do not result in sufficient revenue to justify our investments, our operating results could be adversely affected. In addition, within each quarter or year, it is difficult to project when a deal will close. Therefore, it is difficult to determine whether we are achieving our quarterly or annual expectations until near the end of the applicable quarter or year. Most of our expenses are relatively fixed or require time to adjust. Therefore, if expectations for our business are not accurate, we may not be able to adjust our cost structure on a timely basis, and our margins and cash flows may differ from expectations.

Certain revenue metrics such as net dollar-based retention rate or annual recurring revenue may not be accurate indicators of our future financial results.

Other subscription-based software companies often report on metrics such as net dollar-based revenue retention rate, annual recurring revenue or other revenue metrics, and investors and analysts sometimes look to these metrics as indicators of business activity in a period for businesses such as ours. However, given our large average subscription contract value and our dependence on a small number of high-value customer contracts, these metrics are not accurate indicators of future revenue for any given period of time because the gain or loss of even a single high-value customer contract could cause significant volatility in these metrics. If investors and analysts view our business through these metrics, the trading price of our Class A common stock may be adversely affected.

Changes in our subscription or pricing models could adversely affect our operating results.

As the markets for our subscriptions grow, as new competitors introduce new products or services that compete with ours, or as we enter into new international markets, we may be unable to attract new customers at the same price or based on the same pricing model as we have historically used. Regardless of pricing model used, large customers may demand higher price discounts than in the past. As a result, we may be required to reduce our prices, offer shorter contract durations or offer alternative pricing models, any of which could adversely affect our business.

We have limited experience with respect to determining the optimal prices for subscriptions for our C3 AI Software. In the past, we have been able to increase our prices for our C3 AI Software but we may choose not to introduce or be unsuccessful in implementing future price increases. Our competitors may introduce new products that compete with ours or reduce their prices, or we may be unable to attract new customers or retain existing customers based on our historical subscription and pricing models. Given our limited operating history and limited experience with our historical subscription and pricing models, we may not be able to accurately predict customer renewal or retention rates. As a result, we may be required or choose to reduce our prices or change our pricing model, which could harm our business, results of operations, and financial condition.

Our revenue growth depends in part on the success of our strategic relationships with third parties, including channel partners, and if we are unable to establish and maintain successful relationships with them, our business, operating results, and financial condition could be adversely affected.

We seek to grow our partner ecosystem as a way to grow our business. We anticipate that we will continue to establish and maintain relationships with third parties, such as channel partners, resellers, OEMs, system integrators, independent software and hardware vendors, and platform and cloud service providers. For example, in June 2019, we entered into a strategic collaboration with Baker Hughes whereby Baker Hughes operates as the exclusive channel partner and reseller of our C3 AI Software in the oil and gas industry and a non-exclusive reseller in other industries. This arrangement was most recently revised in October 2021 and now continues until April 30, 2025. We also have strategic relationships with Amazon Web Services, Fidelity National Information Services, Google, Microsoft, Raytheon and Infor.

We plan to continue to establish and maintain similar strategic relationships in certain industry verticals and otherwise, and we expect our channel partners to become an increasingly important aspect of our business. However, these strategic relationships could limit our ability in the future to compete in certain industry verticals and, depending on the success of our third-party partners and the industries that those partners operate in generally, may negatively impact our business because of the nature of strategic alliances, exclusivity provisions, or otherwise. We work closely with select vendors to design solutions to specifically address the needs of certain industry verticals or use cases within those verticals. As our agreements with strategic partners terminate or expire, we may be unable to renew or replace these agreements on comparable terms, or at all. For instance, our C3 AI Software is marketed in the oil and gas industry on a co-branded basis with Baker Hughes. In the event of any termination, expiration, or renegotiation of the arrangement with Baker Hughes, we may lose the right to continue to co-brand our products in this industry, and it may be difficult for us to arrange for another channel partner to sell our C3 AI Software in the oil and gas industry in a timely manner, and we could lose brand awareness and sales opportunities during the transition.

Our future growth in revenue and ability to achieve and sustain profitability depends in part on our ability to identify, establish, and retain successful strategic partner relationships in the United States and internationally, which will take significant time and resources and involve significant risk. To the extent we do identify such partners, we will need to negotiate the terms of a commercial agreement with them under which the partner would distribute our C3 AI Software. We cannot be certain that we will be able to negotiate commercially attractive terms with any strategic partner, if at all. In addition, all channel partners must be trained to distribute our C3 AI Software. In order to develop and expand our distribution channel, we must develop and improve our processes for channel partner introduction and training. If we do not succeed in identifying suitable strategic partners or maintain our relationships with such partners, our business, operating results, and financial condition may be adversely affected.

Moreover, we cannot guarantee that the partners with whom we have strategic relationships will continue to devote the resources necessary to expand our reach and increase our distribution. In addition, customer satisfaction with services and other support from our strategic partners may be less than anticipated, negatively impacting anticipated revenue growth and results of operations. We cannot be certain that these partners will prioritize or provide adequate resources to selling our C3 AI Software. Further, some of our strategic partners offer competing platforms and applications or also work with our competitors. As a result of these factors, many of the companies with whom we have strategic alliances may choose to pursue alternative technologies and develop alternative platforms and applications in addition to or in lieu of our C3 AI Software, either on their own or in collaboration with others, including our competitors. We cannot assure you that our strategic partners will continue to cooperate with us. In addition, actions taken or omitted to be taken by such parties may adversely affect us. Moreover, we rely on our channel partners to operate in accordance with the terms of their contractual agreements with us. For example, our agreements with our channel partners limit the terms and conditions pursuant to which they are authorized to resell or distribute our C3 AI Software and offer technical support and related services. If we are unsuccessful in establishing or maintaining our relationships with third parties, or if our strategic partners do not comply with their contractual obligations to us, our business, operating results, and financial condition may be adversely affected. Even if we are successful in establishing and maintaining these relationships with third parties, we cannot assure you that these relationships will result in increased customer usage of our C3 AI Software or increased revenue to us.

In addition, some of our sales to government entities have been made, and in the future may be made, indirectly through our channel partners. Government entities may have statutory, contractual, or other legal rights to terminate contracts with our channel partners for convenience or due to a default, and, in the future, if the portion of government contracts that are subject to renegotiation or termination at the election of the government entity are material, any such termination or renegotiation may adversely impact our future operating results. In the event of such termination, it may be difficult for us to arrange for another channel partner to sell our C3 AI Software to these government entities in a timely manner, and we could lose sales opportunities during the transition. Government entities routinely investigate and audit government contractors' administrative processes, and any unfavorable audit could result in the government entity refusing to renew its subscription to our C3 AI Software, a reduction of revenue, or fines or civil or criminal liability if the audit uncovers improper or illegal activities.

If the market for our C3 AI Software fails to grow as we expect, or if businesses fail to adopt our C3 AI Software, our business, operating results, and financial condition could be adversely affected.

It is difficult to predict customer adoption rates and demand for our C3 AI Software, the entry of competitive platforms, or the future growth rate and size of the cloud-based software and software-as-a-service, or SaaS, business software markets. A substantial majority of our revenue has come from sales of our subscription-based software products, which we expect to continue for the foreseeable future. Although demand for data management, machine learning, and analytics platforms and applications has grown in recent years, the market for these platforms and applications continues to evolve. We cannot be sure that this market will continue to grow or, even if it does grow, that businesses will adopt our C3 AI Software. Our future success will depend in large part on our ability to further penetrate the existing market for Enterprise AI software, as well as the continued growth and expansion of what we believe to be an emerging market for Enterprise AI platforms and applications that are faster, easier to adopt, and easier to use. Our ability to further penetrate the Enterprise AI market depends on a number of factors, including the cost, performance, and perceived value associated with our C3 AI Software, as well as customers' willingness to adopt a different approach to data analysis. We have spent, and intend to keep spending, considerable resources to educate potential customers about digital transformation, artificial intelligence, and machine learning in general and our C3 AI Software in particular. However, we cannot be sure that these expenditures will help our C3 AI Software achieve any additional market acceptance. Furthermore, potential customers may have made significant investments in legacy analytics software systems and may be unwilling to invest in new platforms and applications. If the market fails to grow or grows more slowly than we currently expect or businesses fail to adopt our C3 AI Software, our business, operating results, and financial condition could be adversely affected.

If we fail to respond to rapid technological changes, extend our C3 AI Software, or develop new features and functionality, our ability to remain competitive could be impaired.

The market for our C3 AI Software is characterized by rapid technological change and frequent new platform and application introductions and enhancements, changing customer demands, and evolving industry standards. The introduction of platforms and applications embodying new technologies can quickly make existing platforms and applications obsolete and unmarketable. Data management, machine learning, and analytics platforms and applications are inherently complex, and it can take a long time and require significant research and development expenditures to develop and test new or enhanced platforms and applications. The success of any enhancements or improvements to our existing C3 AI Software or any new applications depends on several factors, including timely completion, competitive pricing, adequate quality testing, integration with existing technologies, and overall market acceptance.

Our ability to grow our customer base and generate revenue from customers will depend heavily on our ability to enhance and improve our C3 AI Software, to develop additional functionality and use cases, introduce new features and applications and interoperate across an increasing range of devices, operating systems, and third-party applications. Our customers may require features and capabilities that our current C3 AI Software do not have or may face use cases that our current C3 AI Software do not address. We invest significantly in research and development, and our goal is to focus our spending on measures that improve quality and ease of adoption and create organic customer demand for our C3 AI Software. When we develop a new enhancement or improvement to our C3 AI Software, we typically incur expenses and expend resources upfront to develop, market and promote the new enhancement and improvement. Therefore, when we develop and introduce new enhancements and improvements to our C3 AI Software, they must achieve high levels of market acceptance in order to justify the amount of our investment in developing and bringing them to market. There is no assurance that our enhancements to our C3 AI Software or our new application experiences, functionality, use cases, features, or capabilities will be compelling to our customers or gain market acceptance. If our research and development investments do not accurately anticipate customer demand, or if we fail to develop our C3 AI Software in a manner that satisfies customer preferences in a secure, timely and cost-effective manner, we may fail to retain our existing customers or increase demand for our C3 AI Software.

Moreover, even if we introduce new capabilities in our C3 AI Software, we may experience a decline in revenue from sales of our existing C3 AI Software that is not offset by revenue from the new C3 AI Software capabilities and applications. For example, customers may delay ordering subscriptions of new C3 AI Software capabilities or applications to permit them to make a more thorough evaluation of the C3 AI Software or until industry and marketplace reviews become widely available. Some customers may hesitate to migrate to new C3 AI Software due to concerns regarding the complexity of migration and suite or application infancy issues on performance. In addition, we may lose existing customers who choose a competitor's AI platforms and applications rather than migrate to our new C3 AI Software capabilities and applications. This could result in a temporary or permanent revenue shortfall and adversely affect our business.

Any failure of our C3 AI Software to operate effectively with future infrastructure platforms and technologies could reduce the demand for our C3 AI Software. If we are unable to respond to these changes in a timely and cost-effective manner, our C3 AI Software may become less marketable, less competitive, or obsolete, and our business may be adversely affected.

The introduction of new AI platforms and applications by competitors or the development of entirely new technologies to replace existing offerings could make our C3 AI Software obsolete or adversely affect our business, results of operations, and financial condition. We may experience difficulties with software development, design, or marketing that could delay or prevent our development, introduction, or implementation of new C3 AI Software experiences, features, or capabilities. We have in the past experienced delays in our internally planned release dates of new features and capabilities, and there can be no assurance that new C3 AI Software features or capabilities will be released according to schedule. Any delays could result in adverse publicity, loss of revenue or market acceptance, or claims by customers brought against us, all of which could harm our business. Moreover, new productivity features for our C3 AI Software may require substantial investment, and we have no assurance that such investments will be successful. If customers do not widely adopt our new C3 AI Software features and capabilities, we may not be able to realize a return on our investment. If we are unable to develop, license, or acquire new features and capabilities to our C3 AI Software on a timely and cost-effective basis, or if such enhancements do not achieve market acceptance, our business could be harmed.

If we were to lose the services of our CEO or other members of our senior management team, we may not be able to execute our business strategy.

Our success depends in a large part upon the continued service of key members of our senior management team. In particular, our founder and CEO, Thomas M. Siebel, is critical to our overall management, sales strategy, culture, strategic direction, engineering, and operations. In addition, Mr. Siebel is a recognized leader in information technology and is critical to the continued development of our C3 AI Software. All of our executive officers are at-will employees, and we do not maintain any key person life insurance policies. The loss of any member of our senior management team could make it more difficult to execute our business strategy and, therefore, harm our business.

The failure to effectively develop and expand our marketing and sales capabilities could harm our ability to increase our customer base and achieve broader market acceptance of our C3 AI Software.

Our ability to expand our customer base and achieve broader market acceptance of our C3 AI Software depends to a significant extent on our ability to continue to expand our marketing and sales operations and the ultimate effectiveness of those operations. We plan to continue expanding our sales force and strategic partners, both domestically and internationally.

Identifying and recruiting qualified sales representatives and training them is time consuming and resource intensive, and they may not be fully trained and productive for a significant amount of time. Our C3 AI Software is complicated and, as such, our sales force and operations require significant time and investment for proper recruitment, onboarding, and training in order for our sales operations to be productive. In addition, as we enter into new markets, expand the capabilities of our C3 AI Suite and offer new C3 AI Software, we may need to identify and recruit additional sales and marketing efforts specific to such strategic expansion. Our efforts to do so may be increasingly resource intensive, time consuming, and ultimately unsuccessful. We also dedicate significant resources to sales and marketing programs, including internet and other online advertising. All of these efforts require us to invest significant financial and other resources. In addition, the cost to acquire customers is high due to these marketing and sales efforts. Our business will be harmed if our efforts do not generate a correspondingly significant increase in revenue. We will not achieve anticipated revenue growth from expanding our sales force if we are unable to hire, develop, and retain talented sales personnel, if our new sales personnel are unable to achieve desired productivity levels in a reasonable period of time, or if our sales and marketing programs are not effective.

In addition, our business would be adversely affected if our marketing and sales efforts are not successful and generate increases in revenue that are smaller than anticipated. If our marketing and sales efforts are not effective, our sales and revenue may grow more slowly than expected or materially decline, and our business may be significantly harmed.

If we fail to develop, maintain, and enhance our brand and reputation cost-effectively, our business and financial condition may be adversely affected.

We believe that developing, maintaining, and enhancing awareness and integrity of our brand and reputation in a cost-effective manner are important to achieving widespread acceptance of our C3 AI Software and are important elements in attracting new customers and maintaining existing customers. We believe that the importance of our brand and reputation will increase as competition in our market further intensifies. Successful promotion of our brand depends on the effectiveness of our marketing efforts, our ability to provide a reliable and useful C3 AI Software at competitive prices, the perceived value of our C3 AI Software, our ability to maintain our customers' trust, our ability to continue to develop additional functionality and use cases and our ability to differentiate our C3 AI Software and capabilities from competitive offerings. Brand promotion activities may not yield increased revenue, and even if they do, the increased revenue may not offset the expenses we incur in building and maintaining our brand and reputation. We also rely on our customer base in a variety of ways, including to give us feedback on our C3 AI Software. If we fail to promote and maintain our brand successfully or to maintain loyalty among our customers, or if we incur substantial expenses in an unsuccessful attempt to promote and maintain our brand, we may fail to attract new customers and partners or retain our existing customers and partners and our business and financial condition may be adversely affected. Any negative publicity relating to our employees, partners, or others associated with these parties, may also tarnish our own reputation simply by association and may reduce the value of our brand. Damage to our brand and reputation may result in reduced demand for our C3 AI Software and increased risk of losing market share to our competitors. Any efforts to restore the value of our brand and rebuild our reputation may be costly and may not be successful.

We also enter into strategic relationships in which we co-brand our products. If these relationships terminate, it may have an adverse effect on our brand. For example, our C3 AI Software is marketed in the oil and gas industry on a co-branded basis with Baker Hughes. In the event of any termination or expiration of the arrangement with Baker Hughes, we may lose the right to continue using the co-brand to market and sell our C3 AI Software in the oil and gas industry, and it may be difficult for us to arrange for another channel partner to sell our C3 AI Software in the oil and gas industry in a timely manner, and we could lose brand awareness and sales opportunities during the transition, which could potentially harm our business.

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

Since our founding in 2009, we have experienced rapid growth. The growth and expansion of our business places a continuous and significant strain on our management, operational, and financial resources. Further growth of our operations to support our customer base, our expanding third-party relationships, our information technology systems, and our internal controls and procedures may not be adequate to support our operations. Managing our growth will also require significant expenditures and allocation of valuable management resources, including the challenges of integrating, developing, and motivating a rapidly growing employee base in various countries around the world. Certain members of our management have not previously worked together for an extended period of time, and some do not have experience managing a public company, which may affect how they manage our growth.

In addition, our rapid growth may make it difficult to evaluate our future prospects. Our ability to forecast our future results of operations is subject to a number of uncertainties, including our ability to effectively plan for and model future growth. We have encountered in the past, and may encounter in the future, risks and uncertainties frequently experienced by growing companies in rapidly changing industries. If we fail to achieve the necessary level of efficiency in our organization as it grows, or if we are not able to accurately forecast future growth, our business would be harmed.

If we are unable to ensure that our C3 AI Software interoperates with a variety of software applications that are developed by others, including our partners, we may become less competitive and our business may be harmed.

Our C3 AI Software must integrate with a variety of hardware and software platforms, and we need to continuously modify and enhance our C3 AI Software to adapt to changes in hardware and software technologies. In particular, we have developed our C3 AI Software to be able to easily integrate with key third-party applications, including the applications of software providers that compete with us as well as our partners. We are typically subject to standard terms and conditions of such providers, which govern the distribution, operation, and fees of such software systems, and which are subject to change by such providers from time to time. Our business will be harmed if any provider of such software systems:

- discontinues or limits our access to its software;
- modifies its terms of service or other policies, including fees charged to, or other restrictions on us, or other platform and application developers;
- changes how information is accessed by us or our customers;
- establishes more favorable relationships with one or more of our competitors; or
- develops or otherwise favors its own competitive offerings over our C3 AI Software.

Third-party services and products are constantly evolving, and we may not be able to modify our C3 AI Software to assure their compatibility with that of other third parties as they continue to develop or emerge in the future or we may not be able to make such modifications in a timely and cost-effective manner. In addition, some of our competitors may be able to disrupt the operations or compatibility of our C3 AI Software with their products or services, or exert strong business influence on our ability to, and terms on which we, operate our C3 AI Software. Should any of our competitors modify their products or standards in a manner that degrades the functionality of our C3 AI Software or gives preferential treatment to our competitors or competitive products, whether to enhance their competitive position or for any other reason, the interoperability of our C3 AI Software with these products could decrease and our business, results of operations, and financial condition would be harmed. If we are not permitted or able to integrate with these and other third-party applications in the future, our business, results of operations, and financial condition would be harmed.

Our ability to sell subscriptions to our C3 AI Software could be harmed by real or perceived material defects or errors in our C3 AI Software.

The technology underlying our C3 AI Software is inherently complex and may contain material defects or errors, particularly when new applications are first introduced, when new features or capabilities are released, or when integrated with new or updated third-party hardware or software. There can be no assurance that our existing C3 AI Software and new applications will not contain defects or errors. Any real or perceived errors, failures, vulnerabilities, or bugs in our C3 AI Software could result in negative publicity or lead to data security, access, retention, or other performance issues, all of which could harm our business. Correcting such defects or errors may be costly and time-consuming and could harm our business. Moreover, the harm to our reputation and legal liability related to such defects or errors may be substantial and would harm our business.

The failure to attract and retain additional qualified personnel or to maintain our company culture could harm our business and prevent us from executing our business strategy.

To execute our business strategy, we must attract and retain highly qualified personnel. Competition for executives, data scientists, engineers, software developers, sales personnel, and other key employees in our industry is intense. In particular, we compete with many other companies for employees with high levels of expertise in designing, developing and managing platforms and applications for data management, machine learning, and analytics technologies, as well as for skilled data scientists, sales, and operations professionals. In addition, we are extremely selective in our hiring process which requires significant investment of time and resources from internal stakeholders and management. At times, we have experienced, and we may continue to experience, difficulty in hiring personnel who meet the demands of our selection process and with appropriate qualifications, experience, or expertise, and we may not be able to fill positions as quickly as desired. We recently completed our initial public offering and potential candidates may not perceive our compensation package, including our equity awards, as favorably as employees hired prior to our initial public offering. In addition, our recruiting personnel, methodology, and approach may need to be altered to address a changing candidate pool and profile. We may not be able to identify or implement such changes in a timely manner.

Many of the companies with which we compete for experienced personnel have greater resources than we have, and some of these companies may offer more attractive compensation packages. If the perceived value of our equity awards declines, or if the mix of equity and cash compensation that we offer is unattractive, it may adversely affect our ability to recruit and retain highly skilled employees. Job candidates may also be threatened with legal action under agreements with their existing employers if we attempt to hire them, which could impact hiring and result in a diversion of our time and resources. Additionally, laws and regulations, such as restrictive immigration laws, or export control laws, may limit our ability to recruit internationally. We must also continue to retain and motivate existing employees through our compensation practices, company culture, and career development opportunities.

We believe that a critical component to our success and our ability to retain our best people is our culture. As we continue to grow and develop a public company infrastructure, we may find it difficult to maintain our company culture.

In addition, many of our employees may be able to receive significant proceeds from sales of our equity in the public markets, which may reduce their motivation to continue to work for us. Moreover, the proceeds from our recent initial public offering could create disparities in wealth among our employees, which may harm our culture and relations among employees and our business.

If we fail to attract new personnel or to retain our current personnel, our business would be harmed.

Our annual and quarterly results and key metrics are likely to fluctuate significantly and may not fully reflect the underlying performance of our business.

Our annual and quarterly results of operations and key metrics may vary significantly in the future as they have in the past, particularly in light of our dependence on a limited number of high-value customer contracts, and period-to-period comparisons of our results of operations and key metrics may not be meaningful. Accordingly, the results of any one year or quarter should not be relied upon as an indication of future performance. Our results of operations and key metrics may fluctuate as a result of a variety of factors, many of which are outside of our control, and as a result, may not fully reflect the underlying performance of our business. Fluctuation in our annual or quarterly results may negatively impact the value of our securities. Factors that may cause fluctuations in our annual or quarterly results of operations and key metrics include, without limitation, the risk factors listed elsewhere in this section and the factors listed below:

- our ability to generate significant revenue from new offerings;
- our ability to expand our number of partners and distribution of our C3 AI Software;
- our ability to hire and retain employees, in particular those responsible for the selling or marketing of our C3 AI Software;
- our ability to develop and retain talented sales personnel who are able to achieve desired productivity levels in a reasonable period of time and provide sales leadership in areas in which we are expanding our sales and marketing efforts;
- changes in the way we organize and compensate our sales teams;
- the timing of expenses and recognition of revenue;
- our ability to increase sales to large organizations as well as increase sales to a larger number of smaller customers;
- the length of sales cycles and seasonal purchasing patterns of our customers;
- the amount and timing of operating expenses related to the maintenance and expansion of our business, operations, and infrastructure, as well as international expansion and entry into operating leases;
- timing and effectiveness of new sales and marketing initiatives;
- changes in our pricing policies or those of our competitors;
- the timing and success of new platforms, applications, features, and functionality by us or our competitors;
- failures or breaches of security or privacy by us or our suppliers and business partners, and the costs associated with remediating any such failures or breaches;
- changes in the competitive dynamics of our industry, including consolidation among competitors;
- changes in laws and regulations that impact our business;
- any large indemnification payments to our users or other third parties;
- the timing of expenses related to any future acquisitions;
- health epidemics or pandemics, such as the coronavirus, or COVID-19, pandemic;
- the impact of any applicable changes in accounting standards or management assumptions, estimates or judgments on complex accounting matters, including estimates associated with variable consideration calculations for our arrangement with Baker Hughes;
- civil unrest and geopolitical instability; and
 - general political, economic, and market conditions.

Our performance metrics, data regarding customer counts and certain other operational data in this report are subject to assumptions and limitations and may not provide an accurate indication of our future or expected results.

Our performance metrics, including data regarding customer counts, and other operational data may not reflect our actual performance, and investors should consider these metrics in light of the assumptions used in calculating such metrics and limitations as a result thereof. Our methodologies for tracking these metrics may change over time, which could result in unexpected changes to our metrics, including the metrics we report. In addition, investors should not place undue reliance on these metrics as an indicator of our future or expected results. Moreover, these metrics may differ from similarly titled metrics presented by other companies and may not be comparable to such other metrics. We regularly review and may adjust our processes for calculating our metrics to improve their accuracy. If our metrics are not accurate representations of our business; if we discover material inaccuracies in our metrics; or if the metrics we rely on to track our performance do not provide an accurate measurement of our business, our reputation may be harmed, we may be subject to legal or regulatory actions, and our operating and financial results could be adversely affected.

We recognize revenue from subscriptions to our C3 AI Software over the terms of these subscriptions. Consequently, increases or decreases in new sales may not be immediately reflected in our results of operations and may be difficult to discern.

We recognize revenue from subscriptions to our C3 AI Software over the terms of these subscriptions. As a result, a portion of the revenue we report in each year and each quarter is derived from the recognition of deferred revenue relating to subscriptions entered into during prior periods. Consequently, a decline in new or renewed subscriptions in any single year or quarter may only have a small impact on the revenue that we recognize for that period. However, such a decline will negatively affect our revenue in future periods. Accordingly, the effect of significant downturns in sales and potential changes in our pricing policies or rate of customer expansion or retention may not be fully reflected in our results of operations until future periods. In addition, a significant portion of our costs are expensed as incurred. As a result, growth in the number of new customers could continue to result in our recognition of higher costs and lower revenue in the earlier periods of our subscriptions. Finally, our subscription-based revenue model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers or from existing customers that increase their use of our C3 AI Software must be recognized over the applicable subscription term. These risks are further exacerbated by our dependence on high-value customer contracts.

Any failure to offer high-quality maintenance and support services for our customers may harm our relationships with our customers and, consequently, our business.

Once our C3 AI Software is deployed, our customers depend on our maintenance and support teams to resolve technical and operational issues relating to our C3 AI Software. Our ability to provide effective customer maintenance and support is largely dependent on our ability to attract, train, and retain qualified personnel with experience in supporting customers with software such as ours and maintaining the same. The number of our customers has grown significantly and that has and will continue to put additional pressure on our customer maintenance and support teams. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for technical support. We also may be unable to modify the scope and delivery of our maintenance services and technical support to compete with changes in the technical services provided by our competitors. Increased customer demand for maintenance and support services, without corresponding revenue, could increase costs and negatively affect our operating results. In addition, if we experience increased customer demand for support and maintenance, we may face increased costs that may harm our results of operations. Further, as we continue to grow our operations and support our global customer base, we need to be able to continue to provide efficient support and effective maintenance that meets our customers' needs globally. If we are unable to provide efficient customer maintenance and support globally or if we need to hire additional maintenance and support personnel, our business may be harmed. Our ability to attract new customers is highly dependent on our business reputation and on positive recommendations from our existing customers. Any failure to maintain high-quality maintenance and support services, a failure of channel parties to maintain high-quality maintenance and support services or a market perception that we do not maintain high-quality maintenance and support services for our customers, would harm our business.

The COVID-19 pandemic had and could continue to have an adverse impact on our business, our operations, and the markets and communities in which we, our partners, and our customers operate.

The COVID-19 pandemic has caused general business disruption worldwide beginning in January 2020. The ultimate impact of the COVID-19 pandemic on the global economy and our business, and the duration of the COVID-19 pandemic, are difficult to assess or predict. Actual and potential impacts include:

- our customer prospects and our existing customers may experience slowdowns in their businesses, which in turn may result in reduced demand for our C3 AI Software, lengthening of sales cycles, loss of customers, and difficulties in collections;
- our vendors and suppliers may experience, or may continue to experience, disruptions in their supply chains, which may result in service interruptions or additional operating expenses, and may increase the price at which our vendors and suppliers are willing to sell their products to us;
- our employees are working from home significantly more frequently than they have historically, and may be required to work from home even more frequently in the future depending on the impact of current and future variants of the COVID-19 virus, which may result in decreased employee productivity and morale, with increased unwanted employee attrition in addition to the increased risk of a cyberattack;
- we continue to incur fixed costs, particularly for real estate, and are deriving reduced or no benefit from those costs;
- we may continue to experience disruptions to our growth planning, such as for facilities and international expansion;
- we continue to incur costs in returning to work from our facilities around the world, including changes to the workplace, such as space planning, food service, and amenities;
- we may be subject to legal liability for safe workplace claims;
- our critical vendors or third-party partners could go out of business;
- in-person marketing events, including industry conferences, have been canceled, and we may continue to experience prolonged delays in our ability to reschedule or conduct in-person marketing events and other sales and marketing activities; and
- our marketing, sales, professional services, and support organizations are accustomed to extensive face-to-face customer and partner interactions, and conducting business virtually is unproven.

The impact of any of the foregoing, individually or collectively, could adversely affect our business, financial condition, and results of operations.

As a result of the COVID-19 pandemic, we temporarily closed our headquarters and other offices, required our employees and contractors to work remotely, and implemented travel restrictions, all of which represented a significant change in how we operate our business. The operations of our partners and customers have likewise been altered. As a result of global business disruption, the COVID-19 pandemic had a significant adverse impact on our conclusion of new and additional business agreements in 2020, 2021, and to date in 2022. While several nations and states have begun to relax restrictions imposed to control the spread of the virus, the current spread of the Omicron and other COVID-19 variants has posed challenges which threaten to force a reinstatement of some or all of these restrictions. The ultimate duration and extent of the COVID-19 pandemic will depend on future developments that cannot be accurately predicted at this time, such as the extent and effectiveness of containment actions, the emergence and spread of current and future variants of the COVID-19 virus, and the effectiveness, acceptance, and availability of vaccines against the COVID-19 virus and its variants. The COVID-19 pandemic has already had an adverse effect on the global economy, and the ultimate societal and economic impact of the COVID-19 pandemic remains unknown. In particular, the conditions caused by this pandemic are likely to affect the rate of global IT spending and, despite the measures we have taken to limit or mitigate the impact, have had and could continue to have an adverse effect on the demand for our C3 AI Software, lengthen our sales cycles, reduce the value or duration of subscriptions, reduce the level of subscription renewals, negatively impact collections of accounts receivable, reduce expected spending from new customers, cause some of our paying customers to go out of business, limit the ability of our direct sales force to travel to customers and potential customers, and affect contraction or attrition rates of our paying customers, all of which could adversely affect our business, results of operations, and financial condition during fiscal 2022 and future periods.

Moreover, to the extent the COVID-19 pandemic adversely affects our business, financial condition, and results of operations, it may also have the effect of heightening many of the other risks described in this “Risk Factors” section, including but not limited to, those related to our ability to increase sales to existing and new customers, develop and deploy new offerings and applications and maintain effective marketing and sales capabilities.

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

We collect, receive, store, process, generate, use, transfer, disclose, make accessible, protect, secure, dispose of and share customers’ proprietary and sensitive data, potentially including personal information, confidential information, protected health information, and financial data. We refer to these activities as Process or Processing throughout this report.

Regulation of privacy, information security and data Processing have become significant issues in the United States, countries in Europe, and in other countries in which we operate. The legal and regulatory framework for privacy, information security and data Processing issues is rapidly evolving, and is expected to increase our compliance costs and exposure to liability. There are numerous federal, state, local, and international laws and regulations regarding privacy, information security, data Processing, and the protection of personal information and other content, which we refer to as Data Protection Laws. The scope of these Data Protection Laws is rapidly changing, subject to differing interpretations, and may be inconsistent among countries or may conflict with other rules. We are also subject to the terms of external and internal privacy and security policies, codes, representations, certifications, industry standards, publications and frameworks, which we refer to as Privacy Policies, and contractual obligations to third parties related to privacy, information security, and data Processing, which we refer to collectively with Privacy Policies as Data Protection Obligations. The Data Protection Obligations that we are subject to include contractual obligations to indemnify and hold harmless third parties from the costs or consequences of non-compliance with Data Protection Laws or other obligations. We expect that there will continue to be new Data Protection Laws and Data Protection Obligations applicable to our business, and we cannot yet determine the impact such future Data Protection Obligations may have on our business. Any significant change to Data Protection Laws and Data Protection Obligations, including those applicable to the manner in which the express or implied consent of customers for Processing is obtained, could increase our costs and require us to modify our operations, possibly in a material manner, which we may be unable to complete and which may limit our ability to store and Process data and operate our business.

Data Protection Laws are, and are likely to remain, uncertain for the foreseeable future. Our actual or perceived failure to address or comply with Data Protection Laws could impact us in any of the following ways, which we refer to as Adverse Data Protection Impacts: increase our compliance and operational costs; limit our ability to market our products or services and attract new and retain current customers; limit or eliminate our ability to Process data; expose us to regulatory scrutiny, actions, investigations, fines and penalties; result in reputational harm; lead to a loss of business result in litigation and liability, including class action litigation; cause to incur significant costs, expenses and fees (including attorney fees); cause a material adverse impact to business operations or financial results; and otherwise result in other material harm to our business.

We strive to comply with applicable Data Protection Laws, and Data Protection Obligations to the extent possible, but we may at times fail to do so, or may be perceived to have failed to do so. Moreover, despite our efforts, we may not be successful in achieving compliance and may otherwise face Adverse Data Protection Impacts if our employees, partners or vendors do not, or are perceived not to, comply with applicable Data Protection Laws and Data Protection Obligations. We may suffer an Adverse Data Protection Impact if we fail (or are perceived to have failed) to comply with applicable Data Protection Laws or Data Protection Obligations, or if our Privacy Policies are, in whole or part, found to be inaccurate, incomplete, deceptive, unfair, or misrepresentative of our actual practices. In addition, any such failure or perceived failure could result in public statements against us by consumer advocacy groups, the media or others, which may cause us material reputational harm. Our actual or perceived failure to comply with Data Protection Laws or and Data Protection Obligations could also subject us to litigation, claims, proceedings, actions or investigations by governmental entities, authorities or regulators, any of which could result in an Adverse Data Protection Impact, including required changes to our business practices, the diversion of resources and the attention of management from our business, regulatory oversights and audits, or discontinuance of necessary data Processing. Further, the costs of compliance with, and other burdens imposed by, laws, regulations, and policies that are applicable to the businesses of our customers relating to privacy, information security and data Processing may limit the adoption and use of, and reduce the overall demand for, our C3 AI Software.

We also expect that there will continue to be new laws, regulations, and industry standards concerning privacy, information security and data Processing proposed and enacted in various jurisdictions. In Europe, the General Data Protection Regulation (2016/679), or GDPR, went into effect in May 2018 and introduced strict requirements for Processing the personal data of European Union data subjects. The GDPR may apply to us to the extent we Process the personal data of European Union data subjects. Companies that must comply with the GDPR face increased compliance obligations and risk, including more robust regulatory enforcement of data protection requirements, with violations potentially resulting in an order prohibiting Processing of European data subject personal data and fines of up to €20 million or 4% of the annual global-revenues of the noncompliant company, whichever is greater. European data protection laws including the GDPR also generally prohibit the transfer of personal data from the European Economic Area, or EEA, to the United States and most other countries unless the parties to the transfer have established a legal basis for the transfer and implemented specific safeguards to protect the transferred personal data. One of the primary mechanisms allowing U.S. companies to import personal information from Europe in compliance with the GDPR has been certification to the EU-U.S. Privacy Shield and Swiss-U.S. Privacy Shield frameworks administered by the U.S. Department of Commerce. However, the Court of Justice of the European Union, in the “Schrems II” ruling, invalidated this framework in July 2020. The Swiss Federal Data Protection and Information Commissioner also has opined that the Swiss-U.S. Privacy Shield is inadequate for transfers of data from Switzerland to the U.S. Authorities in the United Kingdom, whose data protection laws are similar to those of the European Union, may similarly invalidate use of the EU-U.S. Privacy Shield as mechanisms for lawful personal information transfers from those countries to the United States.

The Schrems II decision also raised questions about whether one of the primary alternatives to the EU-U.S. Privacy Shield, namely, the European Commission’s Standard Contractual Clauses, or SCCs, can lawfully be used for personal information transfers from Europe to the United States or most other countries. At present, there are few, if any, viable alternatives to the EU-U.S. Privacy Shield and the SCCs. The European Commission recently proposed updates to the SCCs, and additional regulatory guidance has been released that seeks to impose additional obligations on companies seeking to rely on the SCCs. As such, any transfers by us or our vendors of personal data from Europe may not comply with European data protection law, may increase our exposure to the GDPR’s heightened sanctions for violations of its cross-border data transfer restrictions, and may reduce demand for our C3 AI Software from companies subject to European data protection laws.

Further, the United Kingdom has exited the EU, with such exit referred to as “Brexit,” effective December 31, 2020. The GDPR’s data protection obligations continue to form part of the laws in the United Kingdom by virtue of section 3 of the European Union (Withdrawal) Act 2018, as amended (including by the various Data Protection, Privacy and Electronic Communications (EU Exit) Regulations). Going forward, we are exposed to increasing risk for divergence in application, interpretation and enforcement of these two parallel data protection regimes. In June 2021, the European Commission adopted an adequacy decision with regard to personal data transfers to the United Kingdom under the GDPR, meaning that the European Commission determined that personal data receives essentially equivalent levels of protection in the United Kingdom as it would under EU law. This decision, however, does not cover personal data transferred for purposes of UK immigration control and contains a “sunset clause,” which mandates that the adequacy decision expire in four years. This adequacy decision may also be reassessed or revoked during its four-year effective period if the European Commission determines that the United Kingdom has deviated from the level of data protection in place at the time of the adequacy decision. If the European Commission alters or revokes its adequacy decision for any reason, from that point onwards, transfers of personal data from the EEA to the United Kingdom will require a valid ‘transfer mechanism’ and such transfers will need to be made subject to GDPR-compliant safeguards (for example, the SCCs). We may face challenges in addressing applicable legal requirements resulting from any such alteration or revocation of this adequacy decision, and we may be required to make changes to our policies and practices and incur significant costs and expenses if any uncertainty surrounding the interpretation or continued efficacy of this adequacy decision develops.

In the United States, Data Protection Laws include rules and regulations promulgated under the authority of the Federal Trade Commission, the Electronic Communications Privacy Act, the Computer Fraud and Abuse Act, the California Consumer Privacy Act, or CCPA, and other state and federal laws relating to privacy and data security. For example, the CCPA requires companies that process information on California residents to make new disclosures to consumers about their data collection, use and sharing practices, and allows consumers to opt out of the sale of personal information with third parties and provides a private right of action and statutory damages for data breaches. The CCPA may increase our compliance costs and potential liability. In addition, California voters recently approved the California Privacy Rights Act of 2020, or CPRA, that goes into effect on January 1, 2023. The CPRA would, among other things, give California residents the ability to limit the use of their sensitive information, provide for penalties for CPRA violations concerning California residents under the age of 16, and establish a new California Privacy Protection Agency to implement and enforce the law. The enactment of the CCPA is prompting a wave of similar legislative developments in other states in the United States, which could create the potential for a patchwork of overlapping but different state laws. Some observers have noted that the CCPA could mark the beginning of a trend toward more stringent privacy legislation in the United States, as observed by the recent adoption of more stringent privacy laws in Virginia and Colorado. The adoption of these and other more stringent privacy legislation could increase our potential liability and adversely affect our business, results of operations, and financial condition. Some countries also are considering or have passed legislation requiring local storage and Processing of data, or similar requirements, which could increase the cost and complexity of operating our C3 AI Software and other aspects of our business.

With laws and regulations in the United States and globally imposing new and relatively burdensome obligations, and with substantial uncertainty over the interpretation and application of these and other laws and regulations, there is a risk that the requirements of these laws and regulations, or of contractual or other obligations relating to privacy, data Processing, or information security, are interpreted or applied in a manner that is, or is alleged to be, inconsistent with our management and Processing practices, our Privacy Policies or procedures, or the features of our C3 AI Software. We may face challenges in addressing their requirements and making necessary changes to our Privacy Policies and practices, and may incur significant costs and expenses in an effort to do so. Although we endeavor to comply with our Privacy Policies and other privacy-, data Processing-, or information security-related obligations, we may at times fail to do so or may be perceived to have failed to do so. Moreover, despite our efforts, we may not be successful in achieving compliance if our employees or vendors to comply with our Privacy Policies and other privacy-, data Processing-, or information security-related obligations. Any failure or perceived failure by us to comply with our Privacy Policies and our privacy-, data Processing-, or information security-related obligations to customers or other third parties or any of our other legal obligations relating to privacy, data Processing, or information security may result in governmental investigations or enforcement actions, litigation, claims, or public statements against us by consumer advocacy groups or others, and could result in significant liability or cause our customers to lose trust in us, which could have an adverse effect on our reputation and business. Furthermore, the costs of compliance with, and other burdens imposed by, the laws, regulations, and policies that are applicable to the businesses of our customers may limit the adoption and use of, and reduce the overall demand for, our C3 AI Software.

Additionally, if third parties we work with, such as vendors or developers, violate Data Protection Laws or Data Protection Obligations, such violations may also put our customers' content at risk and could in turn have an adverse effect on our business. Further, any significant change to Data Protection Laws, Data Protection Obligations, or industry practices regarding the collection, use, retention, security, or disclosure of our customers' content, or regarding the manner in which express or implied consent for the collection, use, retention, or disclosure of such content is obtained, could increase our costs and require us to modify our C3 AI Software, possibly in a material manner, which we may be unable to complete and may limit our ability to Process customer data or develop new applications and features.

If we or our service providers experience a security breach or if unauthorized parties otherwise obtain access to our customers' data, our data, or our C3 AI Software, our C3 AI Software may be perceived as not being secure, our reputation may be harmed, demand for our software may be reduced, and we may incur significant liabilities.

Our C3 AI Software Processes our customers' proprietary and sensitive data, potentially including personal information, confidential information, protected health information, and financial data. Our C3 AI Software is built to be available on the infrastructure of third-party public cloud providers such as Amazon Web Services, Azure, and Google Cloud Platform. We also use service providers to help us deliver services to our customers. These service providers may Process personal information, protected health information, or other confidential information of our employees, partners or customers. We collect such information from individuals located both in the United States and abroad and may Process such information outside the country in which it was collected. While we and our service providers have implemented a number of security measures designed to protect against security breaches, these measures could fail or may be insufficient, resulting in the unauthorized disclosure, modification, misuse, unavailability, destruction, or loss of our or our customers' data or other sensitive information. Any security breach of our C3 AI Software, our operational systems, our physical facilities, or the systems or facilities of our partners, or the perception that one has occurred, could result in litigation, indemnity obligations, regulatory enforcement actions, investigations, fines, penalties, mitigation and remediation costs, disputes, reputational harm, diversion of management's attention, and other liabilities and damage to our business. Even though we do not control the security measures of third parties, we may be perceived or asserted to be responsible for any breach of such measures or suffer reputational harm even where we do not have recourse to the third party that caused the breach. In addition, any failure by our partners to comply with applicable law or regulations could result in proceedings against us by governmental entities or others, with further financial, operational, and reputational damage.

Cyberattacks, denial-of-service attacks, ransomware attacks, business email compromises, computer malware, viruses, social engineering (including phishing) and other malicious internet-based activity are prevalent in our industry and our customers' industries and such attacks continue to increase. We also utilize third-party providers to host, transmit, or otherwise process electronic data in connection with our business activities. We or our vendors and business partners may experience attacks, unavailable systems, unauthorized access or disclosure due to employee or other theft or misuse, denial-of-service attacks, sophisticated attacks by nation-state and nation-state supported actors, and advanced persistent threat intrusions. Despite our efforts to ensure the security, privacy, integrity, confidentiality, availability, and authenticity information technology networks and systems, Processing and information, we may not be able to anticipate or to implement effective preventive and remedial measures against all data security and privacy threats. We cannot guarantee that the recovery systems, security protocols, network protection mechanisms and other security measures that we have integrated into our systems, networks and physical facilities, which are designed to protect against, detect and minimize security breaches, or those of our vendors and business partners, will be adequate to prevent or detect service interruption, system failure data loss or theft, or other material adverse consequences. No security solution, strategy, or measures can address all possible security threats or block all methods of penetrating a network or otherwise perpetrating a security incident. The risk of unauthorized circumvention of our security measures or those of our third-party providers, clients and partners has been heightened by advances in computer and software capabilities and the increasing sophistication of hackers who employ complex techniques, including without limitation, the theft or misuse of personal and financial information, counterfeiting, "phishing" or social engineering incidents, ransomware, extortion, publicly announcing security breaches, account takeover attacks, denial or degradation of service attacks, malware, fraudulent payment and identity theft. The techniques used to sabotage, disrupt or to obtain unauthorized access to our C3 AI Software, systems, networks, or physical facilities in which data is stored or through which data is transmitted change frequently, and we may be unable to implement adequate preventative measures or stop security breaches while they are occurring. In addition, laws, regulations, government guidance, and industry standards and practices in the United States and elsewhere are rapidly evolving to combat these threats. We may face increased compliance burdens regarding such requirements from regulators and customers regarding our products and services and also incur additional costs for oversight and monitoring of security risks relating to our own supply chain.

The recovery systems, security protocols, network protection mechanisms and other security measures that we have integrated into our C3 AI Software, systems, networks and physical facilities, which are designed to protect against, detect and minimize security breaches, may not be adequate to prevent or detect service interruption, system failure or data loss. Our C3 AI Software, systems, networks, and physical facilities could be breached or personal information could be otherwise compromised due to employee error or malfeasance, if, for example, third parties attempt to fraudulently induce our employees, those of our vendors and business partners, or our customers to disclose information or user names and/or passwords, or otherwise compromise the security of our C3 AI Software, networks, systems and/or physical facilities. Third parties may also exploit vulnerabilities in, or obtain unauthorized access to, platforms, applications, systems, networks and/or physical facilities utilized by our vendors. We and a number of our vendors and business partners have previously been, and may in the future become, the target of cyber-attacks by third parties seeking unauthorized access to our or our customers' data or to disrupt our operations or ability to provide our services. While we have been successful in preventing such unauthorized access and disruption in the past, we may not continue to be successful against these or other attacks in the future.

The costs to respond to a security breach and/or to mitigate any security vulnerabilities that may be identified could be significant, our efforts to address these problems may not be successful, and these problems could result in unexpected interruptions, delays, cessation of service, negative publicity, and other harm to our business and our competitive position. We could be required to fundamentally change our business activities and practices in response to a security breach or related regulatory actions or litigation, which could have an adverse effect on our business.

We have contractual and legal obligations to notify relevant stakeholders of security breaches. Most jurisdictions have enacted laws requiring companies to notify individuals, regulatory authorities, and others of security breaches involving certain types of data. In addition, our agreements with certain customers and partners may require us to notify them in the event of a security breach involving customer or partner data on our systems or those of subcontractors Processing customer or partner data on our behalf. Such mandatory disclosures are costly, could lead to negative publicity, may cause our customers to lose confidence in the effectiveness of our security measures, and require us to expend significant capital and other resources to respond to or alleviate problems caused by the actual or perceived security breach may cause us to breach customer contracts. Depending on the facts and circumstances of such an incident, these damages, penalties and costs could be significant and may not be covered by insurance or could exceed our applicable insurance coverage limits. Such an event also could harm our reputation and result in litigation against us. Any of these results could materially adversely affect our financial performance. Our agreements with certain customers may require us to use industry-standard, reasonable, or other specified measures to safeguard sensitive personal information or confidential information, and any actual or perceived breach of such measures may increase the likelihood and frequency of customer audits under our agreements, which is likely to increase the costs of doing business. An actual or perceived security breach could lead to claims by our customers, or other relevant stakeholders that we have failed to comply with such legal or contractual obligations. As a result, we could be subject to legal action or our customers could end their relationships with us. There can be no assurance that any limitations of liability in our contracts, which we have in certain agreements, would be enforceable or adequate or would otherwise protect us from liabilities or damages.

Litigation resulting from security breaches may adversely affect our business. Unauthorized access to our C3 AI Software, systems, networks, or physical facilities could result in litigation with our customers or other relevant stakeholders. These proceedings could force us to spend money in defense or settlement, divert management's time and attention, increase our costs of doing business, or adversely affect our reputation. We could be required to fundamentally change our business activities and practices or modify our C3 AI Software capabilities in response to such litigation, which could have an adverse effect on our business. If a security breach were to occur, and the confidentiality, integrity or availability of our data or the data of our partners or our customers was disrupted, we could incur significant liability, or our C3 AI Software, systems, or networks may be perceived as less desirable, which could negatively affect our business and damage our reputation.

If we fail to detect or remediate a security breach in a timely manner, or a breach otherwise affects a large amount of data of one or more customers, or if we suffer a cyberattack that impacts our ability to operate our C3 AI Software, we may suffer material damage to our reputation, business, financial condition, and results of operations. Further, we may not have adequate insurance coverage for security incidents or breaches, including fines, judgments, settlements, penalties, costs, attorney fees and other impacts that arise out of incidents or breaches. Depending on the facts and circumstances of such an incident, the damages, penalties and costs could be significant and may not be covered by insurance or could exceed our applicable insurance coverage limits. If the impacts of a security incident or breach, or the successful assertion of one or more large claims against us that exceeds our available insurance coverage, or results in changes to our insurance policies (including premium increases or the imposition of large deductible or co-insurance requirements), it could have an adverse effect on our business. In addition, we cannot be sure that our existing insurance coverage and coverage for errors and omissions will continue to be available on acceptable terms or that our insurers will not deny coverage as to all or part of any future claim or loss. Our risks are likely to increase as we continue to expand our C3 AI Software, grow our customer base, and store, transmit, and otherwise Process increasingly large amounts of proprietary and sensitive data.

We could suffer disruptions, outages, defects, and other performance and quality problems with our C3 AI Software or with the public cloud and internet infrastructure on which it relies.

Our business depends on our C3 AI Software to be available without disruption. We have experienced, and may in the future experience, disruptions, outages, defects, and other performance and quality problems with our C3 AI Software. We have also experienced, and may in the future experience, disruptions, outages, defects, and other performance and quality problems with the public cloud and internet infrastructure on which our C3 AI Software relies. These problems can be caused by a variety of factors, including introductions of new functionality, vulnerabilities and defects in proprietary and open source software, human error or misconduct, capacity constraints, design limitations, as well as from internal and external security breaches, malware and viruses, ransomware, cyber events, denial or degradation of service attacks or other security-related incidents.

Further, if our contractual and other business relationships with our public cloud providers are terminated, suspended, or suffer a material change to which we are unable to adapt, such as the elimination of services or features on which we depend, we could be unable to provide our C3 AI Software and could experience significant delays and incur additional expense in transitioning customers to a different public cloud provider.

Any disruptions, outages, defects, and other security performance and quality problems with our C3 AI Software or with the public cloud and internet infrastructure on which it relies, or any material change in our contractual and other business relationships with our public cloud providers, could result in reduced use of our C3 AI Software, increased expenses, including significant, unplanned capital investments and/or service credit obligations, and harm to our brand and reputation, any of which could have a material adverse effect on our business, financial condition, reputation and results of operations.

Our application for a PPP Loan could in the future be determined to have been impermissible, which could result in damage to our reputation or adversely impact our business.

In May 2020, given the uncertainty caused by COVID-19 and related events, we applied for and received proceeds of approximately \$6.3 million from a loan under the Paycheck Protection Program, or the PPP Loan, of the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act. The PPP Loan had a term of two years, was unsecured, and was guaranteed by the U. S. Small Business Administration, or the SBA. The PPP Loan carried a fixed interest rate of 1.00% per annum, with the first six months of interest deferred. We repaid the entire balance of the PPP Loan, including accrued interest in August 2020.

In applying for the PPP Loan, we were required to certify, among other things, that the then-current economic uncertainty made the PPP Loan necessary to support our ongoing operations and that we did not, together with our affiliates, then employ more than 500 employees. We made these certifications in good faith after analyzing, among other things, economic uncertainties created by the COVID-19 pandemic, including its impact on our customers and prospects and the global economy, and the potential impact on our business activity.

We believe that we satisfied all eligibility criteria for the PPP Loan, and that our receipt of the PPP Loan was consistent with the objectives of the CARES Act. The certification regarding necessity described above did not at the time contain any objective criteria and continues to be subject to interpretation. If, despite our good-faith belief that we satisfied all eligibility requirements for the PPP Loan, we are later determined to have violated any of the laws or governmental regulations that apply to us in connection with the PPP Loan, such as the False Claims Act, or it is otherwise determined that we were ineligible to receive the PPP Loan, we may be subject to civil, criminal, and administrative penalties, despite the fact that we elected not to use any of the PPP Loan proceeds and repaid the entire balance of the PPP Loan, including accrued interest. Any violations or alleged violations may result in adverse publicity and damage to our reputation, a review or audit by the SBA or other government entity, or claims under the False Claims Act. These events could consume significant financial and management resources and could have a material adverse effect on our business, results of operations, and financial condition.

We rely on third-party service providers to host and deliver our C3 AI Software, and any interruptions or delays in these services could impair our C3 AI Software and harm our business.

We currently serve our customers from third-party data center hosting facilities located in the United States, Asia, and Europe. Our operations depend, in part, on our third-party facility providers' ability to protect these facilities against damage or interruption from natural disasters, power or telecommunications failures, criminal acts, and similar events. In the event that our data center arrangements are terminated, or if there are any lapses of service or damage to a center, we could experience lengthy interruptions in our C3 AI Software as well as delays and additional expenses in making new arrangements.

We designed our system infrastructure and procure and own or lease the computer hardware used for our C3 AI Software. Design and mechanical errors, spikes in usage volume, and failure to follow system protocols and procedures could cause our systems to fail, resulting in interruptions in our C3 AI Software. Any interruptions or delays in our service, whether as a result of third-party error, our own error, natural disasters, or security breaches, whether accidental or willful, could harm our relationships with our customers and cause our revenue to decrease and/or our expenses to increase. Also, in the event of damage or interruption, our insurance policies may not adequately compensate us for any losses that we may incur. These factors in turn could further reduce our revenue, subject us to liability and cause us to issue credits or cause customers to fail to renew their subscriptions, any of which could materially adversely affect our business.

We may face exposure to foreign currency exchange rate fluctuations.

We sell to customers globally and have international operations primarily in Europe. As we continue to expand our international operations, we will become more exposed to the effects of fluctuations in currency exchange rates. Although the majority of our cash generated from revenue is denominated in U.S. dollars, a small amount is denominated in foreign currencies, and our expenses are generally denominated in the currencies of the jurisdictions in which we conduct our operations. For the three months ended January 31, 2022 and 2021, 12% and 28% of our revenue, respectively, and for the nine months ended January 31, 2022 and 2021, 15% and 26% of our revenue, respectively, were denominated in currencies other than U.S. dollars. For the three months ended January 31, 2022 and 2021, 4% and 9% of our expenses, respectively, and for the nine months ended January 31, 2022 and 2021, 5% and 9% of our expenses, respectively, were denominated in currencies other than U.S. dollars. Because we conduct business in currencies other than U.S. dollars but report our results of operations in U.S. dollars, we also face remeasurement exposure to fluctuations in currency exchange rates, which could hinder our ability to predict our future results and earnings and could materially impact our results of operations. Therefore, increases in the value of the U.S. dollar and decreases in the value of foreign currencies could result in the dollar equivalent of our revenue being lower. We do not currently maintain a program to hedge exposures to non-U.S. dollar currencies.

Sales to government entities and highly regulated organizations are subject to a number of challenges and risks.

We sell to U.S. federal, state, local, and foreign governmental agency customers, as well as to customers in highly regulated industries such as financial services, telecommunications, and healthcare. Sales to such entities are subject to a number of challenges and risks. Selling to such entities can be highly competitive, expensive, and time consuming, often requiring significant upfront time and expense without any assurance that these efforts will generate a sale. Government contracting requirements may change and restrict our ability to sell into the government sector. Government demand and payment for our C3 AI Software is affected by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our C3 AI Software.

Further, governmental and highly regulated entities may demand contract terms that differ from our standard arrangements and may be less favorable than terms agreed with other customers. In our experience, government entities often require shorter term subscriptions than our private sector customers due to budget cycles, making one-year subscriptions not uncommon. Government entities and highly regulated organizations typically have longer implementation cycles, sometimes require acceptance provisions that can lead to a delay in revenue recognition, can have more complex IT and data environments, and may expect greater payment flexibility from vendors.

Contracts with governmental entities may also include preferential pricing terms, such as “most favored customer” pricing. In the event that we are successful in being awarded a government contract, the award may be subject to appeals, disputes, or litigation, including but not limited to bid protests by unsuccessful bidders.

As a government contractor or subcontractor, we must comply with laws, regulations, and contractual provisions relating to the formation, administration, and performance of government contracts and inclusion on government contract vehicles, which affect how we and our partners do business with government agencies. As a result of actual or perceived noncompliance with government contracting laws, regulations, or contractual provisions, we may be subject to non-ordinary course audits and internal investigations, which may prove costly to our business, divert management time, or limit our ability to continue selling our products and services to our government customers. These laws and regulations may impose other added costs on our business, and failure to comply with these or other applicable regulations and requirements, including non-compliance in the past, could lead to claims for damages from our partners, downward contract price adjustments or refund obligations, civil or criminal penalties, and termination of contracts and suspension or debarment from government contracting for a period of time with government agencies. Any such damages, penalties, disruption, or limitation in our ability to do business with a government would adversely impact, and could have a material adverse effect on, our business, results of operations, financial condition, public perception and growth prospects.

Governmental and highly regulated entities may have statutory, contractual, or other legal rights to terminate contracts with us or our partners for convenience or for other reasons. Any such termination may adversely affect our ability to contract with other government customers as well as our reputation, business, financial condition, and results of operations. All these factors can add further risk to business conducted with these customers. If sales expected from a government entity or highly regulated organization for a particular period are not realized in that period or at all, our business, financial condition, results of operations, and growth prospects could be materially and adversely affected.

Our business could be adversely affected if our employees cannot obtain and maintain required security clearances, we cannot obtain and maintain a required facility security clearance, or we do not comply with legal and regulatory obligations regarding the safeguarding of classified information.

One of our U.S. government contracts requires our employees to maintain security clearances, and also requires us to comply with U.S. Department of Defense, or DoD, security rules and regulations. The DoD has strict security clearance requirements for personnel who perform work in support of classified programs. In general, access to classified information, technology, facilities, or programs are subject to additional contract oversight and potential liability. In the event of a security incident involving classified information, technology, facilities, or programs, or personnel holding clearances, we may be subject to legal, financial, operational and reputational harm. Obtaining and maintaining security clearances for employees involves a lengthy process, and it is difficult to identify, recruit, and retain employees who already hold security clearances. If our employees are unable to obtain security clearances in a timely manner, or at all, or if our employees who hold security clearances are unable to maintain their clearances or terminate employment with us, then a customer requiring classified work could terminate an existing contract or decide not to renew the contract upon its expiration. To the extent we are not able to obtain or maintain a facility security clearance, we may not be able to bid on or win new classified contracts, and our existing contract (and any future contracts we may subsequently obtain) requiring a facility security clearance could be terminated.

If we are unable to achieve and sustain a level of liquidity sufficient to support our operations and fulfill our obligations, our business, operating results and financial position could be adversely affected.

We actively monitor and manage our cash and cash equivalents so that sufficient liquidity is available to fund our operations and other corporate purposes. In the future, increased levels of liquidity may be required to adequately support our operations and initiatives and to mitigate the effects of business challenges or unforeseen circumstances. If we are unable to achieve and sustain such increased levels of liquidity, we may suffer adverse consequences including reduced investment in our C3 AI Software, difficulties in executing our business plan and fulfilling our obligations, and other operational challenges. Any of these developments could adversely affect our business, operating results and financial position.

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

Historically, we have funded our operations and capital expenditures primarily through equity issuances and cash generated from our operations. Although we currently anticipate that our existing cash and cash equivalents and cash flow from operations will be sufficient to meet our cash needs for the foreseeable future, we may require additional financing. We evaluate financing opportunities from time to time, and our ability to obtain financing will depend, among other things, on our development efforts, business plans, operating performance, and condition of the capital markets at the time we seek financing. Future sales and issuances of our capital stock or rights to purchase our capital stock could result in substantial dilution to our existing stockholders. We may sell Class A common stock, convertible securities, and other equity securities in one or more transactions at prices and in a manner as we may determine from time to time. If we sell any such securities in subsequent transactions, investors may be materially diluted. New investors in such subsequent transactions could gain rights, preferences, and privileges senior to those of holders of our Class A common stock. Any debt financing that we may secure in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities. We cannot assure you that additional financing will be available to us on favorable terms when required, or at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth, development efforts and to respond to business challenges could be significantly impaired, and our business, operating results and financial condition may be adversely affected.

We may acquire other businesses or receive offers to be acquired, which could require significant management attention, disrupt our business or dilute stockholder value.

We have in the past made, and may in the future make, acquisitions of other companies, products, and technologies. We have limited experience in acquisitions. We may not be able to find suitable acquisition candidates, and we may not be able to complete acquisitions on favorable terms, if at all. Any acquisitions we complete may not ultimately strengthen our competitive position or achieve our goals, and may be viewed negatively by customers, developers, or investors. In addition, we may not be able to integrate acquired businesses successfully or effectively manage the combined company following an acquisition. If we fail to successfully integrate our acquisitions, or the people or technologies associated with those acquisitions, into our company, the results of operations of the combined company could be adversely affected. Any integration process will require significant time and resources, require significant attention from management and disrupt the ordinary functioning of our business, and we may not be able to manage the process successfully, which could harm our business. In addition, we may not successfully evaluate or utilize the acquired technology and accurately forecast the financial impact of an acquisition transaction, including accounting charges.

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

Changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters could adversely affect our financial results or financial condition.

GAAP and related accounting pronouncements, implementation guidelines and interpretations with regard to a wide range of matters that are relevant to our business, such as revenue recognition, impairment of intangible assets, lease obligations, vendor allowances, tax matters and litigation, are complex and involve many subjective assumptions, estimates and judgments. Changes in accounting standards or their interpretation or changes in underlying assumptions, estimates or judgments could significantly change our reported or expected financial performance or financial condition. The implementation of new accounting standards could also require certain systems, internal process and other changes that could increase our operating costs.

For example, in October 2021, we amended our agreements with Baker Hughes to extend the term by an additional year, for a total of six years, with an expiration date in fiscal year 2025, to modify the amount of Baker Hughes' annual commitments to \$85.0 million in fiscal year 2023, \$110.0 million in fiscal year 2024, and \$125.0 million in fiscal year 2025, and to revise the structure of the arrangement to further incentivize Baker Hughes' sales of our products and services. Beginning in fiscal year 2023, Baker Hughes' annual commitments will be reduced by any revenue that we generate from certain customers. The amount of revenue generated by Baker Hughes from these customers is considered to be variable consideration, and we are required to review our estimates of this amount quarterly and adjust this estimate as needed to reflect our current assumptions. To the extent that our estimate of this variable consideration in any prior period is not accurate, we may be required to adjust our revenue in future periods to adjust for this variance. As a result, our results of operations in any period could be materially and adversely affected.

Increased scrutiny regarding environmental, employment, social, and governance matters could adversely impact our reputation, our ability to retain employees, and the willingness of customers and others to do business with us.

There is increasing focus from investors, regulators, and other corporate stakeholders on corporate policies addressing environmental, employment, social, and governance matters. Stakeholder expectations regarding appropriate corporate conduct on these matters are continually evolving, as are expectations regarding appropriate methods and types of related corporate disclosure. Investors, regulators, or other corporate stakeholders may not be satisfied with our existing environmental, employment, social, and governance practices or those of our customers, strategic partners, or vendors. These stakeholders may also be dissatisfied with the pace at which any revisions to our practices or the practices of our customers, strategic partners, or vendors are adopted and implemented. Further, investors and other stakeholders may object to the societal costs or ethical or other implications, or the perceived costs or implications, associated with the use of our products made by one or more of our customers. If any of these events were to occur, our reputation, our ability to retain employees, and the willingness of customers and others to do business with us may be materially and adversely impacted. We may also incur additional costs and require additional resources, which could be material, to monitor, report, and comply with related corporate disclosure obligations in the future, whether those obligations are imposed by law, regulation, or market expectation.

Risks Related to Our International Operations

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

We have Customers-Entities in more than 10 countries, and 24% of our revenue for the nine months ended January 31, 2022 was generated from customers outside of North America. As of January 31, 2022, we had nine international sales locations, and we plan to add local sales support in further select international markets over time. We expect to continue to expand our international operations, which may include opening offices in new jurisdictions and providing our C3 AI Software in additional languages. Any new markets or countries into which we attempt to sell subscriptions to our C3 AI Software may not be receptive. For example, we may not be able to expand further in some markets if we are not able to satisfy certain government- and industry-specific requirements. In addition, our ability to manage our business and conduct our operations internationally in the future may require considerable management attention and resources and is subject to the particular challenges of supporting a rapidly growing business in an environment of multiple languages, cultures, customs, legal and regulatory systems, alternative dispute systems, and commercial markets. Future international expansion will require investment of significant funds and other resources. Operating internationally subjects us to new risks and may increase risks that we currently face, including risks associated with:

- recruiting and retaining talented and capable employees outside the United States and maintaining our company culture across all of our offices;
- potentially different pricing environments, longer sales cycles, and longer accounts receivable payment cycles and collections issues;
- compliance with applicable international laws and regulations, including laws and regulations with respect to privacy, data protection, and consumer protection, and the risk of penalties to us and individual members of management or employees if our practices are deemed to be out of compliance;
- management of an employee base in jurisdictions that may not give us the same employment and retention flexibility as does the United States;
- operating in jurisdictions that do not protect intellectual property rights to the same extent as does the United States and the practical enforcement of such intellectual property rights outside of the United States;
- foreign government interference with our intellectual property that resides outside of the United States, such as the risk of changes in foreign laws that could restrict our ability to use our intellectual property;
- integration with partners outside of the United States;
- securing our locally operated systems and our data and the data of our customers and partners accessible from such jurisdictions;
- compliance by us and our business partners with anti-corruption laws, import and export control laws, tariffs, trade barriers, economic sanctions, anti-money laundering laws and other regulatory limitations on our ability to provide our C3 AI Software in certain international markets;
- foreign exchange controls that might require significant lead time in setting up operations in certain geographic territories and might prevent us from repatriating cash earned outside the United States;
- political and economic instability, including military actions affecting Russia, Ukraine and/or surrounding regions;
- COVID-19 or any other pandemics or epidemics that could result in decreased economic activity in certain markets, decreased use of our C3 AI Software, or in our decreased ability to import, export, or sell our C3 AI Software to existing or new customers in international markets;
- changes in diplomatic and trade relationships, including the imposition of new trade restrictions, trade protection measures, import or export requirements, trade embargoes, and other trade barriers;
- generally longer payment cycles and greater difficulty in collecting accounts receivable;
- double taxation of our international earnings and potentially adverse tax consequences due to changes in the income and other tax laws of the United States or the international jurisdictions in which we operate; and
- higher costs of doing business internationally, including increased accounting, travel, infrastructure, and legal compliance costs.

Political actions, including trade protection and national security policies of U.S. and foreign government bodies, such as tariffs, import or export regulations, including deemed export restrictions, trade and economic sanctions, quotas or other trade barriers and restrictions could affect our ability to provide our C3.ai Software to our Customers and generally fulfill our contractual obligations and have an adverse effect on our future business opportunities. For example, in response to Russian military actions related to Ukraine, the United States and certain allies have imposed economic sanctions and export control measures and may impose additional sanctions or export control measures, which have and could in the future result in, among other things, severe or complete restrictions on exports and other commerce and business dealings involving Russia, certain regions of Ukraine, and/or particular entities and individuals. Such actions could limit or block the license of our C3.ai Software to persons or entities affiliated with Russia or countries acting in concert with Russia, and restrict access by our Russian or Ukrainian employees (both within and outside of Russia and Ukraine) to our systems, negatively impacting future opportunities.

Further, due to political uncertainty and military actions involving Russia, Ukraine, and surrounding regions, we and the third parties upon which we rely may be vulnerable to a heightened risk of security breaches, computer malware, social-engineering attacks, supply-chain attacks, software bugs, server malfunctions, software or hardware failures, loss of data or other information technology assets, and other cyber-attacks, including attacks that could materially disrupt our systems and operations, supply chain, and ability to produce, sell and distribute our C3.ai Software. These attacks are expected to occur in the future.

Some of our business partners also have international operations and are subject to the risks described above. Even if we are able to successfully manage the risks of international operations, our business may be adversely affected if our business partners are not able to successfully manage these risks.

Compliance with laws and regulations applicable to our global operations substantially increases our cost of doing business in international jurisdictions. We may be unable to keep current with changes in laws and regulations as they occur. Although we have implemented policies and procedures designed to support compliance with these laws and regulations, there can be no assurance that we will always maintain compliance or that all of our employees, contractors, partners, and agents will comply. Any violations could result in enforcement actions, fines, civil and criminal penalties, damages, injunctions, or reputational harm. If we are unable to comply with these laws and regulations or manage the complexity of our global operations successfully, we may need to relocate or cease operations in certain foreign jurisdictions.

We are subject to governmental export and import controls that could impair our ability to compete in international markets or subject us to liability if we are not in compliance with applicable laws.

Certain of our C3 AI Software is subject to various restrictions under U.S. export control and trade and economic sanctions laws and regulations, including the U.S. Department of Commerce's Export Administration Regulations, or EAR, and various economic and trade sanctions regulations administered by the U.S. Department of the Treasury's Office of Foreign Assets Control, or OFAC. U.S. export control and economic sanctions laws and regulations include restrictions or prohibitions on the sale or supply of certain AI platform and applications, services and technologies to U.S. embargoed or sanctioned countries, governments, persons, and entities. Further, U.S. export laws and regulations include broad licensing requirements, including requiring authorization for the export of certain items. In addition, various countries regulate the import of certain items, including through import permitting and licensing requirements and have enacted or could enact laws that could limit our ability to distribute our C3 AI Software or could limit our customers' ability to implement our C3 AI Software in those countries.

Changes in our C3 AI Software and, if required, obtaining the necessary export license or other authorization for a particular sale, or changes in export, sanctions, and import laws, may result in the delay or loss of sales opportunities, delay the introduction and sale of subscriptions to our C3 AI Software in international markets, prevent our customers with international operations from using our C3 AI Software or, in some cases, prevent the access or use of our C3 AI Software to and from certain countries, governments, persons, or entities altogether. Further, any change in export or import regulations, economic sanctions or related laws, shift in the enforcement or scope of existing regulations or change in the countries, governments, persons, or technologies targeted by such regulations could result in decreased use of our C3 AI Software or in our decreased ability to export or sell our C3 AI Software to existing or potential customers with international operations. Any decreased use of our C3 AI Software or limitation on our ability to export or sell our C3 AI Software would likely harm our business.

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

Even though we take precautions to ensure that we and our channel partners comply with all relevant regulations, any failure by us or our channel partners to comply with U.S. export control and economic sanctions laws and regulations or other laws could have negative consequences, including reputational harm, government investigations and substantial civil and criminal penalties (e.g., fines, incarceration for responsible employees and managers, and the possible loss of export or import privileges).

We are subject to the U.S. Foreign Corrupt Practices Act, or FCPA, and similar anti-corruption, anti-bribery, and similar laws, and non-compliance with such laws can subject us to criminal or civil liability and harm our business, financial condition and results of operations.

We are subject to the FCPA, U.S. domestic bribery laws, the UK Bribery Act, and other anti-corruption and similar laws in the countries in which we conduct activities. Anti-corruption and anti-bribery laws have been enforced aggressively in recent years and are interpreted broadly to generally prohibit companies, their employees, and their third-party business partners or intermediaries, representatives, and agents from authorizing, offering, or providing, directly or indirectly, improper payments or other benefits, directly or indirectly, to government officials or others in the private sector in order to influence official action, direct business to any person, gain any improper advantage, or obtain or retain business. As we increase our international sales and business, our risks under these laws may increase.

As we increase our international sales and business and sales to the public sector, we may engage with third-party business partners and intermediaries to market our C3 AI Software and to obtain necessary permits, licenses, and other regulatory approvals. In addition, we or our third-party business partners or intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities. We can be held liable for the corrupt or other illegal activities of our third-party business partners or intermediaries, our employees, representatives, contractors, and agents, even if we do not explicitly authorize such activities.

These laws also require that we keep accurate books and records and maintain internal controls and compliance procedures designed to prevent any such actions. While we have policies and procedures to address compliance with such laws, our third-party business partners or intermediaries, employees, representatives, contractors, and agents may take actions in violation of our policies and applicable law, for which we may be ultimately held responsible.

Detecting, investigating, and resolving actual or alleged violations of anti-corruption laws can require a significant diversion of time, resources, and attention from senior management, as well as significant defense costs and other professional fees. In addition, noncompliance with anti-corruption, or anti-bribery laws could subject us to whistleblower complaints, investigations, sanctions, settlements, prosecution, enforcement actions, fines, damages, other civil or criminal penalties or injunctions against us, our officers, or our employees, disgorgement of profits, suspension or debarment from contracting with the U.S. government or other persons, reputational harm, adverse media coverage, and other collateral consequences. If any subpoenas or investigations are launched, or governmental or other sanctions are imposed, or if we do not prevail in any possible civil or criminal proceeding, our reputation, business, stock price, financial condition, prospects and results of operations could be harmed.

Risks Related to Taxes

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

We collect sales tax in a number of jurisdictions. One or more states or countries may seek to impose incremental or new sales, use, or other tax collection obligations on us. A successful assertion by a state, country, or other jurisdiction that we should have been or should be collecting additional sales, use, or other taxes could, among other things, result in substantial tax payments, create significant administrative burdens for us, discourage potential customers from subscribing to our C3 AI Software due to the incremental cost of any such sales or other related taxes, or otherwise harm our business.

We may be subject to liabilities on past sales for taxes, surcharges, and fees.

We currently collect and remit applicable sales tax in jurisdictions where we, through our employees, have a presence and where we have determined, based on legal precedents in the jurisdiction, that sales of our C3 AI Software are classified as taxable. We do not currently collect and remit other state and local excise, utility, user, and ad valorem taxes, fees or surcharges that may apply to our customers. We believe that we are not otherwise subject to, or required to collect, any additional taxes, fees or surcharges imposed by state and local jurisdictions because we do not have a sufficient physical presence or “nexus” in the relevant taxing jurisdiction or such taxes, fees, or surcharges do not apply to sales of our C3 AI Software in the relevant taxing jurisdiction. However, there is uncertainty as to what constitutes sufficient physical presence or nexus for a state or local jurisdiction to levy taxes, fees, and surcharges for sales made over the internet, and there is also uncertainty as to whether our characterization of our C3 AI Software as not taxable in certain jurisdictions will be accepted by state and local taxing authorities. Additionally, we have not historically collected value-added tax, or VAT, or goods and services tax, or GST, on sales of our C3 AI Software, generally, because we make almost all of our sales through our office in the United States, and we believe, based on information provided to us by our customers, that most of our sales are made to business customers.

Taxing authorities may challenge our position that we do not have sufficient nexus in a taxing jurisdiction or that our C3 AI Software is exempt from use, telecommunications, VAT, GST, and other taxes, which could result in increased tax liabilities for us or our customers, which could harm our business.

The application of indirect taxes (such as sales and use tax, VAT, GST, business tax, and gross receipt tax) to businesses that transact online, such as ours, is a complex and evolving area. Following the recent U.S. Supreme Court decision in *South Dakota v. Wayfair, Inc.*, states are now free to levy taxes on sales of goods and services based on an “economic nexus,” regardless of whether the seller has a physical presence in the state. As a result, it may be necessary to reevaluate whether our activities give rise to sales, use, and other indirect taxes as a result of any nexus in those states in which we are not currently registered to collect and remit taxes. Additionally, we may need to assess our potential tax collection and remittance liabilities based on existing economic nexus laws’ dollar and transaction thresholds. We continue to analyze our exposure for such taxes and liabilities. The application of existing, new, or future laws, whether in the United States or internationally, could harm our business. There have been, and will continue to be, substantial ongoing costs associated with complying with the various indirect tax requirements in the numerous markets in which we conduct or will conduct business.

We may have exposure to greater than anticipated tax liabilities, which could harm our business.

While to date we have not incurred significant income taxes in operating our business, we are subject to income taxes in the United States and various jurisdictions outside of the United States. Our effective tax rate could fluctuate due to changes in the proportion of our earnings and losses in countries with differing statutory tax rates. Our tax expense could also be impacted by changes in non-deductible expenses, changes in excess tax benefits of stock-based or other compensation, changes in the valuation of, or our ability to use, deferred tax assets and liabilities, the applicability of withholding taxes, and effects from acquisitions.

The provision for taxes on our financial statements could also be impacted by changes in accounting principles, changes in U.S. federal, state, or international tax laws applicable to corporate multinationals such as the recent legislation enacted in the United States, other fundamental changes in law currently being considered by many countries and changes in taxing jurisdictions’ administrative interpretations, decisions, policies and positions.

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

Our ability to use our net operating losses and certain other tax attributes to offset future taxable income or taxes may be subject to certain limitations.

As of April 30, 2021, we had net operating loss carryforwards, or NOLs, for U.S. federal and state purposes of \$308.3 million and \$168.6 million, respectively, which may be available to offset taxable income in the future, and portions of which expire in various years beginning in 2029. A lack of future taxable income would adversely affect our ability to utilize these NOLs before they expire. Under the Tax Cuts and Jobs Act of 2017, or the Tax Act, as modified by the CARES Act, federal NOLs incurred in tax years beginning after December 31, 2017 may be carried forward indefinitely, but the deductibility of such federal NOLs in tax years beginning after December 31, 2020 is limited to 80% of taxable income. It is uncertain if and to what extent various states will conform to the Tax Act or the CARES Act. In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, or the Code, a corporation that undergoes an “ownership change” (as defined under Sections 382 and 383 of the Code and applicable Treasury Regulations) is subject to limitations on its ability to utilize its pre-change NOLs and certain other tax attributes to offset post-change taxable income or taxes. We may experience a future ownership change under Section 382 of the Code that could affect our ability to utilize our NOLs to offset our income. Furthermore, our ability to utilize NOLs of companies that we have acquired or may acquire in the future may be subject to limitations. In addition, at the state level, there may be periods during which the use of NOLs is suspended or otherwise limited, which could accelerate or permanently increase state taxes owed. For example, on June 29, 2020, the Governor of California signed into law the 2020 Budget Act which temporarily suspends the utilization of NOLs and limits the utilization of research credits to \$5.0 million annually for 2020, 2021, and 2022. For these reasons, we may not be able to utilize a material portion of the NOLs reflected on our balance sheet, even if we attain profitability, which could potentially result in increased future tax liability to us and could adversely affect our operating results and financial condition.

Risks Related to Our Intellectual Property

We are currently, and may be in the future, party to intellectual property rights claims and other litigation matters, which, if resolved adversely, could harm our business.

We primarily rely and expect to continue to rely on a combination of patent, patent licenses, trade secret, domain name protection, trademark, and copyright laws, as well as confidentiality and license agreements with our employees, consultants, and third parties, to protect our intellectual property and proprietary rights. From time to time, are subject to litigation based on allegations of infringement, misappropriation, or other violations of intellectual property or other rights. As we face increasing competition and gain an increasingly high profile, the possibility of intellectual property rights claims, commercial claims, and other assertions against us grows. We have in the past been, and may from time to time in the future become, a party to litigation and disputes related to our intellectual property, our business practices, and our C3 AI Software. While we intend to defend any lawsuit vigorously, litigation can be costly and time consuming, divert the attention of our management and key personnel from our business operations, and dissuade potential customers from subscribing to our C3 AI Software, which would harm our business. Furthermore, with respect to lawsuits, there can be no assurances that favorable outcomes will be obtained. We may need to settle litigation and disputes on terms that are unfavorable to us, or we may be subject to an unfavorable judgment that may not be reversible upon appeal. The terms of any settlement or judgment may require us to cease some or all of our operations or pay substantial amounts to the other party. In addition, our agreements with customers or partners typically include certain provisions for indemnifying them against liabilities if our C3 AI Software infringes a third party’s intellectual property rights, including in the third-party open source software components included in our C3 AI Software, which indemnification obligations could require us to make payments to our customers. During the course of any litigation or dispute, we may make announcements regarding the results of hearings and motions and other interim developments. If securities analysts and investors regard these announcements as negative, the market price of our Class A common stock may decline. With respect to any intellectual property rights claim, we may have to seek a license to continue practices found to be in violation of third-party rights, which may not be available on reasonable terms and may significantly increase our operating expenses. A license to continue such practices may not be available to us at all, and we may be required to develop alternative non-infringing technology or practices or discontinue the practices. The development of alternative, non-infringing technology or practices could require significant effort and expense. Our business could be harmed as a result.

Indemnity provisions in various agreements potentially expose us to substantial liability for intellectual property infringement and other losses.

Our agreements with customers and other third parties generally include indemnification provisions under which we agree to indemnify them for losses suffered or incurred as a result of claims of intellectual property infringement, or other liabilities relating to or arising from our software, services, or other contractual obligations. Large indemnity payments could harm our business, results of operations, and financial condition. Although we normally contractually limit our liability with respect to such indemnity obligations, generally, those limitations may not be fully enforceable in all situations, and we may still incur substantial liability under those agreements. Any dispute with a customer with respect to such obligations could have adverse effects on our relationship with that customer and other existing customers and new customers and harm our business and results of operations.

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

As of January 31, 2022, we have 10 issued patents in the United States, 11 issued patents in a number of international jurisdictions, 18 patent applications in the United States (including three allowed application and four provisional applications), and 43 patent applications pending internationally. Our issued patents expire between February 23, 2033 and July 30, 2039. The pending patent applications are presently undergoing examination or expected to undergo examination in the near future. These patents and patent applications seek to protect our proprietary inventions relevant to our business, in addition to other proprietary technologies which are maintained as trade secrets. We intend to pursue additional intellectual property protection to the extent we believe it would be beneficial and cost-effective. We make business decisions about when to seek patent protection for a particular technology and when to rely upon copyright or trade secret protection, and the approach we select may ultimately prove to be inadequate. Even in cases where we seek patent protection, there is no assurance that the resulting patents will effectively protect every significant feature of our C3 AI Software. In addition, we believe that the protection of our trademark rights is an important factor in AI platform and application recognition, protecting our brand and maintaining goodwill. If we do not adequately protect our rights in our trademarks from infringement and unauthorized use, any goodwill that we have developed in those trademarks could be lost or impaired, which could harm our brand and our business. Third parties may knowingly or unknowingly infringe our proprietary rights, third parties may challenge our proprietary rights, pending and future patent, trademark and copyright applications may not be approved, and we may not be able to prevent infringement without incurring substantial expense. We have also devoted substantial resources to the development of our proprietary technologies and related processes. In order to protect our proprietary technologies and processes, we rely in part on trade secret laws and confidentiality agreements with our employees, consultants, and third parties. These agreements may not effectively prevent unauthorized disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover our trade secrets, in which case we would not be able to assert trade secret rights or develop similar technologies and processes. Further, laws in certain jurisdictions may afford little or no trade secret protection, and any changes in, or unexpected interpretations of, the intellectual property laws in any country in which we operate may compromise our ability to enforce our intellectual property rights. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights. If the protection of our proprietary rights is inadequate to prevent use or appropriation by third parties, the value of our C3 AI Software, brand, and other intangible assets may be diminished, and competitors may be able to more effectively replicate our C3 AI Software. Any of these events would harm our business.

Our use of third-party open source software could negatively affect our ability to offer and sell subscriptions to our C3 AI Software and subject us to possible litigation.

A portion of the technologies we use incorporates third-party open source software, and we may incorporate third-party open source software in our solutions in the future. Open source software is generally licensed by its authors or other third parties under open source licenses. From time to time, companies that use third-party open source software have faced claims challenging the use of such open source software and requesting compliance with the open source software license terms. Accordingly, we may be subject to suits by parties claiming ownership of what we believe to be open source software or claiming non-compliance with the applicable open source licensing terms. Some open source software licenses require end users who use, distribute or make available across a network software and services that include open source software to offer aspects of the technology that incorporates the open source software for no cost. We may also be required to make publicly available source code (which in some circumstances could include valuable proprietary code) for modifications or derivative works we create based upon, incorporating or using the open source software and/or to license such modifications or derivative works under the terms of the particular open source license. Additionally, if a third-party software provider has incorporated open source software into software that we license from such provider, we could be required to disclose any of our source code that incorporates or is a modification of our licensed software. While we employ practices designed to monitor our compliance with the licenses of third-party open source software and protect our valuable proprietary source code, we may inadvertently use third-party open source software in a manner that exposes us to claims of non-compliance with the terms of their licenses, including claims of intellectual property rights infringement or for breach of contract. Furthermore, there exists today an increasing number of types of open source software licenses, almost none of which have been tested in courts of law to provide guidance of their proper legal interpretations. If we were to receive a claim of non-compliance with the terms of any of these open source licenses, we could be required to incur significant legal expenses defending against those allegations and could be subject to significant damages, enjoined from offering or selling our solutions that contained the open source software, and required to comply with the foregoing conditions, and we may be required to publicly release certain portions of our proprietary source code. We could also be required to expend substantial time and resources to re-engineer some of our software. Any of the foregoing could disrupt and harm our business.

In addition, the use of third-party open source software typically exposes us to greater risks than the use of third-party commercial software because open source licensors generally do not provide warranties or controls on the functionality or origin of the software. Use of open source software may also present additional security risks because the public availability of such software may make it easier for hackers and other third parties to determine how to compromise our C3 AI Software. Any of the foregoing could harm our business and could help our competitors develop platforms and applications that are similar to or better than ours.

Because of the characteristics of open source software, there may be fewer technology barriers to entry by new competitors and it may be relatively easy for new and existing competitors with greater resources than we have to compete with us.

One of the characteristics of open source software is that the governing license terms generally allow liberal modifications of the code and distribution thereof to a wide group of companies and/or individuals. As a result, others could easily develop new platforms and applications based upon those open source programs that compete with existing open source software that we support and incorporate into our C3 AI Software. Such competition with use of the open source projects that we utilize can materialize without the same degree of overhead and lead time required by us, particularly if the customers do not value the differentiation of our proprietary components. It is possible for new and existing competitors with greater resources than ours to develop their own open source software or hybrid proprietary and open source software offerings, potentially reducing the demand for, and putting price pressure on, our C3 AI Software. In addition, some competitors make open source software available for free download and use or may position competing open source software as a loss leader. We cannot guarantee that we will be able to compete successfully against current and future competitors or that competitive pressure and/or the availability of open source software will not result in price reductions, reduced operating margins and loss of market share, any one of which could seriously harm our business.

If open source software programmers, many of whom we do not employ, or our own internal programmers do not continue to develop and enhance open source technologies, we may be unable to develop new technologies, adequately enhance our existing technologies or meet customer requirements for innovation, quality and price.

We rely to a significant degree on a number of open source software programmers, or committers and contributors, to develop and enhance components of our C3 AI Software. Additionally, members of the corresponding Apache Software Foundation Project Management Committees, or PMCs, many of whom are not employed by us, are primarily responsible for the oversight and evolution of the codebases of important components of the open source data management ecosystem. If the open source data management committees and contributors fail to adequately further develop and enhance open source technologies, or if the PMCs fail to oversee and guide the evolution of open source data management technologies in the manner that we believe is appropriate to maximize the market potential of our solutions, then we would have to rely on other parties, or we would need to expend additional resources, to develop and enhance our C3 AI Software. We also must devote adequate resources to our own internal programmers to support their continued development and enhancement of open source technologies, and if we do not do so, we may have to turn to third parties or experience delays in developing or enhancing open source technologies. We cannot predict whether further developments and enhancements to these technologies would be available from reliable alternative sources. In either event, we may incur additional development expenses and experience delays in technology release and upgrade. Delays in developing, completing, or delivering new or enhanced components to our C3 AI Software could cause our offerings to be less competitive, impair customer acceptance of our solutions, and result in delayed or reduced revenue for our solutions.

Our software development and licensing model could be negatively impacted if the Apache License, Version 2.0 is not enforceable or is modified so as to become incompatible with other open source licenses.

Components of our C3 AI Software have been provided under the Apache License 2.0. This license states that any work of authorship licensed under it, and any derivative work thereof, may be reproduced and distributed provided that certain conditions are met. It is possible that a court would hold this license to be unenforceable or that someone could assert a claim for proprietary rights in a program developed and distributed under it. Any ruling by a court that this license is not enforceable, or that we may not reproduce or distribute those open source software components as part of our C3 AI Software, may negatively impact our distribution or development of all or a portion of our solutions. In addition, at some time in the future it is possible that the license terms under which important components of the open source projects in our C3 AI Software is distributed may be modified, which could, among other consequences, negatively impact our continuing development or distribution of the software code subject to the new or modified license.

Further, full utilization of our C3 AI Software may depend on software, applications, hardware and services from various third parties, and these items may not be compatible with our C3 AI Software and its development or may not be available to us or our customers on commercially reasonable terms, or at all, which could harm our business.

Risks Related to Ownership of Our Class A Common Stock

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

The trading price of our Class A common stock has been and will likely continue to be volatile and could be subject to fluctuations in response to various factors, some of which are beyond our control. These fluctuations could cause you to lose all or part of your investment in our Class A common stock. Factors that could cause fluctuations in the trading price of our Class A common stock include the risk factors set forth in this section as well as the following:

- price and volume fluctuations in the overall stock market from time to time;
- high volume retail trading by participants connected in a social network;
- volatility in the trading prices and trading volumes of technology stocks;
- changes in operating performance and stock market valuations of other technology companies generally, or those in our industry in particular;
- sales of shares of our Class A common stock by us or our stockholders;

- failure of securities analysts to maintain coverage of us, changes in financial estimates by securities analysts who follow our company, or our failure to meet these estimates or the expectations of investors, particularly in light of the significant portion of our revenue derived from a limited number of customers;
- changes in our financial, operating or other metrics, regardless of whether we consider those metrics as reflective of the current state or long-term prospects of our business, and how those results compare to securities analyst expectations, including whether those results fail to meet, exceed, or significantly exceed securities analyst expectations, particularly in light of the significant portion of our revenue derived from a limited number of customers;
- announcements by us or our competitors of new products, applications, features, or services;
- the public's reaction to our press releases, other public announcements, and filings with the SEC;
- rumors and market speculation involving us or other companies in our industry;
- actual or anticipated changes in our results of operations or fluctuations in our results of operations;
- actual or anticipated developments in our business, our competitors' businesses or the competitive landscape generally;
- litigation involving us, our industry, or both, or investigations by regulators into our operations or those of our competitors;
- actual or perceived privacy or data security incidents;
- developments or disputes concerning our intellectual property or other proprietary rights;
- announced or completed acquisitions of businesses, applications, products, services, or technologies by us or our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations, or principles;
- any significant change in our management;
- general political and economic conditions and slow or negative growth of our markets; and
- technical factors in the public trading market for our stock that may produce price movements that may or may not comport with macro, industry or company-specific fundamentals, including, without limitation, the sentiment of retail investors (including as may be expressed on financial trading and other social media sites), the amount and status of short interest in our securities, access to margin debt, trading in options and other derivatives on our common stock and other technical trading factors.

Accordingly, we cannot assure you of the liquidity of an active trading market, your ability to sell your shares of our Class A common stock when desired, or the prices that you may obtain for your shares of our Class A common stock. An inactive market may also impair our ability to raise capital to continue to fund operations by selling shares of our Class A common stock and may impair our ability to acquire or make investments in complementary companies, products, or technologies by using shares of our common stock as consideration.

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

The dual class structure of our common stock has the effect of concentrating voting control with the holders of our Class B common stock, limiting your ability to influence corporate matters.

Our Class B common stock has 50 votes per share, and our Class A common stock has one vote per share. As of January 31, 2022, Mr. Siebel and related entities beneficially owned approximately 88.6% of our Class B common stock and approximately 22.9% of our outstanding Class A common stock, resulting in beneficial ownership of capital stock representing approximately 58.2% of the voting power of our outstanding capital stock. Therefore, Mr. Siebel has control over our management and affairs and over all matters requiring stockholder approval, including election of directors and significant corporate transactions, such as a merger or other sale of us or our assets. This concentrated control will limit your ability to influence corporate matters for the foreseeable future, and, as a result, the market price of our Class A common stock could be adversely affected.

Each share of Class B common stock will be automatically converted into one share of Class A common stock upon the earliest of (1) the date that is six months following the death or incapacity of Mr. Siebel, (2) the date that is six months following the date that Mr. Siebel is no longer providing services to us as an officer, employee, director, or consultant, (3) December 11, 2040, and (4) the date specified by the holders of a majority of the then outstanding shares of Class B common stock, voting as a separate class. Future transfers by holders of Class B common stock will generally result in those shares converting to Class A common stock, which will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term. If, for example, Mr. Siebel retains a significant portion of his holdings of Class B common stock for an extended period of time, he could, in the future, control a majority of the combined voting power of our Class A and Class B common stock. As a board member, Mr. Siebel owes a fiduciary duty to our stockholders and must act in good faith in a manner he reasonably believes to be in the best interests of our stockholders. As a stockholder, even a controlling stockholder, Mr. Siebel is entitled to vote his shares in his own interests, which may not always be in the interests of our stockholders generally.

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

Substantial future sales of shares of our Class A common stock and Class B common stock by existing holders in the public market could cause the market price of our Class A common stock to decline.

Sales of a substantial number of shares of our Class A common stock and Class B common stock (after automatically converting to Class A common stock) in the public market, particularly sales by our directors, executive officers, and principal stockholders, or the perception that these sales might occur, could depress the market price of our Class A common stock.

In addition, as of January 31, 2022, there were 37,628,988 shares of Class A common stock subject to outstanding options under our Amended and Restated 2012 Equity Incentive Plan and 6,925,310 shares of Class A common stock subject to equity awards outstanding under our 2020 Equity Incentive Plan. We have registered all of the shares of Class A common stock issuable upon exercise of outstanding options and upon exercise or settlement of any options or other equity incentives we may grant in the future for public resale under the Securities Act. Accordingly, these shares will become eligible for sale in the public market to the extent any such equity awards are exercised or settled for shares of Class A common stock, subject to compliance with applicable securities laws. In addition, certain of our stockholders have registration rights that would require us to register shares owned by them for public sale in the United States.

Sales of our shares could also impair our ability to raise capital through the sale of additional equity securities in the future and at a price we deem appropriate. These sales could also cause the trading price of our Class A common stock to fall and make it more difficult for you to sell shares of our Class A common stock.

Provisions in our constituent documents and Delaware law may prevent or frustrate attempts by our stockholders to change our management or hinder efforts to acquire a controlling interest in us, and the market price of our Class A common stock may be lower as a result.

There are provisions in our certificate of incorporation and bylaws that may make it difficult for a third party to acquire, or attempt to acquire, control of our company, even if a change in control was considered favorable by our stockholders. These include provisions:

- establishing a classified board of directors so that not all members of our board of directors are elected at one time;
- permitting our board of directors to establish the number of directors and fill any vacancies and newly created directorships;
- providing that directors may only be removed for cause;
- prohibiting cumulative voting for directors;
- requiring super-majority voting to amend some provisions in our certificate of incorporation and bylaws;
- authorizing the issuance of “blank check” preferred stock that our board of directors could use to implement a stockholder rights plan;
- eliminating the ability of stockholders to call special meetings of stockholders;
- prohibiting stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders; and
- our dual class common stock structure as described above.

Moreover, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which prohibit a person who owns 15% or more of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired in excess of 15% of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner. Any provision in our certificate of incorporation or our bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our Class A common stock and could also affect the price that some investors are willing to pay for our Class A common stock.

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

Our amended and restated certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the sole and exclusive forum for the following types of actions or proceedings under Delaware statutory or common law: (1) any derivative action or proceeding brought on our behalf, (2) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, or other employees to us or our stockholders, (3) any action arising pursuant to any provision of the Delaware General Corporation Law, or the certificate of incorporation or the amended and restated bylaws or (4) any other action asserting a claim that is governed by the internal affairs doctrine shall be the Court of Chancery of the State of Delaware (or, if the Court of Chancery does not have jurisdiction, the federal district court for the District of Delaware), in all cases subject to the court having jurisdiction over indispensable parties named as defendants. This provision would not apply to suits brought to enforce a duty or liability created by the Exchange Act. In addition, to prevent having to litigate claims in multiple jurisdictions and the threat of inconsistent or contrary rulings by different courts, among other considerations, our amended and restated certificate of incorporation will further provide that the U.S. federal district courts will be the exclusive forum for resolving any complaint asserting a cause of action arising under the Securities Act. However, as Section 22 of the Securities Act creates concurrent jurisdiction for federal and state courts over all suits brought to enforce any duty or liability created by the Securities Act, and an investor cannot waive compliance with the federal securities laws and the rules and regulations thereunder, there is uncertainty as to whether a court would enforce such a provision. While the Delaware courts have determined that such choice of forum provisions are facially valid, a stockholder may nevertheless seek to bring a claim in a venue other than those designated in the exclusive forum provisions. In such instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provisions of our amended and restated certificate of incorporation. This may require significant additional costs associated with resolving such action in other jurisdictions and there can be no assurance that the provisions will be enforced by a court in those other jurisdictions.

These exclusive forum provisions may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers, or other employees, which may discourage lawsuits against us and our directors, officers and other employees. If a court were to find either exclusive-forum provision in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur further significant additional costs associated with resolving the dispute in other jurisdictions, all of which could seriously harm our business.

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

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

We are an "emerging growth company," and we intend to comply only with reduced disclosure requirements applicable to emerging growth companies. As a result, our Class A common stock could be less attractive to investors.

We are an "emerging growth company," as defined in the JOBS Act, and for as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to emerging growth companies, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. If some investors find our Class A common stock less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our Class A common stock, and our stock price may be more volatile.

Based on our stock price on October 31, 2021, the last day of our second fiscal quarter, and the public float of our Class A common stock on that date, we will no longer qualify as an “emerging growth company” as of April 30, 2022 and expect to become a large accelerated filer.

We will continue to incur costs and demands upon management as a result of complying with the laws and regulations affecting public companies in the United States, which may harm our business.

As a public company listed in the United States, we have incurred and expect to continue to incur significant additional legal, accounting, and other expenses. In addition, changing laws, regulations, and standards relating to corporate governance and public disclosure, including regulations implemented by the SEC and the New York Stock Exchange, may increase legal and financial compliance costs and make some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. We intend to invest resources to comply with evolving laws, regulations, and standards, and this investment may result in increased general and administrative expenses and a diversion of management’s time and attention from revenue-generating activities to compliance activities. If, notwithstanding our efforts, we fail to comply with new laws, regulations, and standards, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

Failure to comply with these rules might also make it more difficult for us to obtain certain types of insurance, including director and officer liability insurance, and we might be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events would also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, on committees of our board of directors, or as members of senior management.

In addition, we may incur significant expenses and devote substantial management attention as we prepare to comply with the additional requirements that will become applicable to us once we cease to be an “emerging growth company,” including ensuring compliance with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act and following the accelerated timelines for adopting new accounting pronouncements for public companies. In that regard, we may need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge.

General Risks

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

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

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

Our current controls and any new controls that we develop may become inadequate because of changes in conditions in our business. In addition, changes in accounting principles or interpretations could also challenge our internal controls and require that we establish new business processes, systems, and controls to accommodate such changes. We have limited experience with implementing the systems and controls that necessary to operate as a public company, as well as adopting changes in accounting principles or interpretations mandated by the relevant regulatory bodies. Additionally, if these new systems, controls, or standards and the associated process changes do not give rise to the benefits that we expect or do not operate as intended, it could adversely affect our financial reporting systems and processes, our ability to produce timely and accurate financial reports or the effectiveness of internal control over financial reporting. Moreover, our business may be harmed if we experience problems with any new systems and controls that result in delays in their implementation or increased costs to correct any post-implementation issues that may arise.

Further, weaknesses in our disclosure controls and internal control over financial reporting may be discovered in the future. Any failure to develop or maintain effective controls or any difficulties encountered in their implementation or improvement could harm our business or cause us to fail to meet our reporting obligations and may result in a restatement of our financial statements for prior periods. Any failure to implement and maintain effective internal control over financial reporting also could adversely affect the results of periodic management evaluations and annual independent registered public accounting firm attestation reports regarding the effectiveness of our internal control over financial reporting that we will eventually be required to include in our periodic reports that will be filed with the SEC. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of our Class A common stock. In addition, if we are unable to continue to meet these requirements, we may not be able to remain listed on the New York Stock Exchange. We are not required to make a formal assessment of the effectiveness of our internal control over financial reporting. We are required to provide an annual management report on the effectiveness of our internal control over financial reporting commencing with our second Annual Report on Form 10-K.

Our independent registered public accounting firm is not required to formally attest to the effectiveness of our internal control over financial reporting until our first Annual Report filed with the SEC where we are an accelerated filer or a large accelerated filer. At such time, our independent registered public accounting firm may issue a report that is adverse in the event it is not satisfied with the level at which our internal control over financial reporting is documented, designed or operating. Based on our stock price on October 31, 2021, the last day of our second fiscal quarter, and the public float of our Class A common stock on that date, we will no longer qualify as an “emerging growth company” as of April 30, 2022 and expect to become a large accelerated filer. Any failure to maintain effective disclosure controls and internal control over financial reporting could harm our business and could cause a decline in the trading price of our Class A common stock.

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

We have in the past and may in the future become subject to legal proceedings and claims that arise in the ordinary course of business, such as claims brought by our customers in connection with commercial or intellectual property disputes or employment claims made by our current or former employees. Litigation might result in substantial costs and may divert management’s attention and resources, which might seriously harm our business, financial condition, and results of operations. Insurance might not cover such claims, might not provide sufficient payments to cover all the costs to resolve one or more such claims, and might not continue to be available on terms acceptable to us (including premium increases or the imposition of large deductible or co-insurance requirements). A claim brought against us that is uninsured or underinsured could result in unanticipated costs, potentially harming our business, financial position, and results of operations. In addition, we cannot be sure that our existing insurance coverage and coverage for errors and omissions will continue to be available on acceptable terms or that our insurers will not deny coverage as to any future claim.

Our business could be disrupted by catastrophic events.

Occurrence of any catastrophic event, including earthquake, fire, flood, tsunami, or other weather event (many of which are becoming more acute and frequent as a result of global climate change), power loss, telecommunications failure, software or hardware malfunctions, pandemics (such as the COVID-19 pandemic), political unrest, geopolitical instability, cyberattack, war, or terrorist attack, could result in lengthy interruptions in our service. In particular, our U.S. headquarters are located in the San Francisco Bay Area, a region known for seismic activity and wild fires, and our insurance coverage may not compensate us for losses that may occur in the event of an earthquake or other significant natural disaster. In addition, acts of terrorism could cause disruptions to the internet or the economy as a whole. Even with our disaster recovery arrangements, our service could be interrupted. If our systems were to fail or be negatively impacted as a result of a natural disaster or other event, our ability to deliver our C3 AI Software to our customers would be impaired, or we could lose critical data. If we are unable to develop adequate plans to ensure that our business functions continue to operate during and after a disaster and to execute successfully on those plans in the event of a disaster or emergency, our business would be harmed.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS***Recent Unregistered Sales of Equity Securities***

None.

Issuer Purchase of Equity Securities

The following table contains information relating to the repurchases of our Class A common stock made by us in the three months ended January 31, 2022.

	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program ⁽²⁾
November 1 - November 30, 2021	5,076	\$ 3.66	—	\$ —
December 1 - December 31, 2021	34,366	4.57	—	—
January 1 - January 31, 2022	2,055	10.81	—	—
Total	41,497	\$ 4.76	—	\$ —

(1) Includes shares of unvested Class A common stock that were repurchased by us from former employees upon termination of employment in accordance with the terms of the employees' stock option agreements. We purchased the shares from the former employees at the respective original exercise prices.

(2) In December 2021, our board of directors approved a stock repurchase program for the repurchase of up to \$100.0 million of outstanding shares of Class A common stock over the course of 18 months. See Note 8. Stockholders' Equity for further information. Under the program, we may purchase stock in the open market or through privately negotiated transactions in accordance with applicable securities laws. The timing and actual amount of the stock repurchases will depend on several factors including price, capital availability, regulatory requirements, alternative investment opportunities and other market conditions. As of January 31, 2022, \$100.0 million remained available for future repurchases under the program.

ITEM 6. EXHIBITS

(a) Exhibits.

Exhibit Number	Description	Incorporated by Reference			
		Form	SEC File No.	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of the Registrant, as currently in effect.	8-K	001-39744	3.1	December 11, 2020
3.2	Amended and Restated Bylaws of the Registrant, as currently in effect.	S-1/A	333-250082	3.4	November 30, 2020
10.1*[±]	Offer Letter by and between the Registrant and Adeel Manzoor, dated October 27, 2021.				
10.2*[±]	Separation Agreement by and between the Registrant and Adeel Manzoor, dated February 25, 2022.				
31.1*	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2*	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				

* Filed herewith.

+ Indicates management contract or compensatory plan.

(b) Financial Statement Schedules.

All financial statement schedules are omitted because the information required to be set forth therein is not applicable or is shown in the unaudited condensed consolidated financial statements or the notes thereto.

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.

C3.ai, Inc.

Date: March 2, 2022

By: /s/ Thomas M. Siebel

Thomas M. Siebel
Chief Executive Officer
(Principal Executive Officer)

Date: March 2, 2022

By: /s/ Juho Parkkinen

Juho Parkkinen
Senior Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)



October 26, 2021

Mr. Adeel Manzoor
Via Email and DocuSign

Dear Adeel:

Congratulations! I am very pleased to offer you the position of SVP and Chief Administrative Officer with C3 AI, Inc. ("C3 AI"). You will also be appointed as the Chief Financial Officer reporting to me, in my capacity of Chief Executive Officer with an effective start date of November 29, 2021 (the "Start Date"). You will be based at our Redwood City, California facility.

You will be expected to perform duties as are normally associated with your position and such duties as are assigned to you from time to time, subject to the oversight and direction of your supervisor.

C3 AI currently offers a highly competitive package of compensation and benefits. Your package includes the following.

Your base salary will be at the rate of \$450,000 per year, less payroll withholdings and deductions, paid on C3 AI's normal payroll schedule.

You will be eligible to earn an annual discretionary performance bonus up to an annualized target of 50% of your base salary which will be prorated for the current C3 AI fiscal year based on your length of employment in such fiscal year. Whether you earn or receive a bonus for any given fiscal year, and the amount of any such bonus, will be determined by C3 AI in accordance with C3 AI's Employee Handbook. No amount of the annual bonus is guaranteed, and to earn any bonus, you must remain a full-time active employee through the date scheduled for payment of the bonus. The bonus, if earned, will be paid within a reasonable time after the end of the fiscal year to which it relates.

Subject to the approval of the Board of Directors of C3 AI, you will be awarded 180,000 restricted stock units (RSUs), representing the right to be issued an equivalent number of shares of Class A Common Stock of C3 AI upon vesting of the RSUs (the "Grant"). The Grant will be governed by the terms and conditions of the award agreement between you and C3 AI (the "RSU Agreement") and by the C3.ai, Inc. 2020 Equity Incentive Plan (the "Plan"). The Grant will be subject to vesting during your continuous active service in accordance with the following schedule: 20% of the Grant will vest 12 months after the date on which the Board of Directors approves the Grant, and 5% of the Grant will vest quarterly thereafter until the Grant is either fully vested or your continuous service terminates, whichever occurs first.

Subject to the approval of the Board of Directors of C3 AI, you will be granted an option for 270,000 shares of Class A Common Stock of C3 AI (the "Grant"). The Grant will be governed by the terms and conditions of the grant agreement between you and C3 AI (the "Option Agreement") and the C3.ai, Inc. 2020 Equity Incentive Plan (the "Plan"). The Grant will be subject to vesting during your continuous active service in accordance with the following schedule: 20% of the Grant will vest 12 months after the date on which the Board of Directors approves the Grant, and 5% of the Grant will vest quarterly thereafter until the Grant is either fully vested or your continuous service terminates, whichever occurs first.

If you accept this offer before its expiration date as stated below, you will also receive a one-time signing bonus of \$500,000 less payroll withholdings and deductions. \$250,000 will be payable within thirty (30) days of your Start Date. The remaining \$250,000 will be paid on C3 AI's normal payroll schedule following (12) months after your Start Date. In the event you resign voluntarily or are terminated for cause within eighteen (18) months following your Start Date, your signing bonus will be subject to rescission (if not yet paid) or full repayment of the gross amount no later than fifteen (15) days after the end of your employment, as applicable.

Moreover, in the event you are terminated (regardless of whether a Change in Control has occurred) without Cause (defined below) within the first year of your employment, C3 AI will provide you a severance payment equivalent to twelve (12) months of your base salary and OTE bonus subject to federal and state taxation, and 20% of the shares subject to the Grant will immediately vest. C3 AI's obligation to make the severance payment or to provide the vesting acceleration discussed above with respect to a termination without Cause shall be contingent upon you executing a separation agreement in form and substance mutually acceptable to you and C3 AI and/or its successor which shall, at a minimum, include a general release of claims in favor of C3 AI.

In addition, if a Change in Control (as defined below) occurs and you are terminated without Cause or not offered an equivalent position in the company or its successor, the remainder of your unvested Grant will vest 12 months following the Change of Control or upon your earlier termination.

For purposes of this offer letter, 'Change in Control' shall be defined in the Plan, except that, notwithstanding anything in the Plan to the contrary, the acquisition or merger of C3 AI (or other similar transaction) in which C3 AI continues as an independent company (for example, as a majority-owned (but independent) subsidiary of another entity or as the results of a sale of a controlling interest to a private equity firm), will be considered a Change in Control, unless the Board expressly determines otherwise.

For purposes of this offer, "Cause" shall mean: (a) a good faith finding by the Board of Directors of C3 AI that (i) you have engaged in theft, fraud, embezzlement, dishonesty, gross negligence, misconduct or similar conduct; (b) your conviction of, or the entry of pleading of guilty or nolo contendere, or confession of guilt of, a felony or any crime or act involving moral turpitude or fraud; (c) your material breach or threatened material breach of any of the material provisions contained in this agreement, any agreement signed by you and C3 AI or any written C3 AI policy; or (d) your material failure, except to the extent due to your disability or death, to perform your duties described above for C3 AI.

As a C3 AI employee, you will be expected to abide by the C3 AI Core Values, rules and policies, and acknowledge in writing that you have read C3 AI's Employee Handbook. This offer of employment is also contingent upon your signing and complying with the attached Employee Confidential Information and Inventions Assignment and Arbitration Agreement enclosed with this letter which, among other obligations, prohibits unauthorized use or disclosure of C3 AI proprietary information, prohibits solicitation of C3 AI's employees, independent contractors and consultants for the period of your employment and for one (1) year thereafter, to or for any other person or entity, and requires agreement to arbitrate all employment-related disputes, as well as a background check clearance, reference check, and satisfactory proof of your right to work in the United States.

Our employment relationship will be terminable at-will. Accordingly, either you or C3 AI may terminate the employment relationship at any time and for any reason whatsoever simply by notifying the other.

In making your decision to accept this offer of employment, you acknowledge and agree that you have not relied upon any other promises or representations made by C3 AI or our representatives except those made in this letter. This letter, together with your Employee Confidential Information and Inventions Assignment Agreement forms the complete and exclusive statement of your employment agreement with C3 AI. It supersedes any other agreements or promises made to you by anyone, whether oral or written. This letter shall be governed by the laws of the State of California without regard to conflicts of law principles. You hereby represent that you have disclosed to C3 AI any contract you have signed that may restrict your activities on behalf of C3 AI.

Changes in your employment terms, other than those changes expressly reserved to C3 AI's discretion in this letter, require a written modification signed by the Chief Executive Officer of C3 AI.

To accept employment under the terms described above, please sign and date this letter, and the Employee Confidential Information and Inventions Assignment Agreement, and return them to me no later than 3 business days from receipt. Our offer of employment will expire if we do not receive the fully signed documents from you by this date.

We look forward to your favorable reply and to a productive and enjoyable work relationship. Sincerely,

/s/ Thomas M. Siebel
Thomas M. Siebel
Chief Executive Officer

Understood and Accepted:

/s/ Adeel Manzoor
Adeel Manzoor

10/27/2021
Date

Enclosure: Employee Confidential Information and Inventions Assignment Agreement

February 25, 2022

Mr. Adeel Manzoor
Via Email and DocuSign

Dear Adeel:

This letter sets forth the substance of the separation agreement (the “**Agreement**”) that C3 AI, Inc. (the “**Company**”) is offering to you to aid in your employment transition.

1. SEPARATION. You hereby resign your employment effective February 28, 2022 (the “**Separation Date**”), and the Company hereby accepts your resignation effective as of the Separation Date.

2. ACCRUED SALARY. On the Separation Date, the Company will pay you all accrued salary earned through the Separation Date, subject to standard payroll deductions and withholdings. You are entitled to this payment by law.

3. REPAYMENT FORGIVENESS. Pursuant to your offer letter from the Company dated October 26, 2021 (the “**Offer Letter**”), because you are resigning, you are required to repay your signing bonus to the Company. However, if you timely sign this Agreement, allow it to become effective, and comply with your legal and contractual obligations to the Company, then the Company will forgive repayment of this amount. You hereby acknowledge and agree that because you are resigning, you are not otherwise entitled to any severance benefits or accelerated vesting under the terms of your Offer Letter.

4. HEALTH INSURANCE. Your participation in the Company’s group health insurance plan will end on the last day of the month in which the Separation Date occurs. To the extent provided by the federal COBRA law or, if applicable, state insurance laws, and by the Company’s current group health insurance policies, you will be eligible to continue your group health insurance benefits at your own expense following the Separation Date. Later, you may be able to convert to an individual policy through the provider of the Company’s health insurance, if you wish. You will be provided with a separate notice describing your rights and obligations under COBRA and a form for electing COBRA coverage.

5. OTHER COMPENSATION OR BENEFITS. You acknowledge that, except as expressly provided in this Agreement, you have not earned and will not receive from the Company any additional compensation (including base salary, bonus, incentive compensation, or equity), severance, or benefits before or after the Separation Date, with the exception of any vested right you may have under the express terms of a written ERISA-qualified benefit plan (e.g., 401(k) account).

6. EXPENSE REIMBURSEMENTS. You agree that, within thirty (30) days after the Separation Date, you will submit your final documented expense reimbursement statement reflecting all business expenses you incurred through the Separation Date, if any, for which you seek reimbursement. The Company will reimburse you for these expenses pursuant to its regular business practice.

7. RELEASE OF CLAIMS.

(a) General Release of Claims. In exchange for the consideration provided to you under this Agreement to which you would not otherwise be entitled, you hereby generally and completely release the Company, and its affiliated, related, parent and subsidiary entities, and its and their current and former directors, officers, employees, shareholders, partners, agents, attorneys, predecessors, successors, insurers, affiliates, and assigns from any and all claims, liabilities, demands, causes of action, and obligations, both known and unknown, arising from or in any way related to events, acts, conduct, or omissions occurring at any time prior to and including the date you sign this Agreement.

(b) Scope of Release. This general release includes, but is not limited to: (i) all claims arising from or in any way related to your employment with the Company or the termination of that employment; (ii) all claims related to your compensation or benefits from the Company, including salary, bonuses, commissions, vacation pay, expense reimbursements, severance pay, fringe benefits, stock, stock options, or any other ownership, equity, or profits interests in the Company; (iii) all claims for breach of contract, wrongful termination, and breach of the implied covenant of good faith and fair dealing; (iv) all tort claims, including claims for fraud, defamation, emotional distress, and discharge in violation of public policy; and (v) all federal, state, and local statutory claims, including claims for discrimination, harassment, retaliation, attorneys' fees, or other claims arising under the federal Civil Rights Act of 1964 (as amended), the federal Americans with Disabilities Act of 1990, the California Labor Code (as amended), the California Family Rights Act, the Age Discrimination in Employment Act ("ADEA") and the California Fair Employment and Housing Act (as amended). **You acknowledge that you have been advised, as required by California Government Code Section 12964.5(b)(4), that you have the right to consult an attorney regarding this Agreement and that you were given a reasonable time period of not less than five business days in which to do so.** You further acknowledge and agree that, in the event you sign this Agreement prior to the end of the reasonable time period provided by the Company, your decision to accept such shortening of time is knowing and voluntary and is not induced by the Company through fraud, misrepresentation, or a threat to withdraw or alter the offer prior to the expiration of the reasonable time period, or by providing different terms to employees who sign such an agreement prior to the expiration of the time period.

(c) ADEA Release. You acknowledge that you are knowingly and voluntarily waiving and releasing any rights you have under the ADEA, and that the consideration given for the waiver and releases you have given in this Agreement is in addition to anything of value to which you were already entitled. You further acknowledge that you have been advised, as required by the ADEA, that: (a) your waiver and release does not apply to any rights or claims arising after the date you sign this Agreement; (b) you should consult with an attorney prior to signing this Agreement (although you may choose voluntarily not to do so); (c) you have twenty- one (21) days to consider this Agreement (although you may choose voluntarily to sign it sooner); (d) you have seven (7) days following the date you sign this Agreement to revoke this Agreement (in a written revocation sent to the Company); and (e) this Agreement will not be effective until the date upon which the revocation period has expired, which will be the eighth day after you sign this Agreement provided that you do not revoke it (the "**Effective Date**").

(d) Section 1542 Waiver. In giving the release herein, which includes claims which may be unknown to you at present, you acknowledge that you have read and understand Section 1542 of the California Civil Code, which reads as follows:

“A general release does not extend to claims that the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release and that, if known by him or her, would have materially affected his or her settlement with the debtor or released party.”

You hereby expressly waive and relinquish all rights and benefits under that section and any law of any other jurisdiction of similar effect with respect to your release of claims herein, including but not limited to your release of unknown claims.

(e) Exceptions. Notwithstanding the foregoing, you are not releasing the Company hereby from: (i) any obligation to indemnify you pursuant to the Articles and Bylaws of the Company, any valid fully executed indemnification agreement with the Company, applicable law, or applicable directors and officers liability insurance; (ii) any claims that cannot be waived by law; or (iii) any claims for breach of this Agreement.

(f) Protected Rights. You understand that nothing in this Agreement limits your ability to file a charge or complaint with the Equal Employment Opportunity Commission, the Department of Labor, the National Labor Relations Board, the Occupational Safety and Health Administration, the California Department of Fair Employment and Housing, the Securities and Exchange Commission or any other federal, state or local governmental agency or commission (“**Government Agencies**”). You further understand this Agreement does not limit your ability to communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to the Company. While this Agreement does not limit your right to receive an award for information provided to the Securities and Exchange Commission, you understand and agree that, to maximum extent permitted by law, you are otherwise waiving any and all rights you may have to individual relief based on any claims that you have released and any rights you have waived by signing this Agreement. Nothing in this Agreement prevents you from discussing or disclosing information about unlawful acts in the workplace, such as harassment or discrimination or any other conduct that you have reason to believe is unlawful.

8. RETURN OF COMPANY PROPERTY. You agree that, by the Separation Date, you will return to the Company all Company documents (and all copies thereof) and other Company property in your possession or control, including, but not limited to, Company files, notes, drawings, records, plans, forecasts, reports, studies, analyses, proposals, agreements, drafts, financial and operational information, research and development information, sales and marketing information, customer lists, prospect information, pipeline reports, sales reports, personnel information, specifications, code, software, databases, computer-recorded information, tangible property and equipment (including, but not limited to, computing and electronic devices, mobile telephones, servers), credit cards, entry cards, identification badges and keys; and any materials of any kind which contain or embody any proprietary or confidential information of the Company (and all reproductions or embodiments thereof in whole or in part). You agree that you will make a diligent search to locate any such documents, property and information by the close

of business on the Separation Date or as soon as possible thereafter. If you have used any personally owned computer or other electronic device, server, or e-mail system to receive, store, review, prepare or transmit any Company confidential or proprietary data, materials or information, within five (5) days after the Separation Date, you shall provide the Company with a computer-useable copy of such information and then permanently delete and expunge such Company confidential or proprietary information from those systems; and you agree to provide the Company access to your system as requested to verify that the necessary copying and/or deletion is completed. **Your timely compliance with this paragraph is a condition to your receipt of the severance benefits provided under this Agreement.**

9. CONFIDENTIAL INFORMATION OBLIGATIONS. You acknowledge and reaffirm your continuing obligations under your Employee Confidential Information and Inventions Assignment and Arbitration Agreement, a copy of which is attached hereto as Exhibit A and incorporated herein by reference (the "CIAA"). You agree that the information from all meetings, discussions, interactions and any other oral or written communications with any Company personnel before or during your employment shall be deemed confidential information under the CIAA.

10. NON-DISPARAGEMENT. You agree not to disparage the Company, its officers, directors, employees, shareholders, parents, subsidiaries, affiliates, and agents, in any manner likely to be harmful to its or their business, business reputation, or personal reputation; provided that you may respond accurately and fully to any request for information if required by legal process or in connection with a government investigation. The Company will advise its officers not to disparage you in any manner likely to be harmful to your reputation; provided that they and the Company may respond accurately and fully to any request for information if required by legal process or in connection with a government investigation. In addition, nothing in this provision or this Agreement is intended to prohibit or restrain you in any manner from making disclosures protected under the whistleblower provisions of federal or state law or regulation or other applicable law or regulation or as set forth in the section of this Agreement entitled "Protected Rights." In response to any reference request from a prospective employer, the Company will only confirm your dates of employment and positions held.

11. NO VOLUNTARY ADVERSE ACTION. You agree that you will not voluntarily (except in response to legal compulsion or as permitted under the section of this Agreement entitled "Protected Rights") assist any person in bringing or pursuing any proposed or pending litigation, arbitration, administrative claim or other formal proceeding against the Company, its parent or subsidiary entities, affiliates, officers, directors, employees or agents.

12. COOPERATION. You agree to cooperate fully with the Company in connection with its actual or contemplated defense, prosecution, or investigation of any claims or demands by or against third parties, or other matters arising from events, acts, or failures to act that occurred during the period of your employment by the Company. Such cooperation includes, without limitation, making yourself available to the Company upon reasonable notice, without subpoena, to provide complete, truthful and accurate information in witness interviews, depositions, and trial testimony. The Company will reimburse you for reasonable out-of-pocket expenses you

incur in connection with any such cooperation (excluding foregone wages) and will make reasonable efforts to accommodate your scheduling needs.

13. NO ADMISSIONS. You understand and agree that the promises and payments in consideration of this Agreement shall not be construed to be an admission of any liability or obligation by the Company to you or to any other person, and that the Company makes no such admission.

14. REPRESENTATIONS. You hereby represent that you have: been paid all compensation owed and for all hours worked; received all leave and leave benefits and protections for which you are eligible pursuant to the Family and Medical Leave Act, the California Family Rights Act, or otherwise; and not suffered any on-the-job injury for which you have not already filed a workers' compensation claim.

15. DISPUTE RESOLUTION. You and the Company agree that any and all disputes, claims, or controversies of any nature whatsoever arising from, or relating to, this Agreement or its interpretation, enforcement, breach, performance or execution, your employment or the termination of such employment (including, but not limited to, any statutory claims) (collectively, "**Claims**", each a "**Claim**"), shall be resolved, pursuant to the Federal Arbitration Act, 9 U.S.C. §1-16, and to the fullest extent permitted by law, by final, binding and confidential arbitration conducted before a single neutral arbitrator by JAMS, Inc. ("**JAMS**") or its successor, under the then applicable JAMS Arbitration Rules and Procedures for Employment Disputes (available at <http://www.jamsadr.com/rules-employment-arbitration/>). **By agreeing to this arbitration procedure, both you and the Company waive the right to have any Claim resolved through a trial by jury or judge or an administrative proceeding.** You will have the right to be represented by legal counsel at any arbitration proceeding, at your own expense. This paragraph shall not apply to any action or claim that cannot be subject to mandatory arbitration as a matter of law, including, without limitation, claims brought pursuant to the California Private Attorneys General Act of 2004, as amended, to the extent such claims are not permitted by applicable law to be submitted to mandatory arbitration and the applicable law(s) are not preempted by the Federal Arbitration Act or otherwise invalid (collectively, the "**Excluded Claims**"). In the event you intend to bring multiple claims, including one of the Excluded Claims listed above, the Excluded Claims may be publicly filed with a court, while any other claims will remain subject to mandatory arbitration. The arbitrator shall have sole authority for determining if a Claim is subject to arbitration, and any other procedural questions related to the dispute and bearing on the final disposition. In addition, the arbitrator shall: (a) have the authority to compel adequate discovery for the resolution of the dispute and to award such relief as would otherwise be available under applicable law in a court proceeding; and (b) issue a written statement signed by the arbitrator regarding the disposition of each claim and the relief, if any, awarded as to each claim, the reasons for the award, and the arbitrator's essential findings and conclusions on which the award is based. The Company shall pay all JAMS arbitration fees. Nothing in this Agreement shall prevent you or the Company from obtaining injunctive relief in court to prevent irreparable harm pending the conclusion of any arbitration. Any awards or orders in such arbitrations may be entered and enforced as judgments in the federal and state courts of any competent jurisdiction.

16. MISCELLANEOUS. This Agreement, including Exhibit A, constitutes the complete, final and exclusive embodiment of the entire agreement between you and the Company with regard to its subject matter. It is entered into without reliance on any promise or representation, written or oral, other than those expressly contained herein, and it supersedes any other such promises, warranties or representations. This Agreement may not be modified or amended except in a writing signed by both you and a duly authorized officer of the Company. This Agreement will bind the heirs, personal representatives, successors and assigns of both you and the Company, and inure to the benefit of both you and the Company, their heirs, successors and assigns. If any provision of this Agreement is determined to be invalid or unenforceable, in whole or in part, this determination will not affect any other provision of this Agreement and the provision in question will be modified by the court so as to be rendered enforceable to the fullest extent permitted by law, consistent with the intent of the parties. This Agreement will be deemed to have been entered into and will be construed and enforced in accordance with the laws of the State of California without regard to conflict of laws principles. Any ambiguity in this Agreement shall not be construed against either party as the drafter. Any waiver of a breach of this Agreement shall be in writing and shall not be deemed to be a waiver of any successive breach. This Agreement may be executed in counterparts and electronic or facsimile signatures will suffice as original signatures.

If this Agreement is acceptable to you, please sign below and return the original to me. You have twenty-one (21) calendar days to decide whether to accept this Agreement, and the Company's offer contained herein will automatically expire if you do not sign and return it within that timeframe.

We wish you the best in your future endeavors. Sincerely,

By: /s/ Thomas M. Siebel

Thomas M. Siebel
Chief Executive Officer

I HAVE READ, UNDERSTAND AND AGREE FULLY TO THE FOREGOING AGREEMENT:

/s/ Adeel Manzoor

Adeel Manzoor

February 25, 2022

Date

EXHIBIT A
EMPLOYEE CONFIDENTIAL INFORMATION
AND INVENTIONS ASSIGNMENT AGREEMENT

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

I, Thomas M. Siebel, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of C3.ai, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2022

By: /s/ Thomas M. Siebel
Thomas M. Siebel
Chief Executive Officer and Chairman of the Board of Directors
(Principal Executive Officer)

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

I, Juho Parkkinen, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of C3.ai, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 2, 2022

By: /s/ Juho Parkkinen

Juho Parkkinen

Senior Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

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

I, Thomas M. Siebel, Chairman and Chief Executive Officer of C3.ai, Inc. (the "Company"), do hereby certify, to the best of my knowledge and pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- a. the Quarterly Report on Form 10-Q of the Company for the period ended January 31, 2022, to which this Certification is attached as Exhibit 32.1 (the "Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
- a. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 2, 2022

By: /s/ Thomas M. Siebel
Thomas M. Siebel
Chief Executive Officer and Chairman of the Board of Directors
(Principal Executive Officer)

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

I, Juho Parkkinen, Chief Financial Officer of C3.ai, Inc. (the “Company”), do hereby certify, to the best of my knowledge and pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the “Exchange Act”) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- a. the Quarterly Report on Form 10-Q of the Company for the period ended January 31, 2022, to which this Certification is attached as Exhibit 32.2 (the “Report”), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
- b. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 2, 2022

By: /s/ Juho Parkkinen

Juho Parkkinen

Senior Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)