THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Brainhole Technology Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

BRAINHOLE
TECHNOLOGY

BRAINHOLE TECHNOLOGY LIMITED
脑洞科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2203)

MAJOR TRANSACTIONS IN RELATION TO (1) FURTHER DISPOSAL OF LISTED SECURITIES; (2) FURTHER ACQUISITION OF LISTED SECURITIES; (3) FURTHER ACQUISITION OF LISTED SECURITIES; AND (4) DISPOSAL OF LISTED SECURITIES

Capitalised terms used on this cover page shall have the same meanings as those defined in the section headed “Definitions” in this circular, unless the context requires otherwise.

A letter from the Board is set out on pages 4 to 19 of this circular.

This circular is being despatched to the Shareholders for information only. The transactions being the subject matter of this circular have been approved by the written approval pursuant to Rule 14.44 of the Listing Rules.

24 May 2024

CONTENTS

In this circular, the following expressions have the meanings set out below unless the context otherwise requires:

"Acquisition of Coinbase Shares"	acquisition of 5,710 Coinbase Shares by the Company as disclosed in the announcement dated 15 February 2024
"Announcement"	the announcement of the Company dated 7 February 2024 in relation to, among other things, the Further Disposal of Coinbase Shares
"Board"	the board of directors of the Company
"Coinbase"	Coinbase Global, Inc., a Delaware corporation whose Class A common stocks are listed on Nasdaq (trading symbol: COIN)
"Coinbase Group"	Coinbase and its subsidiaries
"Coinbase Shares"	Class A common stock(s) of Coinbase
"Company"	Brainhole Technology Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Main Board of the Stock Exchange (stock code: 2203)
"Completion"	the completion of the Further Disposal of Coinbase Shares
"connected person"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"Disposal of Coinbase Shares"	disposal of 16,370 Coinbase Shares by the Company as disclosed in the announcement dated 21 February 2024
"February 16 Further Acquisition of Coinbase Shares"	further acquisition of 3,470 Coinbase Shares by the Company as disclosed in the announcement dated 30 April 2024
"Further Acquisition of Coinbase Shares"	further acquisition of 3,740 Coinbase Shares by the Company as disclosed in the announcement dated 16 February 2024
"Further Disposal of Coinbase Shares"	further disposal of 3,220 Coinbase Shares by the Company as disclosed in the announcement dated 7 February 2024

"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Independent Third Party(ies)"	third party(ies) independent of and not connected with the Company and its connected persons and is not acting in concert (as defined in the Codes on Takeovers and Mergers and Share Buy-backs) with any of the connected persons of the Company or any of their respective associates (as defined under the Listing Rules)
"January Disposal of Coinbase Shares"	disposal of 10,700 Coinbase Shares by the Company as disclosed in the announcement dated 25 January 2024
"Latest Practicable Date"	14 May 2024, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China
"Previous Acquisitions of Coinbase Shares"	the series of acquisitions of an aggregate of 17,370 Coinbase Shares by the Company during the period from 4 December 2023 (after trading hours of the Stock Exchange) and 27 December 2023 (after trading hours of the Stock Exchange), as set out in the Previous Announcements
"Previous Announcements"	the announcements of the Company dated 5 December 2023, 20 December 2023, 28 December 2023, and 25 January 2024 in relation to the Previous Acquisitions of Coinbase Shares and the January Disposal of Coinbase Shares
"Previous Disposals of Coinbase Shares"	the series of disposals of an aggregate of 13,920 Coinbase Shares by the Company during the period from 24 January 2024 (after trading hours of the Stock Exchange) to 6 February 2024 (after trading hours of the Stock Exchange) (including the January Disposal of Coinbase Shares), as set out in the relevant Previous Announcements and this circular
"RMB"	Renminbi, the lawful currency of the PRC

"SEC"	The U.S. Securities and Exchange Commission
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Shareholder(s)"	shareholder(s) of the Company
"Share(s)"	ordinary share(s) in the issued share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"United States"	the United States of America
"US$"	United States dollars, the lawful currency of the United States
"%"	per cent.

Certain figures set out in this circular have been subject to rounding adjustments. Accordingly, figures shown as the currency conversion or percentage equivalents may not be an arithmetic sum of such figures.

BRAINHOLE TECHNOLOGY LIMITED
脑洞科技有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2203)

Executive Directors:
Mr. Zhang Liang Johnson *(Chairman)*
Ms. Wan Duo

Independent Non-executive Directors:
Mr. Xu Liang
Mr. Chen Johnson Xi
Ms. Zhang Yibo

Registered office:
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Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal place of business in Hong Kong:
Suites 1801–03, 18/F
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979 King's Road
Quarry Bay
Hong Kong

24 May 2024

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTIONS IN RELATION TO (1) FURTHER DISPOSAL OF LISTED SECURITIES; (2) FURTHER ACQUISITION OF LISTED SECURITIES; (3) FURTHER ACQUISITION OF LISTED SECURITIES; AND (4) DISPOSAL OF LISTED SECURITIES

1. INTRODUCTION

Reference is made to the announcements of the Company dated 7 February 2024, 16 February 2024 and 21 February 2024 in relation to the Further Disposal of Coinbase Shares, the Further Acquisition of Coinbase Shares, the February 16 Further Acquisition of Coinbase Shares and the Disposal of Coinbase Shares respectively.

The purpose of this circular is to provide you with (i) the details of the Further Disposal of Coinbase Shares; (ii) the Further Acquisition of Coinbase Shares; (iii) the February 16 Further Acquisition of Coinbase Shares; (iv) the Disposal of Coinbase Shares; and (v) further information required to be disclosed under the Listing Rules.

FURTHER DISPOSAL OF COINBASE SHARES

On 6 February 2024 (after trading hours of the Stock Exchange), further to the January Disposal of Coinbase Shares through the open market at an aggregate consideration of approximately US$1.4 million (equivalent to approximately HK$10.5 million) (excluding transaction costs) on 24 January 2024 (after trading hours of the Stock Exchange), which are receivable in cash on settlement, as disclosed in the relevant Previous Announcements, the Company has further disposed of an aggregate of 3,220 Coinbase Shares through the open market at an aggregate consideration of approximately US$0.4 million (equivalent to approximately HK$3.0 million) (excluding transaction costs), which are receivable in cash on settlement. The average price (excluding transaction costs) for the disposal of each Coinbase Share was approximately US$119.67 (equivalent to approximately HK$931.03). The total consideration for the aggregate of all transactions respectively contemplated under (i) the January Disposal of Coinbase Shares and (ii) the Further Disposal of Coinbase Shares is approximately US$1.7 million (equivalent to approximately HK$13.5 million).

As the Further Disposal of Coinbase Shares was conducted in the open market, the identities of the counterparties of the disposed Coinbase Shares cannot be ascertained. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the counterparties and the ultimate beneficial owner(s) of the counterparties of the disposed Coinbase Shares are Independent Third Parties.

FURTHER ACQUISITON ON COINBASE SHARES

On 15 February 2024 (after trading hours of the Stock Exchange), further to:

(i) the Previous Acquisitions of Coinbase Shares at an aggregate consideration of approximately US$2.6 million (equivalent to approximately HK$20.9 million) (excluding transaction costs) as disclosed in the relevant Previous Announcements, comprising:

   (a) the acquisition of 10,700 Coinbase Shares through the open market at an aggregate consideration of approximately US$1.5 million (equivalent to approximately HK$11.9 million) (excluding transaction costs) on 4 December 2023 (after trading hours of the Stock Exchange);

   (b) the acquisition of 3,200 Coinbase Shares through the open market at an aggregate consideration of approximately US$0.5 million (equivalent to approximately HK$4.0 million) (excluding transaction costs) on 19 December 2023 (after trading hours of the Stock Exchange);

(c) the acquisition of 3,470 Coinbase Shares through the open market at an aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (excluding transaction costs) on 27 December 2023 (after trading hours of the Stock Exchange); and

(ii) the Acquisition of Coinbase Shares through the open market at an aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$7.0 million) (excluding transaction costs) on 14 February 2024 (after trading hours of the Stock Exchange) as disclosed in the announcement of the Company dated 15 February 2024, and

(iii) the Previous Disposals of Coinbase Shares at an aggregate consideration of approximately US$1.7 million (equivalent to approximately HK$13.5 million) as disclosed in the relevant Previous Announcements (which the total carrying amount is approximately US$2.1 million (equivalent to approximately HK$16.7 million) (excluding transaction costs)), comprising:

(a) the January Disposal of Coinbase Shares through the open market at an aggregate consideration of approximately US$1.4 million (equivalent to approximately HK$10.5 million) (excluding transaction costs) (which the carrying amount is approximately US$1.6 million (equivalent to approximately HK$12.9 million) (excluding transaction costs)) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER DISPOSAL OF COINBASE SHARES" on page 5 of this circular; and

(b) the Further Disposal of Coinbase Shares through the open market at an aggregate consideration of approximately US$0.4 million (equivalent to approximately HK$3.0 million) (excluding transaction costs) (which the carrying amount is approximately US$0.5 million (equivalent to approximately HK$3.8 million) (excluding transaction costs)) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER DISPOSAL OF COINBASE SHARES" on page 5 of this circular,

the Company has further acquired an aggregate of 3,740 Coinbase Shares through the open market at an aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (excluding transaction costs). The average price (excluding transaction costs) for the further acquisition of each Coinbase Share was approximately US$170.40 (equivalent to approximately HK$1,325.68). The aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (excluding transaction costs) was financed by the Group's existing internal financial resources. The total consideration, being the net amount of the remaining Coinbase Shares held by the Company following the completion of all transactions respectively contemplated under (i) the Previous Acquisitions of Coinbase Shares; (ii) the Previous Disposals of Coinbase Shares; and (iii) the Further Acquisition of Coinbase Shares is approximately US$2.1 million (equivalent to approximately HK$16.1 million).

As the Further Acquisition of Coinbase Shares was conducted in the open market, the identities of the counterparties of the acquired Coinbase Shares cannot be ascertained. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the counterparties and the ultimate beneficial owner(s) of the counterparties of the acquired Coinbase Shares are Independent Third Parties.

FEBRUARY 16 FURTHER ACQUISITION OF COINBASE SHARES

On 16 February 2024 (after trading hours of the Stock Exchange), further to:

(i) the Previous Acquisitions of Coinbase Shares at an aggregate consideration of approximately US$2.6 million (equivalent to approximately HK$20.9 million) as disclosed in the relevant Previous Announcements and the paragraph headed "FURTHER ACQUISITION OF COINBASE SHARES" on pages 5 to 6 of this circular;

(ii) the Acquisition of Coinbase Shares through the open market at an aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$7.0 million) (excluding transaction costs) as disclosed in the announcement of the Company dated 15 February 2024 and the paragraph headed "FURTHER ACQUISITION OF COINBASE SHARES" on page 6 of this circular;

(iii) the Previous Disposals of Coinbase Shares at an aggregate consideration of approximately US$1.7 million (equivalent to approximately HK$13.5 million) as disclosed in the relevant Previous Announcements (which the total carrying amount is approximately US$2.1 million (equivalent to approximately HK$16.7 million) (excluding transaction costs)) and the paragraph headed "FURTHER DISPOSAL OF COINBASE SHARES" on page 5 of this circular; and

(iv) the Further Acquisition of Coinbase Shares at an aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (excluding transaction costs) as disclosed in the announcement of the Company dated 16 February 2024 and the paragraph headed "FURTHER ACQUISITION OF COINBASE SHARES" on pages 5 to 6 of this circular,

the Company has further acquired an aggregate of 3,470 Coinbase Shares through the open market at an aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (excluding transaction costs). The average price (excluding transaction costs) for the further acquisition of each Coinbase Share was approximately US$184.83 (equivalent to approximately HK$1,437.97). The aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (excluding transaction costs) was financed by the Group's existing internal financial resources.

As the February 16 Further Acquisition of Coinbase Shares was conducted in the open market, the identities of the counterparties of the acquired Coinbase Shares cannot be ascertained. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the counterparties and the ultimate beneficial owner(s) of the counterparties of the acquired Coinbase Shares are Independent Third Parties.

DISPOSAL OF COINBASE SHARES

On 20 February 2024 (after trading hours of the Stock Exchange), the Company has disposed of an aggregate of 16,370 Coinbase Shares through the open market at an aggregate consideration of approximately US$2.9 million (equivalent to approximately HK$22.3 million) (excluding transaction costs), which are receivable in cash on settlement. The average price (excluding transaction costs) for the disposal of each Coinbase Share was approximately US$174.88 (equivalent to approximately HK$1,360.54).

As the Disposal of Coinbase Shares was conducted in the open market, the identities of the counterparties of the disposed Coinbase Shares cannot be ascertained. To the best knowledge, information and belief of the Directors and having made all reasonable enquiries, the counterparties and the ultimate beneficial owner(s) of the counterparties of the disposed Coinbase Shares are Independent Third Parties.

As at the Latest Practicable Date, following the completion of all transactions contemplated under:

(i) the Previous Acquisitions of Coinbase Shares;

(ii) the Previous Disposals of Coinbase Shares;

(iii) the Acquisition of Coinbase Shares;

(iv) the Further Acquisition of Coinbase Shares;

(v) the February 16 Further Acquisition of Coinbase Shares; and

(vi) the Disposal of Coinbase Shares,

the Company ceased to hold any Coinbase Shares. The Company had already complied with the discloseable and major transactions requirements in respect of the acquisitions and disposals of Coinbase Shares as disclosed in the relevant Previous Announcements and this circular and the balance of such acquisitions and disposals which were conducted within a 12-month period from the Previous Acquisitions of Coinbase Shares, the January Disposal of Coinbase Shares, the Further Disposal of Coinbase Shares, the Further Acquisition of Coinbase Shares and February 16 Further Acquisition of Coinbase Shares were aggregated with the Disposal of Coinbase Shares.

INFORMATION ON THE COMPANY

The Company is an investment holding company principally engaged in the manufacture and trading of electronic and electrical parts and components. The Company operates its business through three segments: (i) The Manufacturing segment is engaged in the sale of electronics and electrical parts and components produced by the Company. The products manufactured by the Company are mainly applied in smart consumer electronic devices. (ii) The Broadband Infrastructure and Smart Domain segment is engaged in the provision of broadband infrastructure construction services, broadband promotion services, and smart domain solutions. (iii) The Trading segment is engaged in the trading of electronic and electrical parts and components sourced from third party suppliers.

INFORMATION ON COINBASE

Coinbase is a Delaware corporation and a cryptocurrency learning platform that build safe, trusted, easy-to-use technology and financial infrastructure products and services to enable any person or business with an internet connection to discover, transact, and engage with crypto assets and decentralised applications. Its products enable customers to access and participate in the cryptoeconomy, a new open financial system built upon crypto, in more than 100 countries and serve as a critical infrastructure layer to web3, a broad category of cryptopowered technologies including self-custody wallets, decentralised apps and services, and open community engagement platforms.

The following financial information is extracted from the published documents of the Coinbase Group:

	For the year ended 31 December 2021 (audited)		**For the year ended 31 December 2022** (audited)		**For the year ended 31 December 2023** (audited)	
	US$'000	*HK$'000*	*US$'000*	*HK$'000*	*US$'000*	*HK$'000*
Revenue	7,839,444	60,990,874	3,194,208	24,850,938	3,108,383	24,183,220
(Loss)/Income before income taxes	3,026,947	23,549,648	(3,064,582)	(23,842,448)	(76,845)	(597,854)
Net (loss)/income	3,624,120	28,195,654	(2,624,949)	(20,422,103)	94,871	738,096

Based on Coinbase's published documents, the Coinbase Group has an audited consolidated net assets value of approximately US$6,382 million (equivalent to approximately HK$49,652 million) as at 31 December 2021, approximately US$5,455 million (equivalent to approximately HK$42,440 million) as at 31 December 2022 and approximately US$6,282 million (equivalent to approximately HK$48,874 million) as at 31 December 2023.

FINANCIAL EFFECT OF (I) THE FURTHER DISPOSAL OF COINBASE SHARES, (II) THE FURTHER ACQUSITION OF COINBASE SHARES, (III) THE FEBRUARY 16 FURTHER ACQUISITION OF COINBASE SHARES AND (IV) THE DISPOSAL OF COINBASE SHARES

Further Disposal of Coinbase Shares

Upon the Completion, the Company shall cease to hold any Coinbase Shares. Upon the Completion, the Group expects to recognise a loss on the Further Disposal of Coinbase Shares (before taxation) of US$0.1 million (equivalent to approximately HK$0.9 million), which is the difference between the aggregate consideration for the Further Disposal of Coinbase Shares of US$0.4 million (equivalent to approximately HK$3.0 million) and the carrying amount of approximately US$0.5 million (equivalent to approximately HK$3.9 million) of the disposed Coinbase Shares, which is classified as financial assets at fair value through profit or loss in the consolidated financial statement of the Group.

Upon the Completion, the total assets of the Group would have decreased by HK$0.9 million due to the recognition of the loss on the Further Disposal of Coinbase Shares minus the associated transaction costs, whereas the total liabilities of the Group would have remained unchanged.

Further Acquisition of Coinbase Shares

The total consideration for the aggregate of all transactions respectively contemplated under (i) the Previous Acquisitions of Coinbase Shares; (ii) the Previous Disposals of Coinbase Shares; and (iii) the Further Acquisition of Coinbase Shares is approximately US$2.1 million (equivalent to approximately HK$16.1 million).

The Further Acquisition of Coinbase Shares was accounted for as financial assets at fair value through profit or loss in the consolidated financial statements of the Group. The Further Acquisition of Coinbase Shares was initially recognised at fair value in the consolidated statement of financial position of the Group. Any fair value gain or loss arising from the Further Acquisition of Coinbase Shares will be recognised in the consolidated statement of profit and loss of the Group at the end of each reporting period.

As the Further Acquisition of Coinbase Shares was financed by internally generated funds, the assets and liabilities of the Group are expected to remain unchanged.

Save as disclosed above, there will be no immediate material effect on the earnings and assets and liabilities of the Group associated with the Further Acquisition of Coinbase Shares.

FEBRUARY 16 FURTHER ACQUISITION OF COINBASE SHARES

The total consideration for the aggregate of all transactions respectively contemplated under (i) the Previous Acquisitions of Coinbase Shares; (ii) the Previous Disposals of Coinbase Shares; (iii) the Further Acquisition of Coinbase Shares; and (iv) the February 16 Further Acquisition of Coinbase Shares is approximately US$2.7 million (equivalent to approximately HK$21.1 million).

The February 16 Further Acquisition of Coinbase Shares was accounted for as financial assets at fair value through profit or loss in the consolidated financial statements of the Group. The February 16 Further Acquisition of Coinbase Shares was initially recognised at fair value in the consolidated statement of financial position of the Group. Any fair value gain or loss arising from the February 16 Further Acquisition of Coinbase Shares will be recognised in the consolidated statement of profit and loss of the Group at the end of each reporting period.

As the February 16 Further Acquisition of Coinbase Shares was financed by internally generated funds, the assets and liabilities of the Group are expected to remain unchanged.

Save as disclosed above, there will be no immediate material effect on the earnings and assets and liabilities of the Group associated with the February 16 Further Acquisition of Coinbase Shares.

Disposal of Coinbase Shares

Upon the Completion, the Company shall cease to hold any Coinbase Shares. Upon the Completion, the Group expects to recognise a gain on the Disposal of Coinbase Shares (before taxation) of US$0.2 million (equivalent to approximately HK$1.2 million), which is the difference between the aggregate consideration for the Disposal of Coinbase Shares of US$2.9 million (equivalent to approximately HK$22.3 million) and the carrying amount of approximately US$2.7 million (equivalent to approximately HK$21.1 million) of the disposed Coinbase Shares, which is classified as financial assets at fair value through profit or loss in the consolidated financial statement of the Group.

Upon the Completion, the total assets of the Group would have increased by HK$1.2 million due to the recognition of the gain on the Disposal of Coinbase Shares minus the associated transaction costs, whereas the total liabilities of the Group would have remained unchanged.

It should be noted that the above financial effects of the Further Disposal of Coinbase Shares, the Further Acquisition of Coinbase Shares, the February 16 Further Acquisition of Coinbase Shares and the Disposal of Coinbase Shares are for illustrative purpose only. The actual impact of the Further Disposal of Coinbase Shares, the Further Acquisition of Coinbase Shares, the February 16 Further Acquisition of Coinbase Shares and the Disposal of Coinbase Shares to be recognised by the Group will be subject to final audit by the Company's auditors.

REASONS FOR AND BENEFITS OF THE FURTHER DISPOSAL OF COINBASE SHARES

As a result of the Further Disposal of Coinbase Shares, the Group is expected to recognise a loss of approximately US$0.1 million (equivalent to approximately HK$0.9 million) which will affect profit and loss of the Group for the year ending 31 December 2024 and is calculated on the basis of the difference between the consideration received from the Further Disposal of Coinbase Shares and the acquisition cost of disposed Coinbase Shares.

The Group considers that the Further Disposal of Coinbase Shares represents an opportunity to allow the Group to realise the investment in Coinbase so as to enhance the operational efficiency of the assets of the Group. The Group has applied all the proceeds from the Further Disposal of Coinbase Shares of approximately US$0.4 million (equivalent to approximately HK$3.0 million) for general working capital of the Group or other appropriate investment opportunities as and when appropriate.

As the Further Disposal of Coinbase Shares was made in the open market at prevailing market price, the Directors (including the independent non-executive Directors) are of the view that the terms of the Further Disposal of Coinbase Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

REASONS FOR AND BENEFITS OF THE FURTHER ACQUISITION OF COINBASE SHARES AND THE FEBRUARY 16 FURTHER ACQUISTION OF COINBASE SHARES

The Group is principally engaged in the manufacturing and trading of semiconductors, broadband infrastructure construction and the provision of integrated solution for smart domain application (including smart home, smart campus and smart communities).

The Group believes that technological innovation is an important engine for future economic development, and it can also drive the emerging applications in the smart living sector. The Group always hopes to leverage our own advantages in the field of smart technology to actively diversify the investments in the field of innovative technologies, in order to facilitate the technological development and create greater value for the Shareholders.

Coinbase is the largest cryptocurrency exchange in the United States by trading volume. As set out in the relevant Previous Announcements and the announcement by the Company dated 30 April 2024, during the relevant time, the Board held positive views towards the financial performance and future prospect of Coinbase. The Group considered that the Further Acquisition of Coinbase Shares and the February 16 Further Acquisition of Coinbase Shares could increase our holdings in these attractive investments and to further expand its investment portfolio with quality assets, which will enhance investment return for the Group.

As the Further Acquisition of Coinbase Shares and the February 16 Further Acquisition of Coinbase Shares were was made in the open market at prevailing market prices, the Directors (including the independent non-executive Directors) are of the view that the terms of the Further Acquisition of Coinbase Shares and the February 16 Further Acquisition of Coinbase Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

REASONS FOR AND BENEFITS OF THE DISPOSAL OF COINBASE SHARES

As a result of the Disposal of Coinbase Shares, the Group is expected to recognise a gain of approximately US$0.2 million (equivalent to approximately HK$1.2 million) being the difference between the consideration received from the Disposal of Coinbase Shares and the acquisition cost of disposed Coinbase Shares.

The Group considers that the Disposal of Coinbase Shares represents an opportunity to allow the Group to realise the investment in Coinbase so as to enhance the operational efficiency of the assets of the Group. The Group to apply all the proceeds from the Disposal of Coinbase Shares of approximately US$2.9 million (equivalent to approximately HK$22.3 million) (excluding transaction costs) for general working capital of the Group or other appropriate investment opportunities as and when appropriate.

As the Disposal of Coinbase Shares was made in the open market at prevailing market price, the Directors (including the independent non-executive Directors) are of the view that the terms of the Disposal of Coinbase Shares are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

Further Disposal of Coinbase Shares

Pursuant to Rule 14.22 and Rule 14.23 of the Listing Rules for the purpose of classification of the transactions, as the January Disposal of Coinbase Shares and the Further Disposal of Coinbase Shares involve the disposals of Coinbase Shares within a 12-month period, all transactions respectively contemplated thereunder are considered and are aggregated as one transaction at a total consideration of approximately US$1.7 million (equivalent to approximately HK$13.5 million).

The Further Disposal of Coinbase Shares, on a standalone basis, constitutes a discloseable transaction since one or more of the applicable percentage ratios (as defined under the Listing Rules) are more than 5% but all of such ratios are less than 25%.

As the highest applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Further Disposal of Coinbase Shares, when aggregated with the January Disposal of Coinbase Shares by the Company in the preceding 12-month period, exceeds 25% but is less than 75%, the Further Disposal of Coinbase Shares constitutes a major transaction for the Company and is subject to reporting, announcement, circular and Shareholders' approval requirement under Chapter 14 of the Listing Rules.

Further Acquisition of Coinbase Shares

Pursuant to Rule 14.22 and Rule 14.23 of the Listing Rules for the purpose of classification of the transactions, as the Previous Acquisitions of Coinbase Shares, the Previous Disposals of Coinbase Shares and the Further Acquisition of Coinbase Shares involve acquisitions and disposals of Coinbase Shares within a 12-month period, all transactions respectively contemplated thereunder are considered and are aggregated as one transaction at a total consideration of approximately US$2.1 million (equivalent to approximately HK$16.1 million).

The Further Acquisition of Coinbase Shares, on a standalone basis, constitutes a discloseable transaction since one or more of the applicable percentage ratios (as defined under the Listing Rules) are more than 5% but all of such ratios are less than 25%.

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the Further Acquisition of Coinbase Shares, when aggregated with the Previous Acquisitions of Coinbase Shares and the Previous Disposals of Coinbase Shares by the Company in the preceding 12-month period, exceeds 25% but is less than 100%, the Further Acquisition of Coinbase Shares constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and will be subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

February 16 Further Acquisition of Coinbase Shares

Pursuant to Rule 14.22 and Rule 14.23 of the Listing Rules for the purpose of classification of the transactions, as the Previous Acquisitions of Coinbase Shares, the Previous Disposals of Coinbase Shares, the Further Acquisition of Coinbase Shares and the February 16 Further Acquisition of Coinbase Shares involve acquisitions and disposals of Coinbase Shares within a 12-month period, all transactions respectively contemplated thereunder are considered and are aggregated as one transaction at a total consideration of approximately US$2.7 million (equivalent to approximately HK$21.1 million).

The February 16 Further Acquisition of Coinbase Shares, on a standalone basis, constitutes a discloseable transaction since one or more of the applicable percentage ratios (as defined under the Listing Rules) are more than 5% but all of such ratios are less than 25%.

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of the February 16 Further Acquisition of Coinbase Shares when aggregated with the Previous Acquisitions of Coinbase Shares, the Previous Disposals of Coinbase Shares and the Further Acquisition of Coinbase Shares by the Company in the preceding 12-month period, exceed 25% but all are less than 100%, the February 16 Further Acquisition of Coinbase Shares constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and will be subject to reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Disposal of Coinbase Shares

As one or more of the applicable percentage ratio(s) (as defined in the Listing Rules) in respect of the Disposal of Coinbase Shares as calculated under Rule 14.07 of the Listing Rules exceed 25% but are less than 75%, the Disposal of Coinbase Shares constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and will be subject to the reporting, announcement, circular and Shareholders' approval requirements under the Listing Rules.

WAIVER FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES

Waiver from strict compliance with Rule 14.67(6)(a)(i) and Rule 14.67(7) of the Listing Rules

In relation to the Further Acquisition of Coinbase Shares, pursuant to Rules 14.67(6)(a)(i) and 14.67(7) of the Listing Rules, the Company is required to include in this circular an accountant's report on Coinbase which is prepared in accordance with Chapter 4 of the Listing Rules and a discussion and analysis on results of Coinbase covering all those matters set out in paragraph 32 of Appendix D2 to the Listing Rules for the period reported in such accountant's report.

As the Company considers that the strict compliance with Rules 14.67(6)(a)(i) and 14.67(7) of the Listing Rules would be unduly burdensome, the Company has applied for waiver from strict compliance of the aforesaid Listing Rules on the following grounds:

(a) The Further Acquisition of Coinbase Shares is part of the Group's strategic investments business, and the Group may make appropriate investment opportunities as and when appropriate, including but not limited to acquisition(s) and disposal(s) of listed equity securities. Subsequent to the Further Acquisition of Coinbase Shares, the percentage of Coinbase Shares held by the Company would be approximately 0.002%. The Company also does not have any board seats in Coinbase. It is submitted that the Company's minority interest in Coinbase is minimal and insignificant to exert any form of control over Coinbase.

(b) Coinbase, being a listed company incorporated in the United States, has its financial results prepared in accordance with accounting principles generally accepted in the United States as contained in the Financial Accounting Standards Board Accounting Standards Codification (the "**U.S. GAAP**"). Coinbase had been publishing financial information to the market on a regular basis to enable investors to assess their activities and financial position. Coinbase is listed on Nasdaq and its financial disclosures are subject to supervision by the relevant regulatory authorities.

(c) Following the Further Acquisition of Coinbase Shares, Coinbase will not become a subsidiary or an associate of the Company and the financial results of Coinbase will not be consolidated in the financial statements of the Group nor be equity accounted for in the Group's consolidated financial statements as an associate. Requiring the Company to arrange for an accountants' report on Coinbase will be out of proportion to the size of the Further Acquisition of Coinbase Shares in terms of time and costs involved.

(d) As the Further Acquisition of Coinbase Shares was a transaction made in the open market, Coinbase was not obliged to assist the Company to prepare the accountants' report on it for the Further Acquisition of Coinbase Shares. In addition, the Company does not have access to Coinbase's books and records to prepare the accountants' report on it in accordance with the Listing Rules.

(e) The preparation of the accountants' report under Rule 14.67(a)(i) of the Listing Rules for inclusion in the circular would require converting the financial information of Coinbase based on the Hong Kong Financial Reporting Standards. Even assuming Coinbase is prepared to provide extensive access to its accounting records and provide explanations in relation to the same, the Company considers that it would be unduly onerous to require the Company to set out an accountants' report of Coinbase in its circular as the auditors of the Company would have to carry out audit procedures on Coinbase, which would not provide meaningful information to the Shareholders given the above.

(f) Coinbase, being a listed company incorporated in the United States, is required to publish its audited financial statements, on a regular basis, for each financial year, on its websites. The said financial statements of Coinbase were audited by Deloitte & Touche LLP and were prepared based on the U.S. GAAP. Such SEC filings have been published by Coinbase as required and can be easily obtained by the Shareholders and will enable them and potential investors to make a properly informed assessment of Coinbase.

(g) The Company's reporting accountant considers that the accounting policies of Coinbase, i.e. the U.S. GAAP, are materially consistent with the accounting policies of the Company, i.e. Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

(h) As stated in the reasons set out in points (d) and (f) above, the Company could not access the books and records of Coinbase and Coinbase was not prepared to disclose any additional financial information. Thus, the Company was not able to prepare the discussion and analysis of results of Coinbase for the incorporation into this circular. In addition, the Company could not express any view as to the truth, accuracy or completeness on the discussion and analysis of the results of Coinbase as stated in its published information.

In light of the above, the Company considers that strict compliance with requirements under Rules 14.67(6)(a)(i) and 14.67(7) of the Listing Rules would be unduly burdensome and impractical, and a relaxation of such requirements would unlikely result in undue risks to the Shareholders and potential investors of the Company.

Alternative disclosures

In respect of the Further Acquisition of Coinbase Shares, the Company has included the following information in this circular as alternative disclosures to an accountants' report required under Rule 14.67(6)(a)(i) of the Listing Rules and a management discussion and analysis required under Rule 14.67(7) of the Listing Rules:

(a) the annual audited consolidated financial statements of Coinbase for the year ended 31 December 2021 as extracted from the published documents of Coinbase, which is set out on page II-1 to II-66 in Appendix II to this circular;

(b) the annual audited consolidated financial statements of Coinbase for the year ended 31 December 2022 as extracted from the published documents of Coinbase, which is set out on page II-67 to II-130 in Appendix II to this circular;

(c) the annual audited consolidated financial statements of Coinbase for the year ended 31 December 2023 as extracted from the published documents of Coinbase, which is set out on page II-131to II-196 in Appendix II to this circular; and

(d) the management discussion and analysis of the results of operations of Coinbase for the three financial years ended 31 December 2023 as extracted from the published documents of Coinbase, which are set out on pages III-1 to III-72 in Appendix III to this circular.

Based on the information provided by the Company and the alternative disclosures above, the Stock Exchange granted the waiver from strict compliance with Rules 14.67(6)(a)(i) and 14.67(7) under the Listing Rules.

REMEDIAL ACTIONS

The Company would like to express deep regret for its inadvertent and unintentional overlook of the requirements of the Listing Rules. To prevent similar incidence in the future, the Company has reviewed its internal control measures and procedures and has implemented the following remedial actions with immediate effect:

(i) the Company had reviewed transactions conducted and checked whether it is necessary for the Company to comply with any requirements under the Listing Rules. Save as disclosed in the announcement dated 30 April 2024, the Company did not discover other transaction which would be required to comply with the requirements under the Listing Rules;

(ii) the Company had retained extra finance staffs to consult and assist in carrying out compliance matters of the Group relating to the Listing Rules;

(iii) the Company will provide further guidance material and training, in particular, regarding how to define a transaction and proper calculation methodology of the percentage ratios relating to notifiable transactions under the Listing Rules for the Directors, senior management and the finance staffs of the Group in order to strengthen and reinforce their existing knowledge with respect to notifiable transactions;

(iv) the Company will also arrange regular training on regulatory compliance matters relating to notifiable transactions to the Directors, senior management and responsible staff to ensure that they fully understand the requirements of the Listing Rules;

(v) the Company shall, as and when appropriate and necessary, consult external legal advisers and/or other professional adviser before entering into possible notifiable transaction or when notifiable transactions are being contemplated so as to ensure that the Directors' apprehension and interpretation of the Listing Rules are correct and the Group timely complies with the relevant requirements under the Listing Rules; and

(vi) the Company will discuss, review and strengthen its internal control and compliance system to identify any weakness and consider further remedial actions to address them.

Going forward, the Company will continue to comply with the management procedures of its investments on the investment or wealth management products and make sure disclosure in a timely manner to ensure full compliance with the Listing Rules.

WRITTEN SHAREHOLDER'S APPROVAL

Pursuant to Rule 14.44 of the Listing Rules, shareholders' approval may be obtained by written shareholders' approval in lieu of convening a general meeting if (a) no shareholder is required to abstain from voting if the Company were to convene a general meeting for each of the approval of the Further Disposal of Coinbase Shares, the Further Acquisition of Coinbase Shares, the February 16 Further Acquisition of Coinbase Shares and the Disposal of Coinbase Shares; and (b) written approval has been obtained from a shareholder or a closely allied group of shareholders who together hold more than 50% of the issued share capital of the Company giving the right to attend and vote at general meetings to approve each of the Further Disposal of Coinbase Shares, the Further Acquisition of Coinbase Shares, the February 16 Further Acquisition of Coinbase Shares and the Disposal of Coinbase Shares.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholder has any material interest in each of the Further Disposal of Coinbase Shares, the Further Acquisition of Coinbase Shares, the February 16 Further Acquisition of Coinbase Shares and the Disposal of Coinbase Shares. Thus, if the Company were to convene a general meeting to approve the Further Disposal of Coinbase Shares, no Shareholder is required to abstain from voting on the resolutions in relation to each of the Further Disposal of Coinbase Shares, the Further Acquisition of Coinbase Shares, the February 16 Further Acquisition of Coinbase Shares and the Disposal of Coinbase Shares. As such, each of the Further Disposal of Coinbase Shares, the Further Acquisition of Coinbase Shares, the February 16 Further Acquisition of Coinbase Shares and the Disposal of Coinbase Shares may be approved by written Shareholder's approval in accordance with Rule 14.44 of the Listing Rules.

In relation to written approval in lieu of holding a general meeting in respect of each of the Further Disposal of Coinbase Shares, the Further Acquisition of Coinbase Shares, the February 16 Further Acquisition of Coinbase Shares and the Disposal of Coinbase Shares, the Company obtained shareholder's approval from Yoho Bravo Limited which holds 599,658,000 shares (representing approximately 74.96% of the total issued share capital of the Company as at the date of the written approval by Yoho Bravo Limited and the Latest Practicable Date respectively) pursuant to Rule 14.44 of the Listing Rules. As a result, no extraordinary general meeting will be convened to consider each of the Further Disposal of Coinbase Shares, the Further Acquisition of Coinbase Shares, the February 16 Further Acquisition of Coinbase Shares and the Disposal of Coinbase Shares.

RECOMMENDATION

The Directors (including the independent non-executive Directors) consider that the Further Disposal of Coinbase Shares, the Further Acquisition of Coinbase Shares, the February 16 Further Acquisition of Coinbase Shares and the Disposal of Coinbase Shares are on normal commercial terms, which is fair and reasonable and in the interests of the Company and its Shareholders as a whole. The Directors would recommend the Shareholders to vote in favour of the Further Disposal of Coinbase Shares, the Further Acquisition of Coinbase Shares, the February 16 Further Acquisition of Coinbase Shares and the Disposal of Coinbase Shares if a physical meeting were to be held.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By Order of the Board
Brainhole Technology Limited
Zhang Liang Johnson
Chairman and Executive Director

1. FINANCIAL INFORMATION OF THE GROUP

Details of the audited consolidated financial information of the Company for the three years ended 31 December 2021, 2022 and 2023 have been published and are available on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (http://www.brainholetechnology.com) respectively:

- the annual report of the Company for the year ended 31 December 2021 (pages 84 to 169) published on 28 April 2022, available on:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0428/2022042800574.pdf

- the annual report of the Company for the year ended 31 December 2022 (pages 81 to 169) published on 26 April 2023, available on:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0426/2023042600894.pdf

- the annual report of the Company for the year ended 31 December 2023 (pages 83 to 173) published on 29 April 2024, available on:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2024/0429/2024042902560.pdf

2. STATEMENT OF INDEBTEDNESS OF THE GROUP

At the close of business on 31 March 2024, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this Circular, the Group had outstanding indebtedness as follows:

	31 March 2024 *HK$'000*
Lease liabilities	4,907
Loan from immediate holding company	Nil
Loans from related companies	49,590
Loan from ultimate controlling party	110,743

As at 31 March 2024, all the loan from immediate holding company, loans from related companies and loan from ultimate controlling party of the Group disclosed above are unsecured and unguaranteed.

Save as disclosed above, the Group did not, as of the close of business on 31 March 2024, have any debt securities issued and outstanding, or authorised or otherwise created but unissued, any other term loans, any other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptance (other than normal trade bills) or acceptance credits or hire purchase commitments, any other mortgages and charges or any guarantees or any finance lease commitments or material contingent liabilities.

3. WORKING CAPITAL STATEMENT OF THE GROUP

The Directors, after due and careful consideration, are of the opinion that, taking into account the financial resources available to the Group, including internally generated funds and the available facilities, and the impact of the Further Disposal of Coinbase Shares, the Further Acquisition of Coinbase Shares, the February 16 Further Acquisition of Coinbase Shares and the Disposal of Coinbase Shares, the Group will have sufficient working capital for its business for at least 12 months from the date of this circular.

The Company has obtained the relevant confirmation as required under Rule 14.66 (12) of the Listing Rules.

4. MATERIAL ADVERSE CHANGE

At the Latest Practicable Date and to the best knowledge of the Directors, there was no material adverse change in the financial or trading position of the Group since 31 December 2023 (being the date to which the latest published audited financial statements of the Group were made up).

5. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in the manufacturing and trading of semiconductors, broadband infrastructure construction and the provision of integrated solution for smart domain application (including smart home, smart campus and smart communities). The Group believes that technological innovation is an important engine for future economic development, and it can also drive the emerging applications in the smart living sector. The Group aims to leverage our own advantages in the field of smart technology to capture investment opportunities and actively diversify the investments in the field of innovative technologies, in order to create greater value for the Shareholders.

Since 2022, the Group commenced the strategic investments business which engages in trading of cryptocurrencies and listed equity securities. In particular to the listed equity securities, the investment portfolio mainly comprises leading technology companies and high quality large companies listed in the United States and Hong Kong. As stated in the paragraphs headed "REASONS FOR AND BENEFITS OF THE FURTHER DISPOSAL OF COINBASE SHARES", "REASONS FOR AND BENEFITS OF THE FURTHER ACQUISITION OF COINBASE SHARES AND THE FEBRUARY 16 FURTHER ACQUISTION OF COINBASE SHARES" and "REASONS FOR AND BENEFITS OF THE DISPOSAL OF COINBASE SHARES" in the section headed "LETTER FROM THE BOARD", the Group considers that the Further Disposal of Coinbase Shares, the Further Acquisition of Coinbase Shares, the February 16 Further Acquisition of Coinbase Shares and the Disposal of Coinbase Shares represent opportunities to allow the Group to reallocate the resources and investment portfolio. The Group will closely monitor and assess the performance of these listed equity securities and make timely and appropriate adjustments on the investment portfolio to enhance the returns for the Group and realise the investments as and when appropriate.

FINANCIAL INFORMATION OF COINBASE FOR EACH OF THE THREE YEARS ENDED 31 DECEMBER 2021, 2022 AND 2023

For the purpose of this section only, unless the context requires otherwise, references to the "Company" are to Coinbase, and references to "we", "us" and "our" shall be construed accordingly.

The following is an extract of the audited consolidated financial statements of Coinbase for the three years ended 31 December 2021, 2022 and 2023, which were prepared in accordance with the U.S. GAAP, as extracted from the respective annual reports of Coinbase for the years ended 31 December 2021, 2022 and 2023. These financial statements were issued in English and the Chinese translated version is provided for information purposes only. In case of discrepancies between the two versions, the English version shall prevail.

The annual reports and consolidated financial statements of Coinbase for the three years ended 31 December 2021, 2022 and 2023 are available at the website of the SEC (https://www.sec.gov/).

The Directors wish to emphasise that the extracts reproduced below are not prepared for incorporation into this circular and the Company has not participated in their preparation. As such, the Directors do not express any view as to their truth, accuracy or completeness, and the Shareholders and investors should exercise caution and should not place undue reliance on such information.

A. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF COINBASE FOR THE YEAR ENDED 31 DECEMBER 2021

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Coinbase Global, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Coinbase Global, Inc. (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of Operations, Comprehensive Income, Changes in Convertible Preferred Stock and Stockholders' Equity and Cash Flows, for the years in the period ended December 31, 2021 and 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the years in the period ended December 31, 2021 and 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Crypto Assets Held — Refer to Notes 2 and 19 to the financial statements

Critical Audit Matter Description

Crypto assets are generally accessible only by the possessor of the unique private key relating to the digital wallet in which the crypto assets are held. Accordingly, private keys must be safeguarded and secured in order to prevent an unauthorized party from accessing the crypto assets held in a digital wallet. The Company primarily holds crypto assets for its own use, and on behalf of customers, in wallets within its cold storage environment. The loss, theft, or otherwise compromise of access to the private keys required to access the crypto assets held in cold storage used to hold crypto assets could adversely affect the Company's ability to access the crypto assets held in its environment. This could result in loss of corporate assets or could give rise to a potential contingent liability to reimburse customers for their losses.

We identified crypto assets held in cold storage as a critical audit matter due to the nature and extent of audit effort required to obtain sufficient appropriate audit evidence to address the risks of material misstatement related to the existence and rights & obligations of crypto assets held in cold storage. The nature and extent of audit effort required to address the matter includes significant involvement of more experienced engagement team members and discussions and consultations with subject matter experts related to the matter.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to Crypto Assets Held in cold storage included the following, among others:

- We consulted with subject matter experts regarding our planned audit response to address risks of material misstatement of Crypto Assets Held in cold storage.
- We tested the effectiveness of controls within the Company's private key management process including controls related to physical access, key generation and destruction, and segregation of duties across the processes.
- We tested the effectiveness of management's reconciliation control of internal books and records to external blockchains.
- We utilized our proprietary audit tool to independently obtain evidence from public blockchains to test the existence of crypto asset balances.
- We obtained evidence that management has control of the private keys required to access crypto assets held in cold storage through a combination of decoding cryptographic messages signed using selected private keys or through observing the movement of selected crypto assets.
- We evaluated the reliability of audit evidence obtained from public blockchains.

/s/ Deloitte & Touche LLP

San Francisco, California
February 24, 2022

We have served as the Company's auditor since 2020.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders

Coinbase Global, Inc.

Opinion on the financial statements

We have audited the accompanying consolidated balance sheet of Coinbase Global, Inc. (a Delaware corporation) and subsidiaries (the "Company") as of December 31, 2019 (not presented herein), the related consolidated statements of operations, comprehensive income (loss), changes in convertible preferred stock and stockholders' equity, and cash flows for the year ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, and the results of their operations and their cash flows for the year ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

Basis for opinion

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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

/s/ GRANT THORNTON LLP

We have served as the Company's auditor from 2018 to 2020.

New York, New York

October 9, 2020 (except for Notes 2 and 6, in the previously filed 2019 financial statements, which are not presented herein, as to which the date is February 25, 2021)

Coinbase Global, Inc.
Consolidated Balance Sheets
(In thousands, except par value data)

	December 31, 2021	December 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 7,123,478	$ 1,061,850
Restricted cash	30,951	30,787
Customer custodial funds	10,526,233	3,763,392
USDC	100,096	48,938
Accounts and loans receivable, net of allowance	396,025	189,471
Income tax receivable	61,231	—
Prepaid expenses and other current assets	135,849	39,510
Total current assets	18,373,863	5,133,948
Crypto assets held	988,193	316,094
Lease right-of-use assets	98,385	100,845
Property and equipment, net	59,230	49,250
Goodwill	625,758	77,212
Intangible assets, net	176,689	60,825
Other non-current assets	952,307	117,240
Total assets	$ 21,274,425	$ 5,855,414
Liabilities, Convertible Preferred Stock, and Stockholders' Equity		
Current liabilities:		
Custodial funds due to customers	$ 10,480,612	$ 3,849,468
Accounts payable	39,833	12,031
Accrued expenses and other current liabilities	439,559	88,783
Crypto asset borrowings	426,665	271,303
Lease liabilities, current	32,366	25,270
Total current liabilities	11,419,035	4,246,855
Lease liabilities, non-current	74,078	82,508
Long-term debt	3,384,795	—
Other non-current liabilities	14,828	—
Total liabilities	14,892,736	4,329,363
Commitments and contingencies (Note 19)		
Convertible preferred stock, $0.00001 par value; 500,000 and 126,605 shares authorized at December 31, 2021 and December 31, 2020, respectively; zero and 112,878 shares issued and outstanding at December 31, 2021 and December 31, 2020, respectively; aggregate liquidation preference of $0 and $578,750 at December 31, 2021 and December 31, 2020, respectively	—	562,467
Stockholders' equity:		
Class A common stock, $0.00001 par value; 10,000,000 and 267,640 shares authorized at December 31, 2021 and December 31, 2020, respectively; 168,807 and 12,204 shares issued and outstanding at December 31, 2021 and December 31, 2020, respectively	2	—
Class B common stock, $0.00001 par value; 500,000 and 208,414 shares authorized at December 31, 2021 and December 31, 2020; 48,310 and 60,904 shares issued and outstanding at December 31, 2021 and December 31, 2020, respectively	—	—
Additional paid-in capital	2,034,658	231,024
Accumulated other comprehensive (loss) income	(3,395)	6,256
Retained earnings	4,350,424	726,304
Total stockholders' equity	6,381,689	963,584
Total liabilities, convertible preferred stock, and stockholders' equity	$ 21,274,425	$ 5,855,414

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

Coinbase Global, Inc.
Consolidated Statements of Operations
(In thousands, except per share data)

	Year Ended December 31,		
	2021	2020	2019
Revenue:			
Net revenue	$ 7,354,753	$ 1,141,167	$ 482,949
Other revenue	484,691	136,314	50,786
Total revenue	7,839,444	1,277,481	533,735
Operating expenses:			
Transaction expense	1,267,924	135,514	82,055
Technology and development	1,291,561	271,732	185,044
Sales and marketing	663,689	56,782	24,150
General and administrative	909,392	279,880	231,929
Restructuring	—	—	10,140
Other operating expense, net	630,308	124,622	46,200
Total operating expenses	4,762,874	868,530	579,518
Operating income (loss)	3,076,570	408,951	(45,783)
Other expense (income), net	49,623	(248)	(367)
Income (loss) before income taxes	3,026,947	409,199	(45,416)
(Benefit from) provision for income taxes	(597,173)	86,882	(15,029)
Net income (loss)	$ 3,624,120	$ 322,317	$ (30,387)
Net income (loss) attributable to common stockholders:			
Basic	$ 3,096,958	$ 108,256	$ (30,387)
Diluted	$ 3,190,404	$ 127,471	$ (30,387)
Net income (loss) per share attributable to common stockholders:			
Basic	$ 17.47	$ 1.58	$ (0.50)
Diluted	$ 14.50	$ 1.40	$ (0.50)
Weighted-average shares of common stock used to compute net income (loss) per share attributable to common stockholders:			
Basic	177,319	68,671	61,317
Diluted	219,965	91,209	61,317

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

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Coinbase Global, Inc.
Consolidated Statements of Comprehensive Income (Loss)
(In thousands)

	Year Ended December 31,		
	2021	2020	2019
Net income (loss)	$ 3,624,120	$ 322,317	$ (30,387)
Other comprehensive (loss) income:			
Translation adjustment, net of tax	(9,651)	6,977	(43)
Comprehensive income (loss)	$ 3,614,469	$ 329,294	$ (30,430)

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

Coinbase Global, Inc.
Consolidated Statements of Changes in Convertible Preferred Stock and Stockholders' Equity
(In thousands)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total
	Shares	Amount	Shares	Amount				
Balance at January 1, 2019	120,929	$ 569,232	59,850	$ —	$ 47,257	$ (678)	$ 453,492	$ 500,071
Issuance of Class A common stock	—	—	154	—	5,000	—	—	5,000
Repurchase of equity awards	—	—	(212)	—	(1,128)	—	(19,118)	(20,246)
Issuance of common stock upon exercise of stock options, net of repurchases	—	—	951	—	4,232	—	—	4,232
Vesting of restricted stock	—	—	199	—	1,389	—	—	1,389
Stock-based compensation expense	—	—	82	—	32,535	—	—	32,535
Conversion of preferred stock	(5,970)	(4,535)	5,970	—	4,535	—	—	4,535
Comprehensive loss	—	—	—	—	—	(43)	—	(43)
Net loss	—	—	—	—	—	—	(30,387)	(30,387)
Balance at December 31, 2019	114,959	564,697	66,994	—	93,820	(721)	403,987	497,086
Issuance of common stock upon exercise of stock options, net of repurchases	—	—	2,038	—	16,707	—	—	16,707
Repurchase of equity awards	—	—	—	—	(1,930)	—	—	(1,930)
Stock-based compensation expense	—	—	—	—	72,643	—	—	72,643
Issuance of equity instruments as consideration in business combination	—	—	1,304	—	31,349	—	—	31,349
Issuance of common stock to settle contingent consideration	—	—	691	—	16,205	—	—	16,205
Conversion of preferred stock	(2,081)	(2,230)	2,081	—	2,230	—	—	2,230
Comprehensive income	—	—	—	—	—	6,977	—	6,977
Net income	—	—	—	—	—	—	322,317	322,317
Balance at December 31, 2020	112,878	562,467	73,108	—	231,024	6,256	726,304	963,584
Issuance of common stock upon exercise of stock options, net of repurchases	—	—	24,909	—	212,476	—	—	212,476
Stock-based compensation expense	—	—	—	—	824,153	—	—	824,153
Issuance of equity instruments as consideration for business combinations	—	—	3,985	—	544,588	—	—	544,588
Conversion of preferred stock	(112,878)	(562,467)	112,878	2	562,465	—	—	562,467
Issuance of common stock from exercise of warrants	—	—	412	—	433	—	—	433
Issuance of common stock upon settlement of RSUs and restricted common stock, net of shares withheld	—	—	1,775	—	(262,794)	—	—	(262,794)
Purchase of capped calls	—	—	—	—	(90,131)	—	—	(90,131)
Issuance of common stock under the Employee Stock Purchase Plan	—	—	50	—	12,444	—	—	12,444
Comprehensive loss	—	—	—	—	—	(9,651)	—	(9,651)
Net income	—	—	—	—	—	—	3,624,120	3,624,120
Balance at December 31, 2021	—	$ —	217,117	$ 2	$ 2,034,658	$ (3,395)	$ 4,350,424	$ 6,381,689

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

Coinbase Global, Inc.
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31, 2021	2020	2019
Cash flows from operating activities			
Net income (loss)	$ 3,624,120	$ 322,317	$ (30,387)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities			
Depreciation and amortization	63,651	30,962	16,878
Impairment expense	329,652	8,355	2,252
Stock-based compensation expense	820,685	70,548	31,147
Provision for transaction losses and doubtful accounts	22,390	(2,966)	(4,679)
Loss on disposal of property and equipment	1,425	355	9,073
Deferred income taxes	(558,329)	474	(20,903)
Unrealized (gain) loss on foreign exchange	(14,944)	1,057	(3,106)
Non-cash lease expense	34,542	25,012	13,323
Change in fair value of contingent consideration	(924)	3,281	—
Realized (gain) loss on crypto assets	(178,234)	(23,682)	5,662
Crypto assets received as revenue	(1,015,920)	(94,158)	(11,408)
Crypto asset payments for expenses	815,783	40,205	11,622
Fair value (gain) loss on derivatives	(32,056)	5,254	—
Amortization of debt discount and issuance costs	5,031	—	—
(Gain) loss on investments	(20,138)	150	245
Changes in operating assets and liabilities:			
USDC	(77,471)	37,936	35,303
Accounts and loans receivable	(8,016)	(157,156)	30,703
Income taxes, net	(62,145)	86,791	(1,912)
Other current and non-current assets	(20,060)	(48,677)	(38,594)
Custodial funds due to customers	6,691,859	2,710,522	(130,122)
Accounts payable	27,330	6,090	(2,387)
Lease liabilities	(20,596)	(24,998)	(11,025)
Other current and non-current liabilities	302,396	6,398	17,721
Net cash provided by (used in) operating activities	10,730,031	3,004,070	(80,594)
Cash flows from investing activities			
Purchase of property and equipment	(2,910)	(9,913)	(33,521)
Proceeds from sale of property and equipment	31	—	2,293
Capitalized internal-use software development costs	(22,073)	(8,889)	(6,950)
Business combination, net of cash acquired	(70,911)	33,615	(5,698)
Purchase of investments	(326,513)	(10,329)	(7,938)
Purchase of assembled workforce	(60,800)	—	—
Asset acquisition	—	—	(55,389)
Proceeds from settlement of investments	5,159	303	374
Purchase of crypto assets held	(3,009,086)	(528,080)	(271,266)
Disposal of crypto assets held	2,574,032	574,115	272,742
Loans originated	(336,189)	—	—
Proceeds from repayment of loans	124,520	—	—
Net cash (used in) provided by investing activities	(1,124,740)	50,822	(105,353)

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

Coinbase Global, Inc.
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2021	2020	2019
Cash flows from financing activities			
Issuance of common stock upon exercise of stock options, net of repurchases	217,064	20,731	4,353
Taxes paid related to net share settlement of equity awards	(262,794)	—	—
Proceeds received under the Employee Stock Purchase Plan	19,889	—	—
Cash paid to repurchase equity awards	—	(1,930)	(20,958)
Issuance of shares from exercise of warrants	433	—	—
Issuance of convertible senior notes, net	1,403,753	—	—
Issuance of senior notes, net	1,976,011	—	—
Purchase of capped calls	(90,131)	—	—
Proceeds from short-term borrowing	20,000	—	—
Net cash provided by (used in) financing activities	3,284,225	18,801	(16,605)
Net increase in cash, cash equivalents, and restricted cash	12,889,516	3,073,693	(202,552)
Effect of exchange rates on cash	(64,883)	(2,081)	(170)
Cash, cash equivalents, and restricted cash, beginning of period	4,856,029	1,784,417	1,987,139
Cash, cash equivalents, and restricted cash, end of period	$ 17,680,662	$ 4,856,029	$ 1,784,417
Cash, cash equivalents, and restricted cash consisted of the following:			
Cash and cash equivalents	$ 7,123,478	$ 1,061,850	$ 548,945
Restricted cash	30,951	30,787	34,122
Customer custodial funds	10,526,233	3,763,392	1,201,350
Total cash, cash equivalents, and restricted cash	$ 17,680,662	$ 4,856,029	$ 1,784,417
Supplemental disclosure of cash flow information			
Cash paid during the period for interest	$ 3,793	$ —	$ —
Cash paid during the period for income taxes	$ 68,614	$ 62,060	$ 2,165
Operating cash outflows for amounts included in the measurement of operating lease liabilities	$ 20,061	$ 40,011	$ 14,356
Supplemental schedule of non-cash investing and financing activities			
Unsettled purchases of property and equipment	$ 808	$ —	$ 5,522
Right-of-use assets obtained in exchange for operating lease obligations	$ 27,286	$ 2,146	$ 110,426
Non-cash consideration paid for business combinations	$ 571,196	$ —	$ —
Purchase of crypto assets and investments with non-cash consideration	$ 13,511	$ 662	$ 3,399
Issuance of common stock for non-cash consideration	$ —	$ —	$ 5,000
Crypto assets borrowed	$ 1,134,876	$ 194,696	$ —
Crypto assets borrowed repaid with crypto assets	$ 609,600	$ 59,171	$ —

The accompanying notes are an integral part of these consolidated financial statements.
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Coinbase Global, Inc.
Notes to Consolidated Financial Statements

1. NATURE OF OPERATIONS

Coinbase, Inc. was founded in 2012. In April 2014, in connection with a corporate reorganization, Coinbase, Inc. became a wholly-owned subsidiary of Coinbase Global, Inc. (together with its consolidated subsidiaries, the "Company").

The Company operates globally and is a leading provider of end-to-end financial infrastructure and technology for the cryptoeconomy. The Company offers retail users the primary financial account for the cryptoeconomy, institutions a state of the art marketplace with a deep pool of liquidity for transacting in crypto assets, and ecosystem partners technology and services that enable them to build crypto-based applications and securely accept crypto assets as payment.

In May 2020, the Company became a remote-first company. Accordingly, the Company does not maintain a headquarters.

On April 14, 2021, Coinbase completed the direct listing of its Class A common stock on the Nasdaq Global Select Market (the "Direct Listing").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and principles of consolidation

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP"), and include the accounts of the Company and its subsidiaries. The Company's subsidiaries are entities in which the Company holds, directly or indirectly, more than 50% of the voting rights or where it exercises control. Certain subsidiaries of the Company have a basis of presentation different from GAAP. For the purposes of the consolidated financial statements, the basis of presentation of such subsidiaries is converted to GAAP. All intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

Certain prior period amounts have been reclassified in order to conform with the current period presentation. These reclassifications have no impact on the Company's previously reported consolidated net income.

Use of estimates

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions in the Company's consolidated financial statements and notes thereto.

Significant estimates and assumptions include the determination of the recognition, measurement, and valuation of current and deferred income taxes; the fair value of stock-based awards issued; the useful lives of intangible assets; the impairment of long-lived assets; the Company's incremental borrowing rate; the fair value of assets acquired and liabilities assumed in business combinations, including contingent consideration arrangements; the fair value of derivatives and related hedges; the fair value of long-term debt; assessing the likelihood of adverse outcomes from claims and disputes; and loss provisions.

Actual results and outcomes may differ from management's estimates and assumptions due to risks and uncertainties. To the extent that there are material differences between these estimates and actual results, the Company's consolidated financial statements will be affected. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the result of which forms the basis for making judgments about the carrying values of assets and liabilities.

Coinbase Global, Inc.
Notes to Consolidated Financial Statements

Foreign currency transactions

The Company's functional currency is the U.S. dollar. The Company has exposure to foreign currency translation gains and losses arising from the Company's net investment in foreign subsidiaries. The revenues, expenses, and financial results of these foreign subsidiaries are recorded in their respective functional currencies. The financial statements of these subsidiaries are translated into U.S. dollars using a current rate of exchange, with gains or losses, net of tax as applicable, included in Accumulated other comprehensive (loss) income ("AOCI") within the consolidated statements of changes in convertible preferred stock and stockholders' equity. Cumulative translation adjustments are released from AOCI and recorded in the statements of operations when the Company disposes or loses control of a consolidated subsidiary. Gains and losses resulting from remeasurement are recorded in Other income (loss), net within the consolidated statements of operations.

Business combinations

The results of businesses acquired in a business combination are included in the Company's consolidated financial statements from the date of the acquisition. Purchase accounting results in assets and liabilities of an acquired business being recorded at their estimated fair values on the acquisition date. Any excess consideration over the fair value of assets acquired and liabilities assumed is recognized as goodwill. Acquisition-related costs incurred by the Company are recognized as an expense in General and administrative expenses within the consolidated statements of operations.

The Company uses its best estimates and assumptions to assign fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date. The Company's estimates are inherently uncertain and subject to refinement.

During the measurement period, which may be up to one year from the acquisition date, and to the extent that the value was not previously finalized, the Company may record adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed, with the corresponding offset to goodwill. In addition, uncertain tax positions and tax-related valuation allowances are initially recorded in connection with a business combination as of the acquisition date. The Company continues to collect information about facts and circumstance that existed at the date of acquisition and reevaluates these estimates and assumptions quarterly and records any adjustments to the Company's preliminary estimates to goodwill, provided that the Company is within the measurement period. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company's consolidated statements of operations.

Fair value measurements

The Company measures certain assets and liabilities at fair value. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- **Level 1**: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- **Level 2**: Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- **Level 3**: Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Coinbase Global, Inc.
Notes to Consolidated Financial Statements

Cash and cash equivalents

Cash and cash equivalents include cash and interest-bearing highly liquid investments held at financial institutions, cash on hand that is not restricted as to withdrawal or use with an initial maturity of three months or less, and cash held in accounts at crypto trading venues. Crypto asset and fiat wallet service trading venues include other crypto asset trading platforms that hold money transmitter licenses, and where the Company holds funds in its accounts with those trading platforms. Cash and cash equivalents excludes customer legal tender, which is reported separately as Customer custodial funds in the accompanying consolidated balance sheets. Refer to *Customer custodial funds and custodial funds due to customers* below for further details.

Restricted cash

The Company has restricted cash deposits at financial institutions related to operational restricted deposits and a standby letter of credit.

Customer custodial funds and custodial funds due to customers

Customer custodial funds represent restricted cash and cash equivalents maintained in segregated Company bank accounts that are held for the exclusive benefit of customers. Custodial funds due to customers represent cash deposits held by customers in their fiat wallets and unsettled deposits and withdrawals. The Company restricts the use of the assets underlying the customer custodial funds to meet regulatory requirements and classifies the assets as current based on their purpose and availability to fulfill its direct obligation under custodial funds due to customers.

Certain jurisdictions where the Company operates require the Company to hold eligible liquid assets, as defined by applicable regulatory requirements and commercial law in these jurisdictions, equal to at least 100% of the aggregate amount of all custodial funds due to customers. Depending on the jurisdiction, eligible liquid assets can include cash and cash equivalents, customer custodial funds, and in-transit funds receivable. As of December 31, 2021 and December 31, 2020, the Company's eligible liquid assets were greater than the aggregate amount of custodial funds due to customers.

USDC

USD Coin ("USDC") is accounted for as a financial instrument; one USDC can be redeemed for one U.S. dollar on demand from the issuer.

Accounts and loans receivable and allowance for doubtful accounts

Accounts and loans receivable are contractual rights to receive cash either on demand or on fixed or determinable dates, and are recognized as an asset on the Company's balance sheet. Accounts and loans receivable consists of in-transit customer receivables, trade finance receivables, custodial fee revenue receivable, loans receivable, interest receivable, and other receivables.

In-transit customer receivables represent settlements from third-party payment processors and banks for customer transactions. In-transit receivables are typically received within one or two business days of the transaction date. The Company establishes withdrawal-based limits in order to mitigate potential losses by preventing customers from withdrawing the crypto asset to an external blockchain address until the payment settles. In certain jurisdictions, in-transit customer receivables qualify as eligible liquid assets to meet regulatory requirements to fulfill the Company's direct obligations under custodial funds due to customers.

Trade finance receivables represent funds due for crypto assets delivered to credit eligible customers and are typically received within three business days from the transaction date. Trade finance receivables enable customers to instantly invest in crypto assets without pre-funding their trade.

Custodial fee revenue receivable represents the fee earned and receivable by the Company for providing a dedicated secure cold storage solution to customers. The fee is based on a contractual percentage of the daily value of assets under custody and is generally collected on a monthly basis. Such custodial fee revenue income is included in Net revenue in the consolidated statements of operations.

Loans receivable represent loans made to retail users and institutions. These loans are collateralized with crypto assets held by those users in their crypto asset wallet on the Company's platform. Loans receivable are subsequently measured at amortized cost.

The Company recognizes an allowance for doubtful accounts for receivables based on expected credit losses. In determining expected credit losses, the Company considers historical loss experience, the aging of its receivable balance, and the fair value of any collateral held. For loans receivable, the Company applies the collateral maintenance provision practical expedient. The Company would recognize credit losses on these loans if there is a collateral shortfall and it is not reasonably expected that the borrower will replenish such a shortfall.

Concentration of credit risk

The Company's cash, cash equivalents, restricted cash, customer custodial funds, and accounts and loans receivable are potentially subject to concentration of credit risk. Cash, cash equivalents, restricted cash, and customer custodial funds are placed with financial institutions which are of high credit quality. The Company invests cash, cash equivalents, and customer accounts primarily in highly liquid, highly rated instruments which are uninsured. The Company may also have deposit balances with financial institutions which exceed the Federal Deposit Insurance Corporation insurance limit of $250,000. The Company also holds cash at crypto trading venues and performs a regular assessment of these crypto trading venues as part of its risk management process.

The Company held $100.1 million and $48.9 million of USDC as of December 31, 2021 and December 31, 2020, respectively. The underlying U.S. dollar denominated assets are recognized by the issuer in U.S. regulated financial institutions on behalf of USDC holders.

As of December 31, 2021, the Company had no customers who accounted for more than 10% of the Company's accounts and loans receivable. As of December 31, 2020, two customers accounted for more than 10% of the Company's accounts and loans receivable. One customer had fiat of $45.0 million transferred to their platform account prior to December 31, 2020, but the Company had not yet settled the transaction by collecting payment. The Company had extended $20.5 million of trade financing to the second customer as of December 31, 2020. As these customers had transferred or were in the process of transferring funds to their portfolio equal to or in excess of the crypto assets purchased, the Company did not record an allowance for doubtful accounts.

As of December 31, 2021 and December 31, 2020, the Company had no payment processors or bank partners representing more than 10% of accounts and loans receivable. During the years ended December 31, 2021, December 31, 2020 and December 31, 2019 no customer accounted for more than 10% of total revenue.

Crypto assets held

The crypto assets held by the Company, with no qualifying fair value hedge, are accounted for as intangible assets with indefinite useful lives, and are initially measured at cost. Crypto assets accounted for as intangible assets are subject to impairment losses if the fair value of crypto assets decreases below the carrying value at any time during the period. The fair value is measured using the quoted price of the crypto asset at the time its fair value is being measured. Impairment expense is reflected in Other operating expense, net in the consolidated statements of operations. The Company assigns costs to transactions on a first-in, first-out basis.

Crypto assets held as the hedged item in qualifying fair value hedges are initially measured at cost. Subsequent changes in fair value attributable to the hedged risk are adjusted to the carrying amount of these crypto assets, with changes in fair value recorded in Other operating expense, net in the consolidated statements of operations.

The Company recognizes crypto assets received through airdrops or forks if the crypto asset is expected to generate probable future benefit and if the Company is able to support the trading, custody, or withdrawal of these assets. The Company records the crypto assets received through airdrops or forks at their cost.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in lease right-of-use (“ROU”) assets and lease liabilities in the consolidated balance sheets. ROU assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of future minimum lease payments over the lease term. Most leases do not provide an implicit rate, so the Company uses its incremental borrowing rate. The operating lease ROU assets also include any lease payments made before commencement and exclude lease incentives.

The Company’s lease terms may include options to extend or terminate the lease when it is reasonably certain that those options will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company has made the policy election to account for short-term leases by recognizing the lease payments in profit or loss on a straight-line basis over the lease term and not recognizing these leases on the Company’s consolidated balance sheets. Variable lease payments are recognized in profit or loss in the period in which the obligation for those payments is incurred. The Company has real estate lease agreements with lease and non-lease components for which the Company has made the accounting policy election to account for these agreements as a single lease component.

Coinbase Global, Inc.
Notes to Consolidated Financial Statements

Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the lesser of the estimated useful life of the asset or the remaining lease term. The estimated useful lives of the Company's property, equipment, and software are generally as follows:

Property and equipment	Useful life
Furniture and fixtures	Three to five years
Computer equipment	Two to five years
Leasehold improvements	Lesser of useful life or remaining lease term
Capitalized software	One to three years

Construction-in-progress represents costs incurred on the construction of leasehold improvements that have not been completed or placed in service as of the end of the year, and accordingly, no depreciation expense has been recorded.

Capitalized software consists of costs incurred during the application development stage of internal-use software or implementation of a hosting arrangement that is a service contract. Capitalized costs consist of salaries and compensation costs for employees, fees paid to third-party consultants who are directly involved in development efforts, and costs incurred for upgrades and enhancements to add functionality of the software. Other costs that do not meet the capitalization criteria are expensed as incurred.

Long-lived assets, including ROU assets, goodwill, and acquired intangible assets

The Company evaluates the recoverability of long-lived assets on an annual basis, or more frequently whenever circumstances indicate a long-lived asset may be impaired. When indicators of impairment exist, the Company estimates future undiscounted cash flows attributable to such assets. In the event future undiscounted cash flows do not exceed the carrying amount of the assets, the asset would be considered impaired. The impairment loss is measured based upon the difference between the carrying amount and the fair value of the assets.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in a business combination. Goodwill is tested for impairment at the reporting unit level on an annual basis (October 1 for the Company) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. For the periods presented, the Company did not have any goodwill impairment charges.

Acquired intangible assets with a definite useful life are amortized over their estimated useful lives on a straight-line basis. Each period, the Company evaluates the estimated remaining useful life of its intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. Intangible assets assessed as having indefinite lives are not amortized, but are assessed for indicators that the useful life is no longer indefinite or for indicators of impairment each period.

Investments

The Company holds the following categories of investments, which are included in other non-current assets in the consolidated balance sheets.

Equity method investments

The Company holds equity investments in privately held companies. The Company applies the equity method of accounting for investments in other entities when it holds between 20% and 50% of the common stock or in-substance common stock in the entity, or when it exercises significant influence over the entity. Under the equity method, the Company's share of each entity's profit or loss is reflected in Other expense (income), net in the consolidated statements of operations.

Strategic investments

The Company's strategic investments primarily include investments in equity instruments where the Company (1) holds less than 20% ownership in the entity, and (2) does not exercise significant influence. These are recorded at cost and adjusted for observable transactions for same or similar investments of the same issuer (referred to as the measurement alternative) or impairment.

Crypto asset borrowings

The Company borrows crypto assets from third parties on an unsecured basis. Such crypto assets borrowed by the Company are reported in crypto assets held on the Company's consolidated balance sheets.

The borrowings are accounted for as hybrid instruments, with a liability host contract that contains an embedded derivative based on the changes in the fair value of the underlying crypto asset. The host contract is not accounted for as a debt instrument because it is not a financial liability, is carried at the fair value of the assets acquired and reported in crypto asset borrowings in the consolidated balance sheets. The embedded derivative is accounted for at fair value, with changes in fair value recognized in Other operating expense, net in the consolidated statements of operations. The embedded derivatives are included in crypto asset borrowings in the consolidated balance sheets.

The term of these borrowings can either be for a fixed term of less than one year or can be open-ended and repayable at the option of the Company or the lender. These borrowings bear a fee payable by the Company to the lender, which is based on a percentage of the amount borrowed and is denominated in the related crypto asset borrowed. The borrowing fee is recognized on an accrual basis and is included in Other operating expense, net in the consolidated statements of operations.

Derivative contracts

Derivative contracts derive their value from underlying asset prices, other inputs or a combination of these factors. Derivative contracts are recognized as either assets or liabilities in the consolidated balance sheets at fair value, with changes in fair value recognized in Other operating expense, net.

As a result of the Company entering into transactions to borrow crypto assets, an embedded derivative is recognized relating to the differences between the fair value of the amount borrowed, which is recognized on the borrowing effective date, and the fair value of the amount that will ultimately be repaid, based on changes in the spot price of the crypto asset over the term of the borrowing. This embedded derivative is accounted for as a forward contract to exchange at maturity the fixed amount of the crypto asset to be repaid.

Coinbase Global, Inc.
Notes to Consolidated Financial Statements

Derivatives designated as hedges

The Company applies hedge accounting to certain derivatives executed for risk management purposes. To qualify for hedge accounting, a derivative must be highly effective at reducing the risk associated with the exposure being hedged. The Company uses fair value hedges primarily to hedge the fair value exposure of crypto asset prices. For qualifying fair value hedges, the changes in the fair value of the derivative and the fair value of the hedged item, the crypto assets, are recognized in current-period earnings in Other operating expense, net in the consolidated statements of operations. Derivative amounts affecting earnings are recognized in the same line item as the earnings effect of the hedged item.

Revenue recognition

See *Note 4. Revenue*, for information on the Company's accounting policies for revenue recognition.

Contract acquisition costs

The Company has elected to apply the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that would otherwise have been recognized is one year or less.

Transaction expense

Transaction expense includes costs incurred to operate the Company's platform, process crypto asset trades, and perform wallet services. These costs include account verification fees, miner fees to process transactions on blockchain networks, fees paid to payment processors and other financial institutions for customer transaction activity, and crypto asset losses due to transaction reversals. Transaction expense also includes rewards paid to users for blockchain activities conducted by the Company, such as staking. Fixed-fee costs are expensed over the term of the contract and transaction-level costs are expensed as incurred.

Technology and development

Technology and development expenses include personnel-related expenses incurred in operating, maintaining, and enhancing the Company's platform. These costs also include website hosting, infrastructure expenses, costs incurred in developing new products and services and the amortization of acquired developed technology.

Sales and marketing

Sales and marketing expenses primarily include costs related to customer acquisition, advertising and marketing programs, and personnel-related expenses. Sales and marketing costs are expensed as incurred.

General and administrative

General and administrative expenses include personnel-related expenses incurred to support the Company's business, including legal, finance, compliance, human resources, customer support, executive, and other support operations. These costs also include software subscriptions for support services, facilities and equipment costs, depreciation, amortization of acquired customer relationship intangible assets, gains and losses on disposal of fixed assets, legal reserves and settlements, and other general overhead. General and administrative costs are expensed as incurred.

Coinbase Global, Inc.
Notes to Consolidated Financial Statements

Other operating expense, net

Other operating expense, net includes cost of the Company's crypto assets used to fulfill customer accommodation transactions. Periodically, as an accommodation to customers, the Company may fulfill customer transactions using its own crypto assets. The Company has custody and control of the crypto assets prior to the sale to the customer. Accordingly, the Company records the total value of the sale in other revenue and the cost of the crypto asset in other operating expense.

Other operating expense, net also includes impairment and realized gains on the sale of crypto assets, realized gains and losses resulting from the settlement of derivative instruments, and fair value gains and losses related to derivatives and derivatives designated in qualifying fair value hedge accounting relationships.

Stock-based compensation

The Company recognizes stock-based compensation expense using a fair-value based method for costs related to all equity awards granted under its equity incentive plans to employees, directors and non-employees of the Company including restricted stock, restricted stock units ("RSUs"), stock options and purchase rights granted under the Company's 2021 Employee Stock Purchase Plan (the "ESPP").

The fair value of restricted stock and RSUs is estimated based on the fair value of the Company's common stock on the date of grant.

The Company estimates the fair value of stock options with only service-based conditions and purchase rights under the ESPP on the date of grant using the Black-Scholes-Merton option-pricing model. The model requires management to make a number of assumptions, including the fair value and expected volatility of the Company's underlying common stock price, expected life of the option, risk-free interest rate, and expected dividend yield. The fair value of the underlying stock is the fair value of the Company's common stock on the date of grant. The expected stock price volatility assumption for the Company's stock is determined by using a weighted average of the historical stock price volatility of comparable companies from a representative peer group, as sufficient trading history for the Company's common stock is not available. The Company uses historical exercise information and contractual terms of options to estimate the expected term. The risk-free interest rate for periods within the expected life of the option is based on the U.S. Treasury zero coupon bonds with terms consistent with the expected term of the award at the time of grant. The expected dividend yield assumption is based on the Company's history and expectation of no dividend payouts.

Prior to the Direct Listing, the fair value of the underlying common stock was determined using the probability weighted expected return method, with a discounted cash flow model or a market multiples method used for each expected outcome. Following the Direct Listing, the fair value of the underlying common stock is the closing price of the Company's Class A common stock as reported on the Nasdaq Global Select Market on the grant date.

Stock-based compensation expense is recorded on a straight-line basis over the requisite service period. The Company has elected to account for forfeitures of awards as they occur, with previously recognized compensation reversed in the period that the awards are forfeited.

Income taxes

The Company accounts for income taxes using the asset and liability method whereby deferred tax asset and liability account balances are determined based on temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. A valuation allowance is established when management estimates that it is more likely than not that deferred tax assets will not be realized. Realization of deferred tax assets is dependent upon future pre-tax earnings, the reversal of temporary differences between book and tax income, and the expected tax rates in future periods.

The Company is required to evaluate the tax positions taken in the course of preparing its tax returns to determine whether tax positions are more likely than not of being sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the “more-likely-than-not” threshold would be recorded as a tax expense in the current year. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount that is initially recognized. It is the Company’s practice to recognize interest and penalties related to income tax matters in income tax expense.

For U.S. federal tax purposes, crypto asset transactions are treated on the same tax principles as property transactions. The Company recognizes a gain or loss when crypto assets are exchanged for other property, in the amount of the difference between the fair market value of the property received and the tax basis of the exchanged crypto assets. Receipts of crypto assets in exchange for goods or services are included in taxable income at the fair market value on the date of receipt.

Net income (loss) per share

The Company computes net income (loss) per share using the two-class method required for participating securities. The two-class method requires income available to common stockholders for the period to be allocated between common stock and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed. The Company’s convertible preferred stock and certain of its restricted common stock were deemed participating securities. These participating securities do not contractually require the holders of such shares to participate in the Company’s losses.

Basic net income (loss) per share is computed using the weighted-average number of outstanding shares of common stock during the period. Diluted net income (loss) per share is computed using the weighted-average number of outstanding shares of common stock and, when dilutive, potential shares of common stock outstanding during the period. Potential shares of common stock consist of incremental shares issuable upon the assumed exercise of stock options and warrants, vesting of RSUs, vesting of restricted common stock, conversion of the Company’s convertible preferred stock and convertible notes, and settlement of contingent consideration.

Segment reporting

Operating segments are defined as components of an entity for which separate financial information is available and that is regularly reviewed by the Chief Operating Decision Maker (the “CODM”) in deciding how to allocate resources to an individual segment and in assessing performance. The Company’s Chief Executive Officer is the Company’s CODM. The CODM reviews financial information presented on a global consolidated basis for purposes of making operating decisions, allocating resources, and evaluating financial performance. While the Company does have revenue from multiple products and geographies, no measures of profitability by product or geography are available, so discrete financial information is not available for each such component. As such, the Company has determined that it operates as one operating segment and one reportable segment.

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Recent accounting pronouncements

Recently adopted accounting pronouncements

On June 16, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-13, *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. ASU 2016-13 replaces the "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. For available-for-sale debt securities, entities will be required to record allowances rather than reduce the carrying amount, as they do today under the other-than-temporary impairment model. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. The Company adopted the standard on January 1, 2021 using the modified retrospective approach. The adoption of the standard did not have a material impact on the Company's consolidated financial statements, as the Company's receivables are either fully collateralized or are short term in nature and therefore less susceptible to risks and uncertainty of credit losses over extended periods of time.

On August 29, 2018, the FASB issued Accounting Standards Update No. 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40)—Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the accounting for implementation costs incurred in a hosting arrangement that is a service contract with the accounting for implementation costs incurred to develop or obtain internal-use software under Accounting Standards Codification ("ASC") 350-40, in order to determine which costs to capitalize and recognize as an asset and which costs to expense. The Company adopted the standard on January 1, 2021 using the prospective transition approach. The adoption of the standard did not have a material impact on the Company's consolidated financial statements.

On December 18, 2019, the FASB issued Accounting Standards Update No. 2019-12, *Income Taxes: Simplifying the Accounting for Income Taxes*, as part of its overall simplification initiative to reduce the costs and complexity of applying accounting standards while maintaining or improving the usefulness of the information provided to users of financial statements. Among other things, the new guidance simplifies intraperiod tax allocation and reduces the complexity in accounting for income taxes with year-to-date losses in interim periods. The Company adopted the standard on January 1, 2021. The adoption of the standard did not have a material impact on the Company's consolidated financial statements.

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On August 5, 2020, the FASB issued Accounting Standards Update No. 2020-06, *Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40)* (“ASU 2020-06”). ASU 2020-06 simplifies accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity’s own equity, by removing certain separation models that require the separation of a convertible debt instrument into a debt component and an equity or derivative component. ASU 2020-06 removes from U.S. GAAP the separation models for (1) convertible debt with a cash conversion feature and (2) convertible instruments with a beneficial conversion feature. After adoption of ASU 2020-06 entities will not separately present in equity an embedded conversion feature in such debt. Instead entities will account for a convertible debt instrument wholly as debt, and for convertible preferred stock wholly as preferred stock (i.e., as a single unit of account), unless (1) a convertible instrument contains features that require bifurcation as a derivative under ASC 815 or (2) a convertible instrument was issued at a substantial premium. ASU 2020-06 also expands disclosure requirements for convertible instruments and simplifies areas of the guidance for diluted earnings-per-share calculations that are impacted by the amendments. Under ASU 2020-06, entities must apply the more dilutive of the if-converted method and the two-class method to all convertible instruments; the treasury stock method is no longer available. ASU 2020-06 eliminates an entity’s ability to overcome the presumption of share settlement, and as a result, the issuers of convertible debt that may be settled in any combination of cash or stock at the issuer’s option, must use the more dilutive among the if-converted method and the two-class method in computing diluted net income per share, which is typically more dilutive than the net share settlement under the treasury stock method. ASU 2020-06 is effective for interim and annual periods beginning after December 15, 2021, with early adoption permitted. The Company early adopted ASU 2020-06 on January 1, 2021. The adoption of this new guidance did not have an impact on the Company’s consolidated financial statements since the Company had no existing convertible notes prior to issuance of the 2026 Convertible Notes, described below, in the second quarter of 2021. Further, the Company’s outstanding convertible preferred stock, which was converted into either Class A common stock or Class B common stock in conjunction with the Company’s Direct Listing, did not contain any beneficial conversion feature. The Company’s 2026 Convertible Notes are accounted for in accordance with this new guidance. See *Note 11. Indebtedness* for additional information.

Accounting pronouncements pending adoption

On October 28, 2021, the FASB issued Accounting Standards Update No. 2021-08, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* (“ASU 2021-08”). ASU 2021-08 amends ASC 805 to require acquiring entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination. The new standard is effective for the Company for its fiscal year beginning January 1, 2023 and interim periods within its fiscal year beginning January 1, 2023. Early adoption is permitted. The Company is evaluating the impact of adopting this standard.

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3. ACQUISITIONS

2021 Acquisitions

Bison Trails

On February 8, 2021, the Company completed the acquisition of Bison Trails Co. ("Bison Trails") by acquiring all issued and outstanding common stock and stock options of Bison Trails. Bison Trails is a platform-as-a-service company that provides a suite of easy-to-use blockchain infrastructure products and services on multiple networks to custodians, exchanges and funds.

Prior to the acquisition, the Company held a minority ownership stake in Bison Trails, which was accounted for as a cost method investment. In accordance with ASC 805, *Business Combinations*, the acquisition was accounted for as a business combination achieved in stages under the acquisition method. Accordingly, the cost method investment was remeasured to fair value as of the acquisition date. The Company considered multiple factors in determining the fair value of the previously held cost method investment, including the price negotiated with the selling shareholders and current trading multiples for comparable companies. Based on this analysis, the Company recognized an $8.8 million gain on remeasurement, which was recorded in other expense (income), net in the consolidated statement of operations on the acquisition date.

The purchase consideration was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date with the excess recorded as goodwill, none of which is expected to be deductible for tax purposes. The goodwill balance is primarily attributed to the assembled workforce, market presence, synergies, and the use of purchased technology to develop future products and technologies.

The total consideration transferred in the acquisition was $457.3 million, consisting of the following (in thousands):

Common stock of the Company	$	389,314
Previously held interest on acquisition date		10,863
Cash		28,726
Replacement of Bison Trails options		28,365
Total purchase consideration	$	457,268

Included in the purchase consideration are 496,434 shares of the Company's Class A common stock that are subject to an indemnity holdback. These shares will be released 18 months after the closing date of the transaction.

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The results of operations and the fair values of the assets acquired and liabilities assumed have been included in the consolidated financial statements as of the date of acquisition. The following table summarizes the fair values of assets acquired and liabilities assumed using a cost based approach (in thousands):

Cash and cash equivalents	$ 12,201
Crypto assets held	5,177
Accounts and loans receivable, net of allowance	2,323
Prepaid expenses and other current assets	122
Intangible assets	39,100
Goodwill	404,167
Other non-current assets	1,221
Lease right-of-use assets	808
Total assets	465,119
Accounts payable	526
Accrued expenses and other current liabilities	1,920
Lease liabilities	808
Other non-current liabilities	4,597
Total liabilities	7,851
Net assets acquired	$ 457,268

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands, except for years data):

	Fair Value	Useful Life at Acquisition (in years)
Developed technology	$ 36,000	3
In-process research and development ("IPR&D")	1,200	N/A
User base	1,900	3

The intangible assets will be amortized on a straight-line basis over their respective useful lives to Technology and development expenses for developed technology and General and administrative expenses for user base. Amortization of the IPR&D will be recognized in Technology and development expenses once the research and development is placed into service as internally developed software. Management applied significant judgment in determining the fair value of intangible assets, which involved the use of estimates and assumptions with respect to development costs and profit, costs to recreate customer relationships, market participation profit, and opportunity cost.

Total acquisition costs of $3.7 million were incurred related to the acquisition, which were recognized as an expense and included in General and administrative expenses in the consolidated statements of operations.

The impact of this acquisition was not considered significant to the Company's consolidated financial statements for the current period presented and pro forma financial information has not been provided.

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Other Acquisitions

During the year ended December 31, 2021, the Company also completed five other acquisitions that were not material individually, but were material when aggregated. In each of these acquisitions the Company acquired all issued and outstanding common stock and stock options of the acquiree.

The total purchase consideration in each acquisition was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition dates, with the excess recorded as goodwill. For each acquisition, the final allocation of purchase consideration to assets and liabilities remains in process as the Company continues to evaluate certain balances, estimates, and assumptions during the measurement period (up to one year from each acquisition's respective acquisition date). Any changes in the fair value of the assets acquired and liabilities assumed during the measurement period may result in adjustments to goodwill.

The aggregate total preliminary consideration transferred in these acquisitions was $211.0 million, consisting of the following (in thousands):

Common stock of the Company - issued	$	65,717
Common stock of the Company - to be issued		58,173
RSUs		3,019
Cash		62,425
Cash payable		5,918
Contingent consideration arrangement		15,752
Aggregate total purchase consideration	$	211,004

The aggregate purchase consideration includes 160,840 shares of the Company's Class A common stock to be issued six months after the respective acquisition date. The fair value of these shares on the acquisition date is included in Additional paid-in capital. Additionally, 51,619 shares of the Company's Class A common stock included in the aggregate purchase consideration that were issued, or to be issued, are subject to an indemnity holdback. These shares will be released between 15 and 18 months after the closing date of each transaction.

Also included in the aggregate purchase consideration is the original estimated fair value of the contingent consideration arrangement agreed to in one of the acquisitions. The contingent consideration consists of two separate tranches. The first tranche is settled one year after the closing date and may result in delivery of up to 75,534 shares of the Company's Class A common stock if specified revenue targets are met during the first year after the closing date. The second tranche is settled two years after the closing date and may result in delivery of up to another 75,534 shares of the Company's Class A common stock if specified revenue targets are met during only the second year after the closing date. For each tranche, the revenue targets are adjusted for changes in the combined Bitcoin and Ethereum market capitalization since the closing date. The total number of shares of the Company's Class A common stock issued to settle the contingent consideration arrangement would be adjusted downward in proportion to recognized revenues that do not meet the specified revenue targets.

The contingent consideration arrangement is included in Other non-current liabilities and subject to subsequent measurement at fair value with changes in fair value recognized through Other expense (income), net.

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The results of operations and the provisional fair values of the assets acquired and liabilities assumed have been included in the consolidated financial statements as of the dates of acquisition of each transaction. The following table summarizes the aggregate estimated fair values of assets acquired and liabilities assumed using a cost based approach (in thousands):

Cash and cash equivalents	$ 8,039
Accounts receivable, net of allowance	57
Prepaid expenses and other assets	276
Intangible assets	62,100
Goodwill	144,379
Total assets	214,851
Accounts payable	359
Accrued expenses and other current liabilities	983
Other non-current liabilities	2,505
Total liabilities	3,847
Net assets acquired	$ 211,004

The excess of aggregate purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill of $144.4 million, of which $77.1 million is expected to be deductible for US tax purposes based on the preliminary values. The goodwill balance is primarily attributed to the assembled workforce, market presence, synergies, and the use of purchased technology to develop future products and technologies.

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the dates of acquisition of each transaction (in thousands, except for years data):

	Fair Value	Useful Life at Acquisition (in years)
Developed technology	$ 45,900	2.5
User base	1,000	2.5
In process research and development	2,300	N/A
Customer relationships	12,900	4.3

The intangible assets will be amortized on a straight-line basis over their respective useful lives to Technology and development expenses for developed technology and General and administrative expenses for customer relationships and user base. Amortization of the IPR&D will be recognized in Technology and development expenses once the research and development is placed into service as internally developed software. Management applied significant judgment in determining the fair value of intangible assets, which involved the use of estimates and assumptions with respect to development costs and profit, costs to recreate customer relationships, market participation profit, and opportunity cost. These valuations incorporate significant unobservable inputs classified as Level 3.

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Total acquisition costs of $4.3 million were incurred related to these other acquisitions, which were recognized as expenses and included in General and administrative expenses in the consolidated statements of operations. The Company also entered into employment agreements with key employees of the acquirees, which included stock-based compensation arrangements. In conjunction with these agreements, the Company recognized $5.5 million of compensation expenses on the acquisition dates included in Technology and development expenses. Stock-based compensation arrangements offered to these key employees with vesting conditions will be recognized as compensation expense in future periods. See *Note 16. Stock-Based Compensation*, for additional details regarding stock-based compensation issued to employees.

The impact of these acquisitions were not considered significant to the Company's consolidated financial statements for the current period presented and pro forma financial information has not been provided.

2020 Acquisition

Tagomi

On July 31, 2020, the Company completed the acquisition of Tagomi Holdings, Inc. ("Tagomi"), by acquiring all issued and outstanding shares of common stock and stock options of Tagomi. Tagomi is an institutional brokerage for crypto assets and offers an end-to-end brokerage solution that caters to sophisticated traders and institutions. Tagomi operates an advanced trading platform which pools liquidity from multiple venues to offer efficient pricing, algorithmic trading, a suite of prime services (including delayed settlement and borrowing and lending of fiat currency and crypto assets), and a flexible account hierarchy and operational processes that meet the needs of institutional clients.

The total consideration transferred in the acquisition was $41.8 million, consisting of the following (in thousands):

Common stock of the Company	$ 30,589
Replacement of Tagomi options and warrants	760
Cash	1,906
Settlement of pre-existing receivable	8,537
Total purchase consideration	$ 41,792

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The following table summarizes the fair values of assets acquired and liabilities assumed as of the date of acquisition (in thousands):

Cash and cash equivalents	$ 13,777
Customer custodial funds	19,837
Crypto assets held	5,687
Accounts and loans receivable, net of allowance	5,795
Prepaid expenses and other current assets	633
Intangible assets	7,350
Goodwill	22,516
Other non-current assets	1,611
Total assets	77,206
Custodial funds due to customers	20,787
Accounts payable	5,887
Accrued expenses and other current liabilities	66
Crypto borrowings	8,674
Total liabilities	35,414
Net assets acquired	$ 41,792

The excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill of $22.5 million, which is not deductible for tax purposes. The goodwill balance is primarily attributed to the market presence, synergies, and the use of purchased technology to develop future products and technologies.

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands, except for years data):

	Fair Value	Useful Life at Acquisition (in years)
Developed technology	$ 6,600	3
Customer relationships	400	5
Licenses	350	Indefinite

The developed technology, customer relationships, and licenses represent the estimated fair value of Tagomi's trading platform, existing relationships with customers, and money transmitter licenses held, respectively. Total acquisition costs of $1.1 million were incurred related to the acquisition, which were recognized as an expense and included in General and administrative expenses in the consolidated statements of operations.

A related party of the Company was a prior equity holder of Tagomi, and as a result of the acquisition, was entitled to receive up to 264,527 shares of the Company's Class A common stock.

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4. REVENUE

Revenue recognition

The Company determines revenue recognition from contracts with customers through the following steps:

- identification of the contract, or contracts, with the customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of the revenue when, or as, the Company satisfies a performance obligation.

Revenue is recognized when control of the promised goods or services is transferred to the customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The Company primarily generates revenue through transaction fees charged on the platform.

The following table presents revenue of the Company disaggregated by revenue source (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Net revenue			
Transaction revenue			
Retail, net	$ 6,490,992	$ 1,040,246	$ 432,919
Institutional, net	346,274	55,928	30,086
Total transaction revenue	6,837,266	1,096,174	463,005
Subscription and services revenue			
Blockchain rewards	223,055	10,413	188
Custodial fee revenue	136,293	18,561	3,009
Earn campaign revenue	63,125	7,720	117
Interest income	25,835	5,535	14,414
Other subscription and services revenue	69,179	2,764	2,216
Total subscription and services revenue	517,487	44,993	19,944
Total net revenue	7,354,753	1,141,167	482,949
Other revenue			
Crypto asset sales revenue	482,550	133,688	39,863
Corporate interest and other income	2,141	2,626	10,923
Total other revenue	484,691	136,314	50,786
Total revenue	$ 7,839,444	$ 1,277,481	$ 533,735

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Transaction revenue

Retail transaction revenue represents transaction fees earned from customers that are primarily individuals, while institutional transaction revenue represents transaction fees earned from institutional customers, such as hedge funds, family offices, principal trading firms, and financial institutions on the institutional platform.

The Company's service is comprised of a single performance obligation to provide a crypto asset matching service when customers buy, sell, or convert crypto assets on the platform. That is, the Company is an agent in transactions between customers and presents revenue for the fees earned on a net basis.

Judgment is required in determining whether the Company is the principal or the agent in transactions between customers. The Company evaluates the presentation of revenue on a gross or net basis based on whether it controls the crypto asset provided before it is transferred to the customer (gross) or whether it acts as an agent by arranging for other customers on the platform to provide the crypto asset to the customer (net). The Company does not control the crypto asset being provided before it is transferred to the buyer, does not have inventory risk related to the crypto asset, and is not responsible for the fulfillment of the crypto asset. The Company also does not set the price for the crypto asset as the price is a market rate established by the platform. As a result, the Company acts as an agent in facilitating the ability for a customer to purchase crypto assets from another customer.

The Company considers its performance obligation satisfied, and recognizes revenue, at the point in time the transaction is processed. Contracts with customers are usually open-ended and can be terminated by either party without a termination penalty. Therefore, contracts are defined at the transaction level and do not extend beyond the service already provided.

The Company charges a fee at the transaction level. The transaction price, represented by the trading fee, is calculated based on volume and varies depending on payment type and the value of the transaction. Crypto asset purchase or sale transactions executed by a customer on the Company's platform is based on tiered pricing that is driven primarily by transaction volume processed for a specific historical period. The Company has concluded that this volume-based pricing approach does not constitute a future material right since the discount is within a range typically offered to a class of customers with similar volume. The transaction fee is collected from the customer at the time the transaction is executed. In certain instances, the transaction fee can be collected in crypto assets, with revenue measured based on the amount of crypto assets received and the fair value of the crypto assets at the time of the transaction.

The transaction price includes estimates for reductions in revenue from transaction fee reversals that may not be recovered from customers. Such reversals occur when the customer disputes a transaction processed on their credit card or their bank account for a variety of reasons and seeks to have the charge reversed after the Company has processed the transaction. These amounts are estimated based upon the most likely amount of consideration to which the Company will be entitled. All estimates are based on historical experience and the Company's best judgment at the time to the extent it is probable that a significant reversal of revenue recognized will not occur. All estimates of variable consideration are reassessed periodically. The total transaction price is allocated to the single performance obligation. While the Company recognizes transaction fee reversals as a reduction of net revenue, crypto asset losses related to those same transaction reversals are included in Transaction expense.

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Blockchain rewards

The Company generates revenues in crypto assets through various blockchain protocols where the Company controls the staking validator address. These blockchain protocols, or the participants that form the protocol networks, reward users for performing various activities on the blockchain, such as participating in proof-of-stake networks and other consensus algorithms. The Company considers itself the principal in transactions with the blockchain networks, and therefore presents such blockchain rewards earned on a gross basis. Blockchain rewards are primarily comprised of Staking revenue in which the Company participates in networks with proof-of-stake consensus algorithms, through creating or validating blocks on the network using the staking validators that it controls. In exchange for participating in the consensus mechanism of these networks, the Company earns rewards in the form of the native token of the network. Each block creation or validation is a performance obligation. Revenue is recognized at the point when the block creation or validation is complete and the rewards are transferred into a digital wallet that the Company controls. Revenue is measured based on the number of tokens received and the fair value of the token at contract inception. Staking revenue does not include revenue from delegation services that are offered as part of Coinbase Cloud, which are included in Other subscription and services revenue.

Custodial fee revenue

The Company provides a dedicated secure cold storage solution to customers and earns a fee, which is based on a contractual percentage of the daily value of assets under custody. The fee is collected on a monthly basis. These contracts typically have one performance obligation which is provided and satisfied over the term of the contracts as customers simultaneously receive and consume the benefits of the services. The contract may be terminated by a customer at any time, without incurring a penalty. Customers are billed on the last day of the month during which services were provided, with the amounts being due within thirty days of receipt of the invoice. Amounts receivable from customers for custodial fee revenue, net of allowance, were $22.4 million and $4.4 million as of December 31, 2021 and December 31, 2020, respectively. The allowance recognized against these fees was not material for any of the periods presented.

Earn campaign revenue

The Company provides a platform for crypto asset issuers, the customer, to engage with the Company's retail users and teach them about new crypto assets through the use of educational tools, videos, and tutorials. In exchange for completing a task, such as watching the video or downloading an application, retail users may be eligible to receive crypto assets from the crypto asset issuer. The Company is the agent with respect to the delivery of the crypto assets. The Company earns a commission from the crypto asset issuer based on the amount of crypto assets that are distributed to users.

Interest income and corporate interest and other income

The Company holds customer custodial funds and cash and cash equivalents at certain third-party banks which earn interest. The Company also earns interest income under a revenue sharing arrangement and on loans granted to retail and institutional users. Interest income is calculated using the interest method and is not within the scope of Topic 606 – *Revenue from Contracts with Customers.* Interest earned on customer custodial funds, revenue sharing, and loans is included in interest income within subscription and services revenue. Interest earned on cash and cash equivalents is included in corporate interest and other income, within other revenue.

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Other subscription and services revenue

Other subscription and services revenue primarily includes revenue from Coinbase Cloud, which includes staking application, delegation, and infrastructure services, as well as revenue from subscription licenses. Generally, these contracts with customers contain one performance obligation, may have variable and non-cash consideration, and are satisfied at a point in time or over the period that services are provided.

Other revenue

Other revenue includes the sale of crypto assets and corporate interest and other income. Periodically, as an accommodation to customers, the Company may fulfill customer transactions using the Company's own crypto assets held for operating purposes. The Company has custody and control of the crypto assets prior to the sale to the customer and records revenue at the point in time when the sale to the customer is processed. Accordingly, the Company records the total value of the sale in other revenue and the cost of the crypto assets in Other operating expense, net within the consolidated statements of operations. The cost of crypto assets used in fulfilling customer transactions was $436.0 million, $131.9 million and $38.6 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Related party transactions

Certain of the Company's directors, executive officers, and principal owners, including immediate family members, are users of the Company's platform. The Company recognized revenue with related parties of $29.1 million, $3.4 million and $0.7 million for the years ended December 31, 2021, 2020 and 2019, respectively. As of December 31, 2021 and December 31, 2020, amounts receivable from related parties were $4.5 million and $0.6 million, respectively.

Revenue by geographic location

In the table below are the revenues disaggregated by geography, based on domicile of the customer or booking location, as applicable (in thousands):

	Year Ended December 31,		
	2021	2020	2019
United States	$ 6,339,270	$ 966,153	$ 417,260
Rest of the World[(1)]	1,500,174	311,328	116,475
Total revenue	$ 7,839,444	$ 1,277,481	$ 533,735

(1) No other individual country accounted for more than 10% of total revenue

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5. ACCOUNTS AND LOANS RECEIVABLE, NET OF ALLOWANCE

Accounts and loans receivable, net of allowance consisted of the following (in thousands):

	December 31,	
	2021	2020
In-transit customer receivables	$ 102,720	$ 90,571
Trade finance receivables	1,865	66,326
Custodial fee revenue receivable	23,727	4,636
Loans receivable[1]	218,461	6,790
Interest and other receivables	73,803	23,309
Allowance for doubtful accounts[2]	(24,551)	(2,161)
Total accounts and loans receivable, net of allowance	$ 396,025	$ 189,471

(1) The fair value of collateral held as security exceeded the outstanding loans receivable as of December 31, 2021 and December 31, 2020, so no allowance was recorded.
(2) Includes provision for transaction losses of $16.8 million and $1.3 million as of December 31, 2021 and December 31, 2020, respectively.

Loans receivable

The Company grants loans to retail users and institutions. As of December 31, 2021 and December 31, 2020, the Company had granted loans with an outstanding balance of $218.5 million and $6.8 million, respectively. The related interest receivable on the loans as of December 31, 2021 and December 31, 2020, was $1.3 million and less than $0.1 million, respectively.

The amounts loaned are collateralized with the crypto assets held by the borrower in their crypto asset wallet on the Company's platform. The Company does not have the right to use such collateral unless the borrower defaults on the loans. The Company's credit exposure is significantly limited and no allowance was recorded against these loans receivable. Loans receivable are measured at amortized cost. The carrying value of the loans approximates their fair value. As of December 31, 2021 and December 31, 2020, there were no loans receivable past due.

6. LEASES

The Company has operating leases for corporate offices. The leases have remaining lease terms of less than one year to five years. The leases generally contain options to extend or terminate the lease. However, these were not included in determining the lease terms as the Company is not reasonably certain to exercise those options. The Company rents or subleases certain of these corporate offices to third parties. The Company recognized sublease income of $6.7 million, $6.6 million and $2.8 million for the years ended December 31, 2021, 2020 and 2019, respectively. The remaining terms of these subleases range from ten months to three years.

The components of lease cost were as follows (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Operating lease cost	$ 34,074	$ 30,231	$ 17,421
Short-term lease cost	374	358	3,031
Total lease cost	$ 34,448	$ 30,589	$ 20,452

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Other information related to leases was as follows as of:

	December 31, 2021	December 31, 2020
Weighted-average remaining lease term (in years)	2.0	4.1
Weighted-average discount rate	3.02 %	4.62 %

The interest rate used to determine the present value of the future lease payments is the Company's incremental borrowing rate because the interest rate implicit in the leases is not readily determinable. The Company's incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located.

Maturities of lease liabilities were as follows (in thousands):

2022	$ 36,268
2023	35,266
2024	32,630
2025	9,036
2026	792
Thereafter	—
Total lease payments	113,992
Less imputed interest	(7,548)
Total	$ 106,444

430 California office space

In September 2020, the Company renegotiated the terms of its office space lease in San Francisco, California, which included a partial give back of space for which the lease had not yet commenced. The terms of the agreement provided that the Company would pay a cancellation fee of $7.9 million and commit to enter into leases at the lessor's other properties, with a minimum committed spend of $15.5 million spread over the period from September 2020 to December 31, 2025.

7. PROPERTY AND EQUIPMENT, NET

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

	December 31, 2021	December 31, 2020
Furniture and fixtures	$ 7,307	$ 7,161
Construction in progress	535	358
Computers and equipment	3,542	2,815
Leasehold improvements	43,048	40,589
Capitalized software	47,044	22,815
Total cost	101,476	73,738
Accumulated depreciation and amortization	(42,246)	(24,488)
Total, net	$ 59,230	$ 49,250

Depreciation and amortization expense was $18.4 million, $14.3 million, and $7.2 million for the years ended December 31, 2021, 2020 and 2019, respectively. Total additions to capitalized software were $22.2 million, $12.1 million and $9.5 million for the years ended December 31, 2021, 2020 and 2019, respectively.

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Long-lived assets, which consisted of property and equipment, net and operating lease ROU assets, by geography were as follows (in thousands):

	December 31, 2021	December 31, 2020
United States	$ 145,203	$ 148,199
Rest of the World[(1)]	12,412	1,896
Total long-lived assets	$ 157,615	$ 150,095

(1) No other individual country accounted for more than 10% of total long-lived assets.

8. GOODWILL AND INTANGIBLE ASSETS, NET

Goodwill

The following table reflects the changes in the carrying amount of goodwill (in thousands):

	Year Ended December 31, 2021	Year Ended December 31, 2020
Balance, beginning of period	$ 77,212	$ 54,696
Additions due to business combinations	548,546	22,516
Balance, end of period	$ 625,758	$ 77,212

There was no impairment recognized against goodwill at the beginning or end of the periods presented.

Intangible assets

Intangible assets consisted of the following (in thousands, except years data):

As of December 31, 2021	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net	Weighted Average Remaining Useful Life (in years)
Amortizing intangible assets				
Acquired developed technology	$ 100,908	$ (34,865)	$ 66,043	1.97
User base	2,997	(1,020)	1,977	1.75
Customer relationships	79,491	(27,789)	51,702	3.68
Non-compete agreement	2,402	(1,161)	1,241	2.58
Assembled workforce	60,800	(8,324)	52,476	1.43
In-process research and development[(1)]	3,000	—	3,000	N/A
Indefinite-lived intangible assets				
Domain name	250	—	250	N/A
Crypto assets held[(2)]	988,193	—	988,193	N/A
Total	$ 1,238,041	$ (73,159)	$ 1,164,882	

(1) Amortization begins once the technology is placed in service. IPR&D is expected to have a useful life of three years.
(2) Crypto assets held as of December 31, 2021 includes $38.1 million of crypto assets loaned to customers under the trade finance receivables settlement arrangements as these did not meet the criteria for derecognition.

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As of December 31, 2020	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net	Weighted Average Remaining Useful Life (in years)
Amortizing intangible assets				
Acquired developed technology	$ 20,708	$ (13,024)	$ 7,684	2.09
Customer relationships	66,591	(15,771)	50,820	4.58
Trade name	30	(30)	—	0
Non-compete agreement	2,402	(681)	1,721	3.58
Indefinite-lived intangible assets				
Domain name	250	—	250	N/A
Licenses	350	—	350	N/A
Crypto assets held	316,094	—	316,094	N/A
Total	$ 406,425	$ (29,506)	$ 376,919	

Amortization expense of intangible assets was $45.3 million, $16.7 million and $9.7 million for the years ended December 31, 2021, 2020 and 2019, respectively. The Company estimates that there is no significant residual value related to its amortizing intangible assets. During the years ended December 31, 2021, 2020 and 2019, the Company recorded impairment charges of $0.5 million, $0 and $1.6 million, respectively, related to its intangible assets, excluding crypto assets held. Impairment expense is included in Other operating expense, net in the consolidated statements of operations.

Crypto assets held are accounted for as an indefinite-lived intangible asset. Thus, unless they are designated as hedged items in fair value hedges, crypto assets are recognized at cost and subject to impairment losses if the fair value of crypto assets decreases below the carrying value at any time during the period. Impairment losses cannot be recovered for any subsequent increase in fair value until the sale or disposal of the asset. The Company recorded gross impairment charges of $329.2 million, $8.4 million and $0.7 million during the years ended December 31, 2021, 2020 and 2019, respectively, due to the observed market price of crypto assets decreasing below the carrying value at some point during the period. The Company partially recovered impairments recorded during the period through both subsequent crypto asset sales and disposals. Impairment charges of $119.4 million relate to the crypto assets still held as of December 31, 2021. Impairment expense is included in Other operating expense, net in the consolidated statements of operations.

Crypto assets borrowed that have been designated as hedged items in fair value hedges are initially measured at cost. Subsequent changes in fair value attributable to the hedged risk are adjusted to the carrying amount of these crypto assets, with changes in fair value recorded in Other operating expense, net in the consolidated statements of operations. See *Note 12. Derivatives*, for additional details regarding crypto assets designated as hedged items in fair value hedges.

Crypto assets held consisted of the following (in thousands):

	December 31, 2021	December 31, 2020
Crypto assets held as investments	$ 209,415	$ 24,438
Crypto assets held for operating purposes	357,093	37,830
Crypto assets borrowed	421,685	253,826
Total crypto assets held	$ 988,193	$ 316,094

See *Note 13. Fair Value Measurements*, for additional details regarding the carrying value of the Company's crypto assets held.

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The expected future amortization expense for intangible assets other than IPR&D as of December 31, 2021 is as follows (in thousands):

2022	$ 88,982
2023	58,034
2024	14,591
2025	9,694
2026	2,138
Thereafter	—
Total expected future amortization expense	$ 173,439

9. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other current assets and other non-current assets consisted of the following (in thousands):

	December 31, 2021	December 31, 2020
Prepaid expenses and other current assets		
Prepaid expenses	$ 123,246	$ 36,218
Warrant to purchase crypto assets	—	2,575
Deposits	9,658	—
Other	2,945	717
Total prepaid expenses and other current assets	$ 135,849	$ 39,510
Other non-current assets		
Equity method investments	$ 1,463	$ 2,000
Strategic investments	363,950	26,146
Deferred tax assets	573,547	20,807
Deposits	13,347	68,287
Total other non-current assets	$ 952,307	$ 117,240

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Strategic investments

The Company makes strategic investments in various companies and technologies through Coinbase Ventures, the Company's venture capital arm. Strategic investments primarily include equity investments in privately held companies without readily determinable fair values where the Company (1) holds less than 20% ownership in the entity, and (2) does not exercise significant influence. These investments are recorded at cost and adjusted for observable transactions for same or similar investments of the same issuer (referred to as the measurement alternative) and impairment. The components of strategic investments accounted for under the measurement alternative included in the table above are presented below (in thousands):

	December 31,	
	2021	2020
Carrying amount, beginning of period	$ 26,146	$ 15,599
Net additions[1]	320,316	9,687
Upward adjustments	8,019	1,307
Previously held interest in Bison Trails (see Note 3)	(2,000)	—
Impairments and downward adjustments	(50)	(447)
Carrying amount, end of period[2]	$ 352,431	$ 26,146

(1) Net additions include additions from purchases and reductions due to exits of securities and reclassifications due to changes to capital structure.
(2) Excludes $11.5 million of strategic investments that are not accounted for under the measurement alternative.

Upward adjustments, impairments, and downward adjustments from remeasurement of investments are included in Other expense (income), net in the consolidated statements of operations. As of December 31, 2021, cumulative upward adjustments were $4.6 million and cumulative impairments and downward adjustments were $0.5 million. As of December 31, 2020, cumulative upward adjustments and impairments and downward adjustments were $1.6 million and $0.5 million, respectively.

During the year ended December 31, 2021, the Company invested an aggregate of $203.1 million in investees in which certain related parties of the Company held an interest over 10%. During the year ended December 31, 2020, the Company invested an aggregate of $0.5 million in investees of which certain related parties of the Company held an interest over 10%.

10. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	December 31,	
	2021	2020
Accrued expenses	$ 195,810	$ 33,987
Accrued payroll and payroll related	146,313	23,403
Income taxes payable	4,553	5,805
Other payables	92,883	25,588
Total accrued expenses and other current liabilities	$ 439,559	$ 88,783

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11. INDEBTEDNESS

Convertible Senior Notes

In May 2021, the Company issued an aggregate principal amount of $1.44 billion of convertible senior notes due in 2026 (the “2026 Convertible Notes”) pursuant to an indenture, dated May 18, 2021 (the “Convertible Notes Indenture”), between the Company and U.S. Bank National Association, as trustee. The 2026 Convertible Notes were offered and sold in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”).

The 2026 Convertible Notes are senior unsecured obligations of the Company and bear interest at a rate of 0.5% per year payable semi-annually in arrears on June 1 and December 1 of each year, beginning on December 1, 2021. The 2026 Convertible Notes mature on June 1, 2026, unless earlier converted, redeemed or repurchased. The proceeds received of $1.42 billion were net of a 1% original issue discount.

The initial conversion rate and conversion rate as of December 31, 2021 for the 2026 Convertible Notes is 2.6994 shares of the Company's Class A common stock per $1,000 principal amount of 2026 Convertible Notes, which is equivalent to an initial conversion price of approximately $370.45 per share of the Class A common stock. The conversion rate and conversion price are subject to customary adjustments under certain circumstances in accordance with the terms of the Convertible Notes Indenture.

The 2026 Convertible Notes will be convertible at the option of the holders before December 1, 2025 only upon the occurrence of certain events, and from and after December 1, 2025, at any time at their election until the close of business on the second scheduled trading day immediately preceding June 1, 2026, only under certain circumstances. Upon conversion, the Company may satisfy its conversion obligation by paying or delivering, as applicable, cash, shares of the Company’s Class A common stock or a combination of cash and shares of the Company’s Class A common stock, at the Company’s election, based on the applicable conversion rate. In addition, if certain corporate events that constitute a make-whole fundamental change (as defined in the Convertible Notes Indenture) occur, then the conversion rate will, in certain circumstances, be increased for a specified period of time. Additionally, in the event of a corporate event constituting a fundamental change (as defined in the Convertible Notes Indenture), holders of the 2026 Convertible Notes may require the Company to repurchase all or a portion of their 2026 Convertible Notes at a repurchase price equal to 100% of the principal amount of the 2026 Convertible Notes being repurchased, plus accrued and unpaid special interest or additional interest, if any, to, but excluding, the date of the fundamental change repurchase.

The Company accounted for the 2026 Convertible Notes wholly as debt because (1) the conversion features do not require bifurcation as a derivative under ASC 815 and (2) the 2026 Convertible Notes were not issued at a substantial premium.

Discounts on the 2026 Convertible Notes reflect a 1% original issue discount of $14.4 million and debt issuance costs related to the 2026 Convertible Notes of $19.4 million, which include commissions payable to the initial purchasers and third-party offering costs. As of December 31, 2021, the outstanding aggregate principal balance of the 2026 Convertible Notes and the related unamortized discounts were $1.44 billion and $29.4 million, respectively.

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Capped Calls

On May 18, 2021, in connection with the pricing of the 2026 Convertible Notes, the Company entered into privately negotiated capped call transactions (the “Capped Calls”) with certain financial institutions (the "option counterparties") at a cost of $90.1 million. The Capped Calls cover, subject to customary adjustments, the number of shares of the Company’s Class A common stock initially underlying the 2026 Convertible Notes. By entering into the Capped Calls, the Company expects to reduce the potential dilution to its Class A common stock (or, in the event a conversion of the 2026 Convertible Notes is settled in cash, to reduce its cash payment obligation) in the event that at the time of conversion of the 2026 Convertible Notes its Class A common stock price exceeds the conversion price of the 2026 Convertible Notes. The Capped Calls have an initial strike price of approximately $370.45 per share of Class A common stock and an initial cap price of approximately $478.00 per share of Class A common stock.

The Capped Calls meet the criteria for classification in equity, are not remeasured each reporting period and are included as a reduction to Additional paid-in capital within stockholders’ equity.

Senior Notes

In September 2021, the Company completed the issuance of an aggregate principal amount of $1.0 billion of Senior Notes due on October 1, 2028 (the “2028 Senior Notes”) and an aggregate principal amount of $1.0 billion of Senior Notes due on October 1, 2031 (the “2031 Senior Notes” and together with the 2028 Senior Notes, the “Senior Notes”). The Senior Notes were issued within the United States only to persons reasonably believed to be qualified institutional buyers pursuant to Rule 144A under the Securities Act, and outside the United States to non-U.S. persons pursuant to Regulation S under the Securities Act. The Company issued the Senior Notes at par and paid approximately $24.0 million in total debt issuance costs, which includes commissions payable to the initial purchasers and third-party offering costs. Interest on the Senior Notes is payable semi-annually in arrears on April 1 and October 1 of each year, beginning on April 2022 at 3.375% per annum for the 2028 Senior Notes and 3.625% per annum for the 2031 Notes. The entire principal amount of the Senior Notes is due at the time of maturity, unless repurchased or redeemed at an earlier date. The Senior Notes were issued pursuant to an indenture, dated September 17, 2021 (the “Senior Notes Indenture”), among the Company, the Guarantor (as defined below) and U.S. Bank National Association, as trustee.

The Senior Notes are redeemable at the Company’s discretion, in whole or in part, at any time. If redeemed prior to October 1, 2024 for the 2028 Senior Notes and October 1, 2026 for the 2031 Senior Notes, the redemption price is subject to a make-whole premium calculated by reference to then-current U.S. Treasury rates plus a fixed spread, plus any accrued and unpaid interest. If redeemed on or after those respective dates, the make-whole premium does not apply.

In addition, prior to October 1, 2024, the Company may redeem up to 40% of the aggregate principal amount of the Senior Notes with net cash proceeds from certain equity offerings at a redemption price equal to 103.375% of the principal amount of the 2028 Senior Notes to be redeemed and 103.625% of the principal amount of the 2031 Senior Notes to be redeemed, in each case, plus any accrued and unpaid interest. Upon the occurrence of a change of control triggering event (as defined in the Senior Notes Indenture), the Company must offer to repurchase each series of Senior Notes at a repurchase price equal to 101% of the principal amount of the Senior Notes to be repurchased, plus any accrued and unpaid interest, to, but excluding, the applicable repurchase date.

The Senior Notes are guaranteed by one of the Company’s domestic subsidiaries, Coinbase, Inc. (the “Guarantor”). Further, the indenture governing the Senior Notes contains customary covenants that restrict the ability of the Company and certain of its subsidiaries to incur debt and incur liens. The Company is not aware of any instances of any non-compliance with the covenants as of December 31, 2021.

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As of December 31, 2021, the outstanding aggregate principal balance of the 2028 Senior Notes and the related unamortized discounts were $1.0 billion and $11.6 million, respectively. As of December 31, 2021, the outstanding aggregate principal balance of the 2031 Senior Notes and the related unamortized discounts were $1.0 billion and $11.7 million, respectively.

Interest

The following table summarizes the 2026 Convertible Notes, the 2028 Senior Notes and the 2031 Senior Notes (in thousands, except percentages):

		Year Ended December 31, 2021		
Indebtedness	Effective interest rate	Coupon interest expense	Amortization of debt discounts and debt issuance costs	Total interest expense
2026 Convertible Notes	0.98 %	$ 4,230	$ 4,311	$ 8,541
2028 Senior Notes	3.57 %	9,732	435	10,167
2031 Senior Notes	3.77 %	10,167	285	10,452
Total		$ 24,129	$ 5,031	$ 29,160

Discounts are amortized to interest expense using the effective interest method over the contractual term of the respective note. Interest expense is included in Other expense (income), net in the consolidated statements of operations.

12. DERIVATIVES

The Company's crypto asset borrowings are accounted for as hybrid instruments, with a liability host contract that contains an embedded derivative based on the changes in the fair value of the underlying crypto asset. The host contract is not accounted for as a debt instrument because it is not a financial liability. The embedded derivative is accounted for at fair value, with changes in fair value recognized in Other operating expense, net in the consolidated statements of operations. The liability host contracts and embedded derivatives are included in Crypto asset borrowings in the consolidated balance sheets.

For risk management purposes, the Company applies hedge accounting using the embedded derivatives in qualifying fair value hedges to primarily hedge the fair value exposure of crypto asset prices. For qualifying fair value hedges, the changes in the fair value of the derivative and the fair value of the hedged item, the crypto assets, are recognized in current-period earnings in Other operating expense, net in the consolidated statements of operations. Derivative amounts affecting earnings are recognized in the same line item as the earnings effect of the hedged item.

During the year ended December 31, 2021, the Company provided services for which, under the contract, the customer pays in crypto assets. The amount of crypto assets are fixed at the time of invoicing. The right to receive fixed amounts of crypto assets consists of a receivable host contract and an embedded forward contract to purchase crypto assets. The host contract is initially measured based on the fair value of the crypto assets at contract inception, along with an embedded derivative with an initial fair value of zero. The embedded derivative is subsequently measured at fair value, with changes in fair value recognized in Other operating expense, net in the consolidated statements of operations. The receivable host contract and embedded derivative are included in Accounts and loans receivable, net of allowance in the consolidated balance sheets.

During the year ended December 31, 2020, the Company also entered into a warrant to purchase crypto assets from the respective crypto asset issuer. This contract was accounted for as a derivative at fair value, with changes in fair value recognized in Other operating expense, net in the consolidated statements of operations. The warrant was included in Prepaid expenses and other current assets in the consolidated balance sheet. The warrant was exercised in 2021.

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Notional amount of derivative contracts

The following table summarizes the notional amount of derivative contracts outstanding, in native units.

	December 31, 2021	December 31, 2020
Crypto asset borrowings with embedded derivatives:		
BTC	8,001	9,305
ETH	10,506	3,000
ICP	750,000	—
XRP	—	1,500,000
Warrant to purchase crypto assets:		
UNI	—	800,000

The following tables summarize information on derivative assets and liabilities that are reflected in the consolidated balance sheets, by accounting designation (in thousands):

	Gross derivative assets			Gross derivative liabilities		
December 31, 2021	Not designated as hedges	Designated as hedges	Total derivative assets	Not designated as hedges	Designated as hedges	Total derivative liabilities
Crypto asset borrowings with embedded derivatives	$ —	$ 336,396	$ 336,396	$ —	$ 93,616	$ 93,616
Accounts receivable denominated in crypto assets	9,033	—	9,033	—	—	—
Total fair value of derivative assets and liabilities	$ 9,033	$ 336,396	$ 345,429	$ —	$ 93,616	$ 93,616

	Gross derivative assets			Gross derivative liabilities		
December 31, 2020	Not designated as hedges	Designated as hedges	Total derivative assets	Not designated as hedges	Designated as hedges	Total derivative liabilities
Crypto asset borrowings with embedded derivatives	$ —	$ —	$ —	$ 12,696	$ 114,395	$ 127,091
Warrant to purchase crypto assets	2,575	—	2,575	—	—	—
Total fair value of derivative assets and liabilities	$ 2,575	$ —	$ 2,575	$ 12,696	$ 114,395	$ 127,091

Fair value hedge gains and losses

The following table presents derivative instruments used in fair value hedge accounting relationships, as well as pre-tax gains (losses) recorded on such derivatives and the related hedged items (in thousands):

	Gains (losses) recorded in income					
	Year ended December 31, 2021			Year ended December 31, 2020		
	Derivatives	Hedged items	Income statement impact	Derivatives	Hedged items	Income statement impact
Crypto asset borrowings with embedded derivatives	$ 87,730	$ (70,577)	$ 17,153	$ (114,395)	$ 113,102	$ (1,293)

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The following amounts were recorded in the consolidated balance sheets related to certain cumulative fair value hedge basis adjustments that are expected to reverse through the consolidated statements of operations in future periods as an adjustment to Other operating expense, net (in thousands):

		Cumulative amount of fair value hedging adjustments included in the carrying amount of hedged items		
December 31, 2021	**Carrying amount of the hedged items**	**Active hedging relationships**	**Discontinued hedging relationships**	**Total**
Crypto assets held	$ 421,685	$ (240,771)	$ —	$ (240,771)

		Cumulative amount of fair value hedging adjustments included in the carrying amount of hedged items		
December 31, 2020	**Carrying amount of the hedged items**	**Active hedging relationships**	**Discontinued hedging relationships**	**Total**
Crypto assets held	$ 247,735	$ 113,102	$ —	$ 113,102

Crypto asset borrowings

The carrying value of the outstanding host contracts as of December 31, 2021 and December 31, 2020 was $669.4 million and $144.2 million, respectively. The fair value of the embedded derivative assets and liabilities as of December 31, 2021 was $336.4 million and $93.6 million, respectively. The fair value of the embedded derivative assets and liabilities as of December 31, 2020 was $0 and $127.1 million, respectively. Of the outstanding host contracts and embedded derivative liabilities, as of December 31, 2021, $1.3 million and $0.5 million were due to a related party, respectively.

During the year ended December 31, 2021 and December 31, 2020, the fees on these borrowings ranged from 0.0% to 10.0% and 1.7% to 10.0%, respectively. During the year ended December 31, 2021 and December 31, 2020, the Company incurred $11.8 million and $2.6 million of borrowing fees in crypto assets, respectively. These borrowing fees are included in Other operating expense, net in the consolidated statements of operations.

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13. FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the Company's assets and liabilities measured and recorded at fair value on a recurring basis (in thousands):

	December 31, 2021				December 31, 2020			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash and cash equivalents[1]	$ 4,813,621	$ —	$ —	$ 4,813,621	$ 212,818	$ —	$ —	$ 212,818
Customer custodial funds[2]	3,566,072	—	—	3,566,072	1,171,274	—	—	1,171,274
Crypto assets held[3]	—	421,685	—	421,685	—	247,735	—	247,735
Derivative assets[4][5]	—	345,429	—	345,429	—	—	2,575	2,575
Total assets	$ 8,379,693	$ 767,114	$ —	$ 9,146,807	$ 1,384,092	$ 247,735	$ 2,575	$ 1,634,402
Liabilities								
Derivative liabilities[5]	$ —	$ 93,616	$ —	$ 93,616	$ —	$ 127,091	$ —	$ 127,091
Contingent consideration arrangement	—	—	14,828	14,828	—	—	—	—
Total liabilities	$ —	$ 93,616	$ 14,828	$ 108,444	$ —	$ 127,091	$ —	$ 127,091

(1) Excludes corporate cash of $2.3 billion and $849.0 million held in deposit at financial institutions and crypto asset trading venues and not measured and recorded at fair value as of December 31, 2021 and December 31, 2020, respectively.
(2) Excludes customer custodial funds of $7.0 billion and $2.6 billion held in deposit at financial institutions and not measured and recorded at fair value as of December 31, 2021 and December 31, 2020, respectively.
(3) Includes crypto assets held that have been designated as hedged items in fair value hedges and excludes crypto assets of $566.5 million and $68.4 million held at cost as of December 31, 2021 and December 31, 2020, respectively.
(4) Level 3 derivative assets represent a warrant to purchase crypto assets, which are included in Prepaid expenses and other current assets in the consolidated balance sheets.
(5) Excludes crypto asset borrowings of $669.4 million and $144.2 million, representing the host liability contract which is not measured and recorded at fair value as of December 31, 2021 and December 31, 2020, respectively. Additionally, excludes the host contract of $17.4 million related to accounts receivable denominated in crypto assets as of December 31, 2021.

The Company did not make any transfers between the levels of the fair value hierarchy during the years ended December 31, 2021 and December 31, 2020.

Level 3 derivative asset

The following table presents a reconciliation of the derivative asset measured at fair value on a recurring basis using significant unobservable inputs (in thousands):

	Year Ended December 31,	
	2021	2020
Balance, beginning of period	$ 2,575	$ —
Change in fair value	14,757	2,575
Exercise of warrant	(17,332)	—
Balance, end of period	$ —	$ 2,575

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The derivative asset balance was included in Prepaid expenses and other current assets in the consolidated balance sheet. The derivative asset was represented by a warrant agreement to purchase crypto assets from asset issuers. Upon exercise of the warrant, the underlying crypto assets were subject to transfer and sale restrictions, and vested over periods of between one to four years. The fair value of the warrant was based on the number of crypto assets to be received upon exercise, the fair value of the crypto assets, and a discount for lack of marketability due to the underlying restriction on the crypto assets. The discount for lack of marketability was estimated using the Finnerty and Asian put option models. The fair value adjustments were included in Other operating expense, net in the consolidated statements of operations. The following significant unobservable inputs were used:

	Year Ended December 31,	
	2021	2020
Discount rate	0.01% - 0.15%	0.07% - 0.12%
Historical volatility of comparable crypto assets	105% - 175%	90% - 125%

Level 3 contingent consideration arrangement liability

The following table presents a reconciliation of the contingent consideration arrangement measured at fair value on a recurring basis using significant unobservable inputs (in thousands):

	Year Ended December 31,	
	2021	2020
Balance, beginning of period	$ —	$ 12,924
Fair value recorded in connection with acquisition	15,752	—
Change in fair value	(924)	3,281
Settlement	—	(16,205)
Balance, end of period	$ 14,828	$ —

On August 27, 2020, the Company issued 690,756 shares of its Class A common stock to settle a certain contingent consideration arrangement pursuant to the terms of the arrangement.

The Company's contingent consideration arrangements were included in Other non-current liabilities and changes in fair value are recognized through Other expense (income), net.

During the year ended December 31, 2021, the estimated fair value of the contingent consideration arrangement was determined using the Monte Carlo simulation method and applying a risk-adjusted discount rate to the expected payoff on each of the settlement dates. The expected payoff was determined by forecasting revenues for the acquired entity and simulating changes to the price of the Company's Class A common stock, as well as BTC and ETH market capitalization, using a risk-neutral Geometric Brownian Motion path. The simulations also utilized the estimated volatility of and correlation between these variables. During the year ended December 31, 2020, the fair value of the contingent consideration arrangement was based on the fair value of the number of shares of the Company's Class A common stock that were expected to be issued. The fair value of the contingent consideration was based on significant inputs not observable in the market and as such, incorporates Level 3 inputs. The following significant unobservable inputs were used:

	Year Ended December 31,	
	2021	2020
Discount rate	30.0 %	17.5 %
Volatility of forecasted revenues	146.1 %	N/A
Long-term growth rate	N/A	3.0 %
Revenue growth rate	N/A	3% - 61%

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Assets and liabilities measured and recorded at fair value on a non-recurring basis

The Company's non-financial assets, such as goodwill, intangible assets, property and equipment, and crypto assets held but not designated in hedging relationships are adjusted to fair value when an impairment charge is recognized. The Company's strategic investments are also measured at fair value on a non-recurring basis. Such fair value measurements are based predominantly on Level 3 inputs. Fair value of crypto assets held are predominantly based on Level 2 inputs.

Financial assets and liabilities not measured and recorded at fair value

The Company's financial instruments, including cash, restricted cash, certain customer custodial funds, USDC, and custodial funds due to customers are classified as Level 1 and carried at amortized cost, which approximates their fair value. The loans receivable are classified as Level 3 and are carried at amortized cost, which approximates their fair value.

The Company estimates the fair value of its 2026 Convertible Notes and Senior Notes based on quoted prices in markets that are not active, which is considered a Level 2 valuation input. As of December 31, 2021, the estimated fair value of the 2026 Convertible Notes and Senior Notes were $1.54 billion and $1.86 billion, respectively.

14. CONVERTIBLE PREFERRED STOCK

On April 1, 2021, in anticipation of the Direct Listing and following a vote by the requisite holders of the convertible preferred stock, all outstanding shares of the Company's convertible preferred stock were converted into 8,556,952 shares of the Company's Class A common stock and 103,850,006 shares of the Company's Class B common stock. Effective immediately following the conversion, the Company amended and restated its certificate of incorporation (the "Restated Certificate of Incorporation") to authorize 500,000,000 shares of undesignated preferred stock. See *Note 15. Common Stock* for additional details. The Company's board of directors (the "Board") has the authority to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders.

As of December 31, 2021, there were no shares of convertible preferred stock issued and outstanding.

A summary of the Company's authorized, issued, and outstanding shares of convertible preferred stock as of December 31, 2020, is presented in the following table (in thousands, except per share data).

	As of December 31, 2020				
	Shares Authorized	Shares Issued and Outstanding	Original Issue Price per Share	Liquidation Preference	Carrying Value
FF Preferred	5,739	5,739	$ —	$ —	$ 11
Series A	30,929	27,349	0.19721	5,394	4,946
Series B	25,416	21,831	1.00676	21,978	19,228
Series C	32,542	31,656	2.76488	87,525	83,146
Series D	17,471	17,471	8.25390	144,205	135,738
Series E	14,508	8,832	36.19220	319,648	319,398
	126,605	112,878		$ 578,750	$ 562,467

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The change in the number of outstanding shares of convertible preferred stock per class was as follows (in thousands):

	Series FF	Series A	Series B	Series C	Series D	Series E
Balance at January 1, 2021	5,739	27,349	21,831	31,656	17,471	8,832
Conversion to Class A common stock	—	(117)	—	(36)	(43)	(8,832)
Conversion to Class B common stock	(5,739)	(27,232)	(21,831)	(31,620)	(17,428)	—
Balance at December 31, 2021	—	—	—	—	—	—

During the years ended December 31, 2021 and December 31, 2020, there were sales of convertible preferred stock between stockholders. Pursuant to the terms of sale of the convertible preferred stock, those preferred shares converted to Class A common stock. The Company did not sell any shares or receive any proceeds from the transactions.

The holders of FF Preferred and Series A, Series B, Series C, Series D, and Series E convertible preferred stock had certain rights, preferences and privileges as follows:

Voting rights

The holders of FF Preferred and Series A, Series B, Series C, Series D, and Series E convertible preferred stock were subject to the Company's amended and restated voting agreement and were entitled to the number of votes equal to the voting power of the number of shares of common stock into which their shares of convertible preferred stock could be directly converted with FF Preferred and Series A, Series B, Series C, and Series D convertible preferred stock converting into Class B common stock entitled to ten votes per share and Series E convertible preferred stock converting into Class A common stock entitled to one vote per share. The holders of Series A convertible preferred stock had a right to elect one member of the Board and holders of Series C convertible preferred stock had a right to elect one member of the Board.

Dividends

The holders of Series A, Series B, Series C, Series D, and Series E convertible preferred stock, prior and in preference to holders of FF Preferred, Class A common stock, or Class B common stock, were entitled to receive dividends on a pari passu basis at the rate of 6% of the respective original issue price per annum on each outstanding share.

The dividends were non-cumulative and were payable when, as and if declared by the Board. After payment of such dividends to holders of Series A, Series B, Series C, Series D, and Series E convertible preferred stock, any additional dividends were required to be distributed to holders of all classes of stock on a pro rata basis, based on the number of shares of Class A common stock and Class B common stock held by each holder (assuming conversion of all shares of convertible preferred stock into shares of common stock). As of December 31, 2021, no dividends had been declared or paid.

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Liquidation rights

In the event of any liquidation event of the Company (a voluntary or involuntary liquidation, a merger where the holders of common stock and convertible preferred stock own less than a majority of the resulting voting power of the surviving entity, or a sale of substantially all the assets of the Company), before any distribution or payment was required to be made to the holders of FF Preferred, Class A common stock, or Class B common stock, the holders of Series A, Series B, Series C, Series D, and Series E convertible preferred stock were entitled to receive out of the assets legally available for distribution, liquidating distributions in the amount of the greater of (a) the original per share purchase prices of $0.19721 for Series A convertible preferred stock, $1.00676 for Series B convertible preferred stock, $2.76488 for Series C convertible preferred stock, $8.2539 for Series D convertible preferred stock, and $36.1922 for Series E convertible preferred stock, plus all declared but unpaid dividends or (b) an amount per share as would have been payable had each share of convertible preferred stock converted into Class A common stock or Class B common stock, as applicable, immediately prior to the liquidation event.

If liquidation proceeds were insufficient to permit payment to the stockholders of convertible preferred stock of their preferential amount, then all liquidation proceeds were required to be distributed with equal priority, on a pro-rata basis, among the holders of the Series A, Series B, Series C, Series D, and Series E convertible preferred stock in proportion to their liquidation preference. After payment of all preferential amounts required to be paid to the holders of Series A, Series B, Series C, Series D, and Series E convertible preferred stock, the remaining assets available for distribution were required to be distributed among the holders of FF Preferred, the Class A common stock, and Class B common stock on a pro-rata basis, based on the number of shares held by each holder.

As the shares of convertible preferred stock contained liquidation features that were not solely within the Company’s control, these liquidation features resulted in the Series FF, Series A, Series B, Series C, Series D, and Series E convertible preferred stock being classified as mezzanine equity rather than as a component of stockholders’ equity.

Conversion

Each share of FF Preferred was convertible, at the option of the holder, at any time after the date of issuance according to a conversion ratio, initially $1.00, subject to adjustments for stock splits, stock dividends, and dilution.

If a share of FF Preferred was purchased by an investor in connection with an equity financing, each such share of stock transferred to the investor was required to automatically convert into shares of a subsequent series of convertible preferred stock. If a transfer of shares was neither made in connection with an equity financing or authorized by a majority of the Board, the FF Preferred was required to automatically convert into such number of shares of Class B common stock.

In the event the Company at any time after the original issue date of Series A, Series B, Series C, Series D, and Series E convertible preferred stock issued additional shares of capital stock without consideration or for consideration per share less than the Series A conversion price, Series B conversion price, Series C conversion price, Series D conversion price, or Series E conversion price, as applicable, then the conversion price of the above mentioned convertible preferred stock was required to be adjusted (subject to certain customary exceptions).

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Each share of FF Preferred and Series A, Series B, Series C, and Series D convertible preferred stock was required to automatically convert into that number of shares of Class B common stock and each share of Series E convertible preferred stock was required to automatically convert into that number of shares of Class A common stock determined in accordance with the conversion ratio on the earlier of (i) the closing of an underwritten public offering of Class A common stock under the Securities Act, in which the Company received at least $100 million in aggregate net proceeds or (ii) (a) with respect to Series A, Series B, Series C, Series D, and Series E convertible preferred stock, the written request from the holders of at least a majority of the then outstanding shares of convertible preferred stock, each voting exclusively and as a separate class and voting together as a single class on an as-converted basis and (b) with respect to FF Preferred, the written request from the holders of at least a majority of the then outstanding shares of FF Preferred, voting exclusively and as a separate class.

Redemption

No shares of convertible preferred stock were unilaterally redeemable by either the stockholders or the Company. The Company's Amended and Restated Certificate of Incorporation provided that upon a liquidation event, the holders of convertible preferred stock were entitled to receive the original issue price plus declared but unpaid dividends.

15. COMMON STOCK

Effective October 1, 2018, the Company implemented a dual class voting structure pursuant to which it authorized the issuance of Class A common stock and Class B common stock. The Class B common stock had ten votes per share and the Class A common stock had one vote per share. The common stock outstanding prior to the implementation of the dual class voting structure was reclassified into Class B common stock. Generally, any subsequent sale or transfer of Class B common stock resulted in the automatic conversion of such Class B common stock into Class A common stock (subject to certain customary exceptions). Generally, any subsequent sale or transfer of convertible preferred stock that was convertible into Class B common stock resulted in that convertible preferred stock becoming convertible into Class A common stock (subject to certain customary exceptions). The holders of shares of Class A common stock and Class B common stock, voting as a separate class, had a right to elect two members of the Board. Furthermore, holders of Class A common stock and Class B common stock, voting together with holders of convertible preferred stock (other than Series E convertible preferred stock) and Series FF preferred stock on an as-converted to common stock basis, were entitled to fill any remaining vacancies on the Board.

On April 1, 2021, in anticipation of the Direct Listing and upon a vote by the requisite holders of the Company's convertible preferred stock, all outstanding shares of convertible preferred stock were converted into 8,556,952 shares of Class A common stock and 103,850,006 shares of Class B common stock.

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Effective April 1, 2021, in connection with the Direct Listing, the Company filed the Restated Certificate of Incorporation, amending and restating its certificate of incorporation to authorize 10,000,000,000 shares of Class A common stock, 500,000,000 shares of Class B common stock, 500,000,000 shares of undesignated common stock, and 500,000,000 shares of undesignated preferred stock. Shares of Class A common stock and Class B common stock will be treated equally, identically and ratably, on a per share basis, with respect to dividends that may be declared by the Board. Holders of Class A common stock are entitled to one vote per share, and holders of Class B common stock are entitled to 20 votes per share. Holders of Class A common stock and Class B common stock generally vote together as a single class on all matters (including the election of directors) submitted to a vote of the stockholders of the Company. Upon a liquidation, dissolution or winding-up of the Company, the assets legally available for distribution to stockholders would be distributed ratably among the holders of Class A common stock and Class B common stock and any participating preferred stock or new series of common stock outstanding at that time, subject to prior satisfaction of all outstanding debt and liabilities and the preferential rights of and the payment of liquidation preferences, if any, on any outstanding shares of preferred stock or new series of common stock. Shares of Class B common stock are convertible at any time at the option of the holder into shares of Class A common stock on a one-to-one basis. In addition, each share of Class B common stock will automatically convert into a share of Class A common stock upon a sale or transfer (other than with respect to certain estate planning and other transfers). Further, upon certain events specified in the Restated Certificate of Incorporation, all outstanding shares of Class B common stock will convert automatically into shares of Class A common stock.

In June 2014, the Company issued a warrant to a financial institution in connection with a banking agreement to purchase 407,928 shares of Class B common stock at an exercise price of $1.0068 per share. The warrant was immediately exercisable and had a term expiring on June 24, 2024. The warrant was fully expensed at December 31, 2015 and was exercised during the year ended December 31, 2021.

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The Company has reserved shares of Class A common stock and Class B common stock for issuance for the following purposes (in thousands):

	December 31, 2021	December 31, 2020
Class A common stock		
Conversion of Series E convertible preferred stock	—	8,832
Options issued and outstanding under the 2013 Plan	1,569	3,550
Options issued and outstanding under the 2019 Plan	29,311	37,232
RSUs issued and outstanding under the 2019 Plan	5,851	3,766
Shares available for future issuance under the 2019 Plan	—	2,193
RSUs issued and outstanding under the 2021 Plan	1,402	—
Shares available for future issuance under the 2021 Plan	35,856	—
Shares available for future issuance under the 2021 Employee Stock Purchase Plan	5,125	—
Replacement options issued and outstanding from the Tagomi acquisition	4	32
Replacement options issued and outstanding from the Bison Trails acquisition	223	—
RSUs issued and outstanding from other acquisitions	229	—
Exercise and conversion of an outstanding warrant	—	4
Shares available for future issuance of warrants	2,296	2,296
Total Class A common stock shares reserved	81,866	57,905
Class B common stock		
Conversion of FF Preferred and Series A, B, C, and D convertible preferred stock	—	104,046
Options issued and outstanding under the 2013 Plan	6,101	22,442
Exercise and conversion of an outstanding warrant	—	408
Total Class B common stock shares reserved	6,101	126,896

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16. STOCK-BASED COMPENSATION

Stock plans

The Company maintains four equity incentive plans: the 2013 Amended and Restated Stock Plan (the "2013 Plan"), the 2019 Equity Incentive Plan (the "2019 Plan"), the 2021 Equity Incentive Plan (the "2021 Plan," and together with the 2013 Plan and the 2019 Plan, the "Plans"), and the 2021 Employee Stock Purchase Plan (the "ESPP"). Following the Direct Listing, the Company has only issued awards under the 2021 Plan and the ESPP, and no additional awards will be granted under the 2013 Plan and 2019 Plan. In addition, certain of the Company's existing options assumed in connection with acquisitions are governed by the terms of the acquired company's equity awards plan.

In February 2021, the Board approved and adopted the 2021 Plan. The 2021 Plan became effective on March 31, 2021, the date immediately prior to the effective date of the Company's registration statement for the Direct Listing. The 2021 Plan serves as the successor to the 2019 Plan. Outstanding awards under the 2019 Plan continue to be subject to the terms and conditions of the 2019 Plan. The 2021 Plan provides for the granting of incentive stock options, restricted stock units ("RSUs"), restricted stock, stock appreciation rights and performance and stock bonus awards to assist in attracting, retaining and motivating employees. The number of shares available for grant and issuance under the 2021 Plan will be automatically increased on January 1st of each of the first ten fiscal years during the term of the 2021 Plan by the lesser of (a) five percent of the total number of shares of all classes of the Company's common stock issued and outstanding on an as converted to common stock basis on each December 31st immediately prior to the date of increase or (b) such number of shares determined by the Board.

As of December 31, 2021, only stock options and RSUs were issued and outstanding under the Plans.

Stock options

Options granted under the Plans may be either incentive stock options ("ISOs") or nonqualified stock options ("NSOs"). ISOs may be granted only to Company employees (including officers and directors who are also employees). NSOs may be granted to Company employees and non-employees.

Options under the Plans may be granted for contractual periods of up to ten years and at prices determined by the Board, provided, however, that the exercise price of an ISO and NSO shall not be less than 100% of the estimated fair value of the underlying shares on the date of the grant (110% if granted to a stockholder who owns more than ten percent of the total combined voting power of all classes of stock of the Company or any parent or subsidiary).

To date, options granted to new employees of the Company generally vest over four years and vest at a rate of 25% upon the first anniversary of the issuance date and 1/48 per month thereafter. Refresher options granted to existing employees of the Company generally vest over four years and vest at a rate of 1/48 per month. The 2019 Plan allows for a seven-year exercise window post-termination for employees of the Company who have provided at least two years of continuous service to the Company as of their termination date.

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Activity of options outstanding are as follows (in thousands, except per share and years data):

	Options Outstanding	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Balance at January 1, 2021	63,256	$ 14.84	8.17	$ 2,527,396
Assumed options from acquisition	470	3.45		
Exercised	(24,920)	8.72		
Forfeited and cancelled	(1,598)	19.67		
Balance at December 31, 2021	37,208	$ 18.60	7.83	$ 8,698,078
Vested and exercisable at December 31, 2021	15,777	$ 14.90	7.14	$ 3,746,507
Vested and expected to vest at December 31, 2021	31,074	$ 17.64	7.67	$ 7,293,948

During the year ended December 31, 2021, the Company assumed stock options for the purchase of 470,128 shares of the Company's Class A common stock, with a weighted-average grant date fair value of $110.97 per share in connection with a certain acquisition. During the year ended December 31, 2021, the Company did not issue any other stock options. During the year ended December 31, 2020, the Company granted stock options for the purchase of 32,200,586 shares of the Company's Class A common stock, with a weighted-average grant date fair value of $7.85 per share.

During the years ended December 31, 2021, 2020 and 2019, $3.5 million, $3.0 million and $2.6 million of stock-based compensation expense was included in capitalized software, respectively.

As of December 31, 2021, there was total unrecognized compensation cost of $180.9 million related to unvested stock options. These costs are expected to be recognized over a weighted-average period of approximately 2.8 years.

The intrinsic value is calculated as the difference between the exercise price of the underlying stock option award and the estimated fair value of the Company's common stock. The aggregate intrinsic value of stock options exercised during the years ended December 31, 2021 and December 31, 2020 was $5.9 billion and $38.3 million, respectively.

During the year ended December 31, 2021, 14,966,504 stock options vested with a weighted-average grant date fair value of $8.74 per share. During the year ended December 31, 2020, 7,936,075 stock options vested with a weighted-average grant date fair value of $5.47 per share.

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The assumptions used under the Black-Scholes-Merton option pricing model and the weighted average calculated value of the options granted to employees were as follows:

	Year Ended December 31,	
	2021	2020
Dividend yield	0.0 %	0.0 %
Expected volatility	44.0 %	41.1 %
Expected term (in years)	4.8	6.0
Risk-free interest rate	0.5 %	0.6 %

Early exercise of stock options

Stock options granted under the Plans provide employee option holders the right to exercise unvested options for restricted common stock, which is subject to a repurchase right held by the Company at the original purchase price in the event the optionee's employment is terminated either voluntarily or involuntarily prior to vesting of the exercised stock. Early exercises of options are not deemed to be substantive exercises for accounting purposes and accordingly, amounts received for early exercises are recorded as a liability. These repurchase terms are considered to be a forfeiture provision and do not result in variable accounting. As of December 31, 2021 and December 31, 2020, there were 478,271 and 263,761 shares, respectively, subject to repurchase related to stock options early exercised and not yet vested, but that are expected to vest. These amounts are reclassified to common stock and additional paid in capital as the underlying shares vest. As of December 31, 2021 and December 31, 2020, the Company recorded a liability related to these shares subject to repurchase in the amount of $8.9 million and $4.6 million, respectively, which is included within Accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

Chief Executive Officer performance award

On August 11, 2020, the Company granted its Chief Executive Officer an option award to purchase up to 9,293,911 shares of the Company's Class A common stock, at an exercise price of $23.46 per share. Vesting of the award is dependent on both performance-based and market-based conditions being met.

The performance condition was contingent on the Company's registration statement being declared effective by the Securities and Exchange Commission (the "SEC") under the Securities Act. The occurrence of this event was considered to not be probable until such time that it occurred. The market condition is contingent on the Company's Class A common stock price achieving stock price target milestones.

The total grant date fair value of this award was $56.7 million. The Company determined the fair value of the option using a Monte Carlo simulation model (a binomial lattice-based valuation model). The Monte Carlo simulation model uses multiple input variables to determine the probability of satisfying the market condition requirements. The fair value of the option is not subject to change based on future market conditions. Once the performance condition becomes probable of being achieved, the fair value of the option is recognized as compensation expense over the requisite service period, using the accelerated attribution method regardless of whether, and the extent to which, the market condition is ultimately satisfied.

During April 2021, as a result of the Company's registration statement being declared effective by the SEC, the performance condition of the option award granted to the Chief Executive Officer was met. On July 8, 2021, the first price target of the award was met, resulting in the vesting of 3,159,930 shares subject to the option award. During the years ended December 31, 2021 and 2020, compensation expense of $29.5 million and $0 was recognized related to this award, respectively.

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Restricted stock units

The Company's RSUs vest upon the satisfaction of a service-based condition. In general, the RSUs vest over a service period ranging from one to four years. Once vested, the RSUs are settled by delivery of shares of the Company's Class A common stock.

Activity of RSUs outstanding under the Plans are as follows (in thousands, except per share data):

	Number of shares	Weighted-Average Grant Date Fair Value Per Share
Balance at January 1, 2021	3,766	$ 54.80
Granted	6,433	233.24
Vested	(2,421)	194.60
Forfeited and cancelled	(296)	200.85
Balance at December 31, 2021	7,482	157.22

For RSUs granted prior to the Direct Listing, the fair value of the Class A common stock was determined using linear interpolation between the dates at which the Company obtained third-party valuations, for financial reporting purposes. This method was determined to be reasonable, as no single event was identified that caused the increase in the fair value of the common stock. For RSUs granted after the Direct Listing, the closing price of the Company's Class A common stock as reported on The Nasdaq Global Select Market on the grant date was used as the fair value.

As of December 31, 2021, there was total unrecognized compensation cost of $1.0 billion related to unvested RSUs. These costs are expected to be recognized over a weighted-average period of approximately 2.52 years.

Included in the total RSUs granted during 2020 was 181,000 RSUs granted to Kathryn Haun, a member of the Board and a general partner at Andreessen Horowitz, a related party. These RSUs were granted during December 2020 and will became fully vested on January 1, 2021. There are no other vesting conditions nor are there any conditions that would result in forfeiture of the award. The Company recognized $9.9 million of stock-based compensation expense related to this award during the year ended December 31, 2020.

Restricted common stock

As part of the Company's acquisitions, the Company issued restricted Class A common stock. Vesting of this restricted Class A common stock is dependent on a service-based vesting condition that is satisfied over three years. The Company has the right to repurchase shares at par value for which the vesting condition is not satisfied. Activity of shares of restricted Class A common stock is as follows (in thousands, except per share data):

	Number of shares	Weighted-Average Grant Date Fair Value Per Share
Balance at January 1, 2021	824	$ 23.46
Granted	1,465	180.33
Vested	(275)	23.46
Forfeited and cancelled	—	—
Balance at December 31, 2021	2,014	137.57

As of December 31, 2021, there was total unrecognized compensation cost of $207.6 million related to unvested restricted Class A common stock. These costs are expected to be recognized over a weighted-average period of approximately 2.15 years.

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Employee Stock Purchase Plan

In February 2021, the Board approved and adopted the ESPP. The ESPP became effective on April 1, 2021, the effective date of the Company's registration statement for the Direct Listing. The ESPP allows eligible employees the option to purchase shares of the Company's Class A common stock at a 15% discount, over a series of offering periods through accumulated payroll deductions over the period. The ESPP also includes a look-back provision for the purchase price if the stock price on the purchase date is lower than the stock price on the offering date. The Company recognizes stock-based compensation expenses related to purchase rights granted pursuant to its ESPP on a straight-line basis over the offering period, which is 24 months. The fair value of purchase rights granted under the ESPP is estimated on the date of grant using the Black-Scholes-Merton option valuation model.

The number of shares available for grant and issuance under the ESPP will be automatically increased on January 1st of each of the first ten fiscal years during the term of the ESPP by the lesser of (a) one percent of the total number of shares of all classes of the Company's common stock outstanding on an as converted to common stock basis on each December 31st immediately prior to the date of increase or (b) such number of shares determined by the Board or the compensation committee of the Board.

The grant date of the initial offering period was May 3, 2021, and that offering period will end on April 30, 2023. For the year ended December 31, 2021, total compensation expense of $9.4 million was recognized related to the ESPP. As of December 31, 2021, the Company recorded a liability of $7.4 million related to the accumulated payroll deductions, which are refundable to employees who withdraw from the ESPP. This amount is included within Accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

Stock-based compensation expense

Stock-based compensation was included in the following components of expenses on the accompanying consolidated statements of operations (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Technology and development	$ 571,861	$ 36,869	$ 25,220
Sales and marketing	32,944	1,566	970
General and administrative	215,880	34,190	24,699
Restructuring	—	—	994
Total	$ 820,685	$ 72,625	$ 51,883

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17. INCOME TAXES

The components of income (loss) before income taxes were attributable to the following regions (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Domestic	$ 2,977,406	$ 396,709	$ (55,383)
Foreign	49,541	12,490	9,967
	$ 3,026,947	$ 409,199	$ (45,416)

(Benefit from) provision for income taxes consisted of the following (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Current			
Federal	$ (51,942)	$ 65,269	$ 2,053
State	4,456	18,162	(639)
Foreign	8,642	2,977	4,277
Total current	(38,844)	86,408	5,691
Deferred			
Federal	(438,810)	1,373	(15,519)
State	(93,959)	(514)	(5,496)
Foreign	(25,560)	(385)	295
Total deferred	(558,329)	474	(20,720)
Total (benefit from) provision for income taxes	$ (597,173)	$ 86,882	$ (15,029)

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The effective income tax rate differs from the statutory federal income tax rate as follows:

	Year Ended December 31,		
	2021	2020	2019
Provision for income taxes at U.S. statutory rate	21.00 %	21.00 %	21.00 %
State income taxes, net of federal benefit	(4.67)	3.39	10.58
Foreign rate differential	(1.09)	(0.24)	(3.52)
Non-deductible compensation	0.83	0.99	(2.20)
Equity compensation	(31.95)	0.27	2.31
Prior year true-ups (state and federal)	0.14	(0.11)	1.51
Research and development credits	(9.60)	(1.86)	15.63
Change in valuation allowance	1.65	—	—
Foreign tax credit	—	(0.05)	2.75
Subpart F income	—	0.09	(1.95)
Foreign Derived Intangible Income (“FDII”)	—	(1.50)	—
Global Intangible Low Taxed Income (“GILTI”)	—	0.06	(1.15)
Uncertain tax positions	3.07	0.46	(8.26)
CARES Act - NOL Carryback	—	(1.20)	—
Other	0.89	(0.07)	(3.61)
	(19.73)%	21.23 %	33.09 %

The Company’s effective tax rate for 2021 was significantly lower compared to 2020. This was due primarily to an increase in 2021 tax benefits from deductible stock option exercises as a result of the Company’s Direct Listing, and an increase in 2021 federal and California research and development credits. The Company’s effective tax rate decrease from 2019 to 2020 was due to the higher percentage impact of 2019 permanent items on a significantly lower pretax amount.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Coinbase Global, Inc.
Notes to Consolidated Financial Statements

Significant components of the Company's deferred tax assets and liabilities consisted of the following (in thousands):

	Year Ended December 31, 2021	Year Ended December 31, 2020
Deferred tax assets		
Accruals and reserves	$ 19,184	$ 1,943
Net operating loss carryforward	262,574	6,322
Lease liability	26,338	29,845
Interest carryforward	—	1,047
Tax credits	285,029	4,584
Stock-based compensation	50,292	18,726
Intangibles	7,339	4,563
Book crypto asset impairments and realized losses	37,932	1,275
Other	—	1,045
Gross deferred tax assets	688,688	69,350
Less valuation allowance	(54,383)	(5,174)
Total deferred tax assets	634,305	64,176
Deferred tax liabilities		
State taxes	(973)	(798)
Fixed assets and internally developed software	(15,937)	(11,391)
Prepaid expenses	(3,439)	(3,179)
Right of use asset	(24,347)	(28,001)
Installment gain	(15,859)	—
Other	(203)	—
Total deferred tax liabilities	(60,758)	(43,369)
Total net deferred tax assets	$ 573,547	$ 20,807

A valuation allowance of $54.4 million and $5.2 million was recorded against the Company's net deferred tax asset balance as of December 31, 2021 and December 31, 2020, respectively. As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets. On the basis of this evaluation, only the portion of the deferred tax asset that is more likely than not to be realized was recognized. The valuation allowance as of December 31, 2021 includes allowances primarily related to California research and development credits, U.S. federal, state and foreign net operating loss carryforwards from acquired entities, and net operating loss carryforwards in Japan.

As of December 31, 2021 and December 31, 2020, the Company had California research and development credits of $108.3 million and $4.6 million respectively, of which the Company has a net valuation allowance of $45.4 million as of December 31, 2021. The Company had $873.6 million and $24.5 million of U.S. federal net operating loss carryforwards as of December 31, 2021 and December 31, 2020, respectively. The U.S. federal net operating losses carry forward indefinitely. Additionally, the Company has U.S. state net operating losses of $1.1 billion. Generally, California and other significant U.S. states have a twenty-year carryforward for net operating losses.

Coinbase Global, Inc.
Notes to Consolidated Financial Statements

Activity related to the Company's unrecognized tax benefits consisted of the following (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Balance, beginning of year	$ 12,807	$ 10,344	$ 6,605
Increase related to tax positions taken during a prior year	—	212	13
Decreases related to tax positions taken during a prior year	—	(882)	(77)
Increases related to tax positions taken during the current year	98,212	3,133	3,803
Balance, end of year	$ 111,019	$ 12,807	$ 10,344

As of December 31, 2021 and December 31, 2020, the Company had $111.0 million and $12.8 million of unrecognized tax benefits, of which $84.9 million and $12.3 million would reduce income tax expense and the effective tax rate, if recognized. It is reasonably possible that the balance of unrecognized tax benefits could decrease within the next twelve months as a result of U.S. Internal Revenue Service ("IRS") audit closures. The potential reduction in unrecognized tax benefits is $7.5 million, of which $4.5 million would favorably impact the Company's effective tax rate. The Company accounts for interest and penalties related to exposures as a component of income tax expense. The Company had approximately $0.6 million and $0.6 million and $0.4 million and $0.4 million of accrued interest and penalties for the years ended December 31, 2021 and December 31, 2020, respectively.

The Company files U.S. federal, state, and foreign income tax returns in jurisdictions with varying statutes of limitations. Currently these statutes of limitations are open from 2017 forward for the U.S., 2016 forward for California, 2017 forward for the United Kingdom, and 2018 forward for Ireland. The Company's tax returns are under audit by the IRS for 2017 through 2019, and the state of California for 2016 and 2017.

Coinbase Global, Inc.
Notes to Consolidated Financial Statements

18. NET INCOME (LOSS) PER SHARE

The computation of net income (loss) per share is as follows (in thousands, except per share amounts):

	Year Ended December 31, 2021	2020	2019
Basic net income (loss) per share:			
Numerator			
Net income (loss)	$ 3,624,120	$ 322,317	$ (30,387)
Less: Income allocated to participating securities	(527,162)	(214,061)	—
Net income (loss) attributable to common stockholders, basic	$ 3,096,958	$ 108,256	$ (30,387)
Denominator			
Weighted-average shares of common stock used to compute net income per share attributable to common stockholders, basic	177,319	68,671	61,317
Net income (loss) per share attributable to common stockholders, basic	$ 17.47	$ 1.58	$ (0.50)
Diluted net income (loss) per share:			
Numerator			
Net income (loss)	$ 3,624,120	$ 322,317	$ (30,387)
Less: Income allocated to participating securities	(439,229)	(194,846)	—
Add: Interest on convertible notes	6,208	—	—
Less: Fair value gain on contingent consideration arrangement	(695)	—	—
Net income (loss) attributable to common stockholders - diluted	$ 3,190,404	$ 127,471	$ (30,387)
Denominator			
Weighted-average shares of common stock used to compute net income per share attributable to common stockholders, basic	177,319	68,671	61,317
Weighted-average effect of potentially dilutive securities:			
Stock options	36,396	22,146	—
RSUs	3,773	—	—
Restricted common stock	9	—	—
Warrants	72	392	—
Convertible notes	2,388	—	—
Contingent consideration	8	—	—
Weighted-average shares of common stock used to compute net income (loss) per share attributable to common stockholders, diluted	219,965	91,209	61,317
Net income (loss) per share attributable to common stockholders, diluted	$ 14.50	$ 1.40	$ (0.50)

Coinbase Global, Inc.
Notes to Consolidated Financial Statements

The Company's convertible preferred stock and restricted Class A common stock granted as consideration in the acquisitions of Tagomi and Bison Trails are participating securities. These participating securities do not contractually require the holders of such shares to participate in the Company's losses, if applicable.

The rights, including the liquidation and dividend rights, of the holders of Class A common stock and Class B common stock are identical, except with respect to voting. As a result, the undistributed earnings are allocated on a proportionate basis and the resulting income (loss) per share will, therefore, be the same for both Class A common stock and Class B common stock on an individual or combined basis.

The following potentially dilutive shares were not included in the calculation of diluted shares outstanding as the effect would have been anti-dilutive (in thousands):

	Year Ended December 31,		
	2021	2020	2019
Employee stock options	6,134	12,831	37,758
RSUs	151	3,766	—
Warrants	—	—	408
Restricted common stock	5	—	—
Employee stock purchase plan	295	—	—
Contingent consideration recognized in asset acquisition	—	—	691
Convertible preferred stock	—	—	114,959
Total	6,585	16,597	153,816

19. COMMITMENTS AND CONTINGENCIES

Crypto asset wallets

The Company has committed to securely store all crypto assets it holds on behalf of users. As such, the Company may be liable to its users for losses arising from theft or loss of user private keys. The Company has no reason to believe it will incur any expense associated with such potential liability because (i) it has no known or historical experience of claims to use as a basis of measurement, (ii) it accounts for and continually verifies the amount of crypto assets within its control, and (iii) it has established security around custodial private keys to minimize the risk of theft or loss. Since the risk of loss is remote, the Company had not recorded a liability at December 31, 2021 or December 31, 2020.

Indemnifications

In the event any registrable securities are included in a registration statement, the Company's Amended and Restated Investors' Rights Agreement (the "IRA") entered into with certain of the Company's stockholders provides indemnity to each stockholder, their partners, members, officers, directors, and stockholders, legal counsel, and accountants; each underwriter, if any; and each person who controls each stockholder or underwriter, against any damages incurred in connection with investigating or defending any claim or proceeding arising as a result of such registration from which damages may result. The Company will reimburse each such party for any legal and any other expenses reasonably incurred, provided that the Company will not be liable in any such case to the extent the damages arise out of or are based upon any actions or omissions made in reliance upon and in conformity with written information furnished by or on behalf of such stockholder or underwriter and stated to be specifically for use therein.

Coinbase Global, Inc.
Notes to Consolidated Financial Statements

The Company also has indemnity agreements with certain officers and directors of the Company pursuant to which the Company must indemnify the officer or director against all expenses, judgments, fines, and amounts paid in settlement reasonably incurred in connection with a third party proceeding, if the indemnitee acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the Company, and in the case of a criminal proceeding, had no reasonable cause to believe the indemnitee's conduct was unlawful.

It is not possible to determine the maximum potential exposure under these indemnification agreements: (i) because the facts and circumstances involved in each claim are unique and we cannot predict the number or nature of claims that may be made; (ii) due to the unique facts and circumstances involved in each particular agreement; and (iii) due to the requirement for a registration of the Company's securities before any of the indemnification obligations contemplated in the IRA become effective.

The Company has also provided indemnities or similar commitments on standard commercial terms in the ordinary course of business.

Legal and regulatory proceedings

The Company is subject to various litigation, regulatory investigations, and other legal proceedings that arise in the ordinary course of its business. The Company is also subject to regulatory oversight by numerous regulatory and other governmental agencies. The Company reviews its lawsuits, regulatory investigations, and other legal proceedings on an ongoing basis and provides disclosure and records loss contingencies in accordance with the loss contingencies accounting guidance. In accordance with such guidance, the Company establishes accruals for such matters when potential losses become probable and can be reasonably estimated. If the Company determines that a loss is reasonably possible and the loss or range of loss can be estimated, the Company discloses the possible loss in the consolidated financial statements.

In July and August 2021, three purported securities class actions were filed in the U.S. District Court for the Northern District of California against the Company, its directors, certain of its officers and employees, and certain venture capital and investment firms. The complaints alleged violations of Sections 11, 12(a)(2) and 15 of the Securities Act, in connection with the registration statement and prospectus filed in connection with the Direct Listing. In November 2021, these actions were consolidated and recaptioned as *In re Coinbase Global Securities Litigation*, and an amended complaint was filed. The Company disputes the claims in this matter and is vigorously defending against them. The plaintiff seeks, among other relief, unspecified compensatory damages, attorneys' fees, and costs. Based on the preliminary nature of the proceedings in this matter, the outcome of this matter remains uncertain and the Company cannot estimate the potential impact, if any, on its business or financial statements at this time.

In October 2021, a purported class action captioned *Underwood et al. v. Coinbase Global, Inc.,* was filed in the U.S. District Court for the Southern District of New York against the Company. The plaintiffs allege claims under Sections 5, 15(a)(1) and 29(b) of the Exchange Act and violations of certain California and Florida state statutes. Among other relief requested, the plaintiffs seek injunctive relief, unspecified damages, attorneys' fees and costs. The Company disputes the claims in this case and intends to vigorously defend against them. Based on the preliminary nature of the proceedings in this case, the outcome of this matter remains uncertain and the Company cannot estimate the potential impact, if any, on its business or financial statements at this time.

In December 2021, a shareholder derivative suit captioned *Shin v. Coinbase Global, Inc.*, was filed in New York state court against the Company and its directors, alleging breach of fiduciary duties, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets, and seeking unspecified damages and injunctive relief. The Company disputes the claims in this case and intends to vigorously defend against them. Based on the preliminary nature of the proceedings in this case, the outcome of this matter remains uncertain and the Company cannot estimate the potential impact, if any, on its business or financial statements at this time.

Coinbase Global, Inc.
Notes to Consolidated Financial Statements

The Company's subsidiary, Coinbase, Inc., which holds a Bitlicense from the New York Department of Financial Services ("NYDFS") and is therefore subject to examinations and investigations by the NYDFS, is currently subject to an investigation by the NYDFS relating to its compliance program including compliance with the Bank Secrecy Act and sanctions laws, cybersecurity, and customer support. Coinbase, Inc. is cooperating fully and has undertaken initial remedial measures, and may face additional remedial and other measures. Based on the ongoing nature of the investigation, the outcome of this matter remains uncertain and the Company cannot estimate the potential impact, if any, on its business or financial statements at this time.

The Company believes the ultimate resolution of existing legal and regulatory investigation matters will not have a material adverse effect on the financial condition, results of operations, or cash flows of the Company. However, in light of the uncertainties inherent in these matters, it is possible that the ultimate resolution of one or more of these matters may have a material adverse effect on the Company's results of operations for a particular period, and future changes in circumstances or additional information could result in additional accruals or resolution in excess of established accruals, which could adversely affect the Company's results of operations, potentially materially.

Tax regulation

Current promulgated tax rules related to crypto assets are unclear and require significant judgments to be made in interpretation of the law, including but not limited to the areas of income tax, information reporting, transaction level taxes and the withholding of tax at source. Additional legislation or guidance may be issued by U.S. and non-U.S. governing bodies that may differ significantly from the Company's practices or interpretation of the law, which could have unforeseen effects on the Company's financial condition and results of operations, and accordingly, the related impact on the Company's financial condition and results of operations is not estimable.

Coinbase Global, Inc.
Notes to Consolidated Financial Statements

20. SUBSEQUENT EVENTS

Unbound Security, Inc. acquisition

On January 4, 2022, the Company acquired all outstanding shares of capital stock and stock options of Unbound Security, Inc. (“Unbound”). Unbound is a pioneer in a number of cryptographic security technologies, which the Company believes will play a foundational role in the Company’s product and security roadmap.

The total estimated consideration transferred in the acquisition consisted of the following (in thousands):

Cash	$	151,550
Class A common stock of the Company		103,977
RSUs for Shares of the Company’s Class A common stock		2,457
Total estimated purchase consideration	$	257,984

The initial accounting for the acquisition was incomplete at the time these financial statements were issued. The fair value of the acquired assets and liabilities were still being determined. As such, the disclosure of these amounts could not be made.

FairXchange, Inc. acquisition

On January 11, 2022, the Company entered into an agreement to acquire all outstanding shares of capital stock, stock options and warrants of FairXchange, Inc. (“FairX”). FairX is a CFTC-regulated derivatives exchange and the Company believes it will be a key stepping stone on the Company’s path to offer crypto derivatives to retail and institutional customers in the United States. The acquisition was completed on February 1, 2022. The initial accounting for the acquisition was incomplete at the time the financial statements were issued. The fair value of the total consideration transferred, as well as the acquired assets and liabilities were still being determined. As such, the disclosure of these amounts could not be made.

B. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF COINBASE FOR THE YEAR ENDED 31 DECEMBER 2022

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Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Coinbase Global, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Coinbase Global, Inc. (the "Company") as of December 31, 2022 and 2021, the related consolidated statements of Operations, Comprehensive Income, Changes in Convertible Preferred Stock and Stockholders' Equity, and Cash Flows, for each of the three years in the period ended December 31, 2022, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 21, 2023, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

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Customer Crypto Assets, Crypto Assets Held and USDC - Crypto Assets in Cold Storage — Refer to Notes 2, 9, and 10 to the financial statements

Critical Audit Matter Description

Crypto assets are generally accessible only by the possessor of the unique private key relating to the digital wallet in which the crypto assets are held. Accordingly, private keys must be safeguarded and secured in order to prevent an unauthorized party from accessing the crypto assets within a digital wallet. The Company primarily holds crypto assets for its own use, and on behalf of customers, in wallets within its cold storage environment. The loss, theft, or otherwise compromise of access to the private keys required to access the crypto assets in cold storage could adversely affect the Company's ability to access the crypto assets within its environment. This could result in loss of corporate crypto assets held or loss of crypto assets safeguarded on behalf of customers.

We identified crypto assets in cold storage as a critical audit matter due to the nature and extent of audit effort required to obtain sufficient appropriate audit evidence to address the risks of material misstatement related to the existence and rights & obligations of crypto assets in cold storage. The nature and extent of audit effort required to address the matter includes significant involvement of more experienced engagement team members and discussions and consultations with subject matter experts related to the matter.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to crypto assets in cold storage included the following, among others:

- We consulted with subject matter experts regarding our planned audit response to address risks of material misstatement of crypto assets in cold storage.
- We tested the effectiveness of controls within the Company's private key management process including controls related to physical access, key generation, and segregation of duties across the processes.
- We tested the effectiveness of management's reconciliation control of internal books and records to external blockchains.
- We tested the effectiveness of management's control to segregate corporate crypto asset balances from customer crypto asset balances.
- We tested the effectiveness of controls within the processes of customer crypto asset deposits and customer crypto asset withdrawals.
- We obtained evidence to evaluate crypto asset balances for appropriate segregation between corporate crypto assets and customer crypto assets.
- We utilized our proprietary audit tool to independently obtain evidence from public blockchains to test the existence of crypto asset balances.
- We obtained evidence that management has control of the private keys required to access crypto assets in cold storage through a combination of decoding cryptographic messages signed using selected private keys or through observing the movement of selected crypto assets.
- We evaluated the reliability of audit evidence obtained from public blockchains.

/s/ Deloitte & Touche LLP

San Francisco, California
February 21, 2023

We have served as the Company's auditor since 2020.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Coinbase Global, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Coinbase Global, Inc. (the “Company”) as of December 31, 2022, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2022 of the Company and our report dated February 21, 2023, expressed an unqualified opinion.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, 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.

/s/ Deloitte & Touche LLP

San Francisco, California
February 21, 2023

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Coinbase Global, Inc.
Consolidated Balance Sheets
(In thousands, except par value data)

	December 31, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 4,425,021	$ 7,123,478
Restricted cash	25,873	30,951
Customer custodial funds	5,041,119	10,617,552
Customer crypto assets(1)	75,413,188	—
USDC	861,149	100,096
Accounts and loans receivable, net of allowance	404,376	304,706
Income tax receivable	60,441	61,231
Prepaid expenses and other current assets	217,048	135,849
Total current assets	86,448,215	18,373,863
Crypto assets held	424,393	988,193
Lease right-of-use assets	69,357	98,385
Property and equipment, net	171,853	59,230
Goodwill	1,073,906	625,758
Intangible assets, net	135,429	176,689
Other non-current assets	1,401,720	952,307
Total assets	$ 89,724,873	$ 21,274,425
Liabilities, Convertible Preferred Stock and Stockholders' Equity		
Current liabilities:		
Customer custodial cash liabilities	$ 4,829,587	$ 10,480,612
Customer crypto liabilities(2)	75,413,188	—
Accounts payable	56,043	39,833
Accrued expenses and other current liabilities	331,236	439,559
Crypto asset borrowings	151,505	426,665
Lease liabilities, current	33,734	32,366
Total current liabilities	80,815,293	11,419,035
Lease liabilities, non-current	42,044	74,078
Long-term debt	3,393,448	3,384,795
Other non-current liabilities	19,531	14,828
Total liabilities	84,270,316	14,892,736
Commitments and contingencies (Note 21)		
Stockholders' equity:		
Class A common stock, $0.00001 par value; 10,000,000 shares authorized at December 31, 2022 and 2021; 182,796 and 168,807 shares issued and outstanding at December 31, 2022 and 2021, respectively	2	2
Class B common stock, $0.00001 par value; 500,000 shares authorized at December 31, 2022 and 2021; 48,070 and 48,310 shares issued and outstanding at December 31, 2022 and 2021, respectively	—	—
Additional paid-in capital	3,767,686	2,034,658
Accumulated other comprehensive loss	(38,606)	(3,395)
Retained earnings	1,725,475	4,350,424
Total stockholders' equity	5,454,557	6,381,689
Total liabilities, convertible preferred stock, and stockholders' equity	$ 89,724,873	$ 21,274,425

(1) Safeguarding assets
(2) Safeguarding liabilities

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

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Coinbase Global, Inc.
Consolidated Statements of Operations
(In thousands, except per share data)

	Year Ended December 31, 2022	2021	2020
Revenue:			
Net revenue	$ 3,148,815	$ 7,354,753	$ 1,141,167
Other revenue	45,393	484,691	136,314
Total revenue	3,194,208	7,839,444	1,277,481
Operating expenses:			
Transaction expense	629,880	1,267,924	135,514
Technology and development	2,326,354	1,291,561	271,732
Sales and marketing	510,089	663,689	56,782
General and administrative	1,600,586	909,392	279,880
Restructuring	40,703	—	—
Other operating expense, net	796,804	630,308	124,622
Total operating expenses	5,904,416	4,762,874	868,530
Operating (loss) income	(2,710,208)	3,076,570	408,951
Interest expense	88,901	29,160	—
Other expense (income), net	265,473	20,463	(248)
(Loss) income before income taxes	(3,064,582)	3,026,947	409,199
(Benefit from) provision for income taxes	(439,633)	(597,173)	86,882
Net (loss) income	$ (2,624,949)	$ 3,624,120	$ 322,317
Net (loss) income attributable to common stockholders:			
Basic	$ (2,624,949)	$ 3,096,958	$ 108,256
Diluted	$ (2,631,179)	$ 3,190,404	$ 127,471
Net (loss) income per share attributable to common stockholders:			
Basic	$ (11.81)	$ 17.47	$ 1.58
Diluted	$ (11.83)	$ 14.50	$ 1.40
Weighted-average shares of common stock used to compute net (loss) income per share attributable to common stockholders:			
Basic	222,314	177,319	68,671
Diluted	222,338	219,965	91,209

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

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Coinbase Global, Inc.
Consolidated Statements of Comprehensive (Loss) Income
(In thousands)

	Year Ended December 31,		
	2022	2021	2020
Net (loss) income	$ (2,624,949)	$ 3,624,120	$ 322,317
Other comprehensive (loss) income:			
Translation adjustment, net of tax	(35,211)	(9,651)	6,977
Comprehensive (loss) income	$ (2,660,160)	$ 3,614,469	$ 329,294

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

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Coinbase Global, Inc.
Consolidated Statements of Changes in Convertible Preferred Stock and Stockholders' Equity
(In thousands)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total
	Shares	Amount	Shares	Amount				
Balance at January 1, 2020	114,959	$ 564,697	66,994	$ —	$ 93,820	$ (721)	$ 403,987	$ 497,086
Issuance of common stock upon exercise of stock options, net of repurchases	—	—	2,038	—	16,707	—	—	16,707
Repurchase of equity awards	—	—	—	—	(1,930)	—	—	(1,930)
Stock-based compensation expense	—	—	—	—	72,643	—	—	72,643
Issuance of equity instruments as consideration in business combination	—	—	1,304	—	31,349	—	—	31,349
Issuance of common stock to settle contingent consideration	—	—	691	—	16,205	—	—	16,205
Conversion of preferred stock	(2,081)	(2,230)	2,081	—	2,230	—	—	2,230
Comprehensive income	—	—	—	—	—	6,977	—	6,977
Net income	—	—	—	—	—	—	322,317	322,317
Balance at December 31, 2020	112,878	$ 562,467	73,108	$ —	$ 231,024	$ 6,256	$ 726,304	$ 963,584
Issuance of common stock upon exercise of stock options, net of repurchases	—	—	24,909	—	212,476	—	—	212,476
Stock-based compensation expense	—	—	—	—	824,153	—	—	824,153
Issuance of equity instruments as consideration for business combinations	—	—	3,985	—	544,588	—	—	544,588
Conversion of preferred stock	(112,878)	(562,467)	112,878	2	562,465	—	—	562,467
Issuance of common stock from exercise of warrants	—	—	412	—	433	—	—	433
Issuance of common stock upon settlement of Restricted Stock Units ("RSUs") and restricted common stock, net of shares withheld	—	—	1,775	—	(262,794)	—	—	(262,794)
Purchase of capped calls	—	—	—	—	(90,131)	—	—	(90,131)
Issuance of common stock under the 2021 Employee Stock Purchase Plan (the "ESPP")	—	—	50	—	12,444	—	—	12,444
Comprehensive loss	—	—	—	—	—	(9,651)	—	(9,651)
Net income	—	—	—	—	—	—	3,624,120	3,624,120
Balance at December 31, 2021	—	$ —	217,117	$ 2	$ 2,034,658	$ (3,395)	$ 4,350,424	$ 6,381,689
Issuance of common stock upon exercise of stock options, net of repurchases	—	—	3,883	—	56,737	—	—	56,737
Stock-based compensation expense	—	—	—	—	1,683,840	—	—	1,683,840
Issuance of equity instruments as consideration for business combinations	—	—	1,663	—	314,356	—	—	314,356
Issuance of common stock to settle contingent consideration	—	—	58	—	4,661	—	—	4,661
Issuance of common stock upon settlement of RSUs and restricted common stock, net of shares withheld	—	—	7,870	—	(351,867)	—	—	(351,867)
Issuance of common stock under the ESPP	—	—	275	—	21,622	—	—	21,622
Other	—	—	—	—	3,679	—	—	3,679
Comprehensive loss	—	—	—	—	—	(35,211)	—	(35,211)
Net income	—	—	—	—	—	—	(2,624,949)	(2,624,949)
Balance at December 31, 2022	—	$ —	230,866	$ 2	$ 3,767,686	$ (38,606)	$ 1,725,475	$ 5,454,557

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

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Coinbase Global, Inc.
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2022	2021	2020
Cash flows from operating activities			
Net (loss) income	$ (2,624,949)	$ 3,624,120	$ 322,317
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:			
Depreciation and amortization	154,069	63,651	30,962
Crypto asset impairment expense	757,257	329,152	8,355
Investment impairment expense	101,445	—	—
Other impairment expense	26,518	500	—
Stock-based compensation expense	1,565,823	820,685	70,548
Provision for transaction losses and doubtful accounts	(13,051)	22,390	(2,966)
(Gain) loss on disposal of property and equipment	(58)	1,425	355
Deferred income taxes	(468,035)	(558,329)	474
Unrealized loss (gain) on foreign exchange	28,516	(14,944)	1,057
Non-cash lease expense	31,123	34,542	25,012
Change in fair value of contingent consideration	(8,312)	(924)	3,281
Realized gain on crypto assets	(36,666)	(178,234)	(23,682)
Crypto assets received as revenue	(470,591)	(1,015,920)	(94,158)
Crypto asset payments for expenses	383,221	815,783	40,205
Fair value loss (gain) on derivatives	7,410	(32,056)	5,254
Amortization of debt discount and issuance costs	9,253	5,031	—
Loss (gain) on investments	3,056	(20,138)	150
Changes in operating assets and liabilities:			
USDC	(848,138)	(77,471)	37,936
Accounts and loans receivable	(141,023)	28,511	(117,167)
Deposits in transit	28,952	(36,527)	(39,989)
Income taxes, net	1,906	(62,145)	86,791
Other current and non-current assets	19,237	(20,060)	(48,677)
Accounts payable	18,612	27,330	6,090
Lease liabilities	(10,223)	(20,596)	(24,998)
Other current and non-current liabilities	(100,771)	302,396	6,398
Net cash (used in) provided by operating activities	(1,585,419)	4,038,172	293,548
Cash flows from investing activities			
Purchase of property and equipment	(2,933)	(2,910)	(9,913)
Proceeds from sale of property and equipment	83	31	—
Capitalized internal-use software development costs	(61,038)	(22,073)	(8,889)
Business combinations, net of cash acquired	(186,150)	(70,911)	33,615
Purchase of investments	(63,048)	(326,513)	(10,329)
Purchase of assembled workforce	—	(60,800)	—
Proceeds from settlement of investments	1,551	5,159	303
Purchase of crypto assets held	(1,400,032)	(3,009,086)	(528,080)
Disposal of crypto assets held	969,185	2,574,032	574,115
Loans originated	(207,349)	(336,189)	—
Proceeds from repayment of loans	327,539	124,520	—
Assets pledged as collateral	(41,630)	—	—
Net cash (used in) provided by investing activities	(663,822)	(1,124,740)	50,822

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

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Coinbase Global, Inc.
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2022	2021	2020
Cash flows from financing activities			
Issuance of common stock upon exercise of stock options, net of repurchases	51,497	217,064	20,731
Taxes paid related to net share settlement of equity awards	(351,867)	(262,794)	—
Proceeds received under the ESPP	20,848	19,889	—
Other financing activities	3,679	—	—
Customer custodial cash liabilities	(5,562,558)	6,691,859	2,710,522
Cash paid to repurchase equity awards	—	—	(1,930)
Issuance of shares from exercise of warrants	—	433	—
Issuance of convertible senior notes, net	—	1,403,753	—
Issuance of senior notes, net	—	1,976,011	—
Purchase of capped calls	—	(90,131)	—
Proceeds from short-term borrowings	190,956	20,000	—
Repayment of short-term borrowings	(191,073)	—	—
Net cash (used in) provided by financing activities	(5,838,518)	9,976,084	2,729,323
Net (decrease) increase in cash, cash equivalents, and restricted cash	(8,087,759)	12,889,516	3,073,693
Effect of exchange rates on cash, cash equivalents, and restricted cash	(163,257)	(64,883)	(2,081)
Cash, cash equivalents, and restricted cash, beginning of period	17,680,662	4,856,029	1,784,417
Cash, cash equivalents, and restricted cash, end of period	$ 9,429,646	$ 17,680,662	$ 4,856,029
Cash, cash equivalents, and restricted cash consisted of the following:			
Cash and cash equivalents	$ 4,425,021	$ 7,123,478	$ 1,061,850
Restricted cash	25,873	30,951	30,787
Customer custodial cash	4,978,752	10,526,233	3,763,392
Total cash, cash equivalents, and restricted cash	$ 9,429,646	$ 17,680,662	$ 4,856,029
Supplemental disclosure of cash flow information			
Cash paid during the period for interest	$ 82,399	$ 3,793	$ —
Cash paid during the period for income taxes	35,888	68,614	62,060
Operating cash outflows for amounts included in the measurement of operating lease liabilities	14,528	20,061	40,011
Supplemental schedule of non-cash investing and financing activities			
Unsettled purchases of property and equipment	$ —	$ 808	$ —
Right-of-use assets obtained in exchange for operating lease obligations	3,059	27,286	2,146
Non-cash consideration paid for business combinations	324,925	571,196	—
Purchase of crypto assets and investments with non-cash consideration	19,967	13,511	662
Redemption of investments with non-cash consideration	5,000	—	—
Disposal of crypto assets for non-cash consideration	617	—	—
Crypto assets borrowed	920,379	1,134,876	194,696
Crypto assets borrowed repaid with crypto assets	1,432,688	609,600	59,171
Non-cash assets pledged as collateral	58,377	—	—
Non-cash assets received as collateral	26,874	—	—

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

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Coinbase Global, Inc.
Notes to Consolidated Financial Statements

1. NATURE OF OPERATIONS

Coinbase, Inc. was founded in 2012. In April 2014, in connection with a corporate reorganization, Coinbase, Inc. became a wholly-owned subsidiary of Coinbase Global, Inc. (together with its consolidated subsidiaries, the "Company").

The Company operates globally and is a leading provider of end-to-end financial infrastructure and technology for the cryptoeconomy. The Company offers consumers the primary financial account for the cryptoeconomy, institutions a state of the art marketplace with a deep pool of liquidity for transacting in crypto assets, and developers technology and services that enable them to build crypto-based applications and securely accept crypto assets as payment.

The Company is a remote-first company. Accordingly, the Company does not maintain a headquarters.

On April 14, 2021, the Company completed the direct listing of its Class A common stock on the Nasdaq Global Select Market (the "Direct Listing").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and principles of consolidation

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP"), and include the accounts of the Company and its subsidiaries. The Company's subsidiaries are entities in which the Company holds, directly or indirectly, more than 50% of the voting rights, or where it exercises control. Certain subsidiaries of the Company have a basis of presentation different from GAAP. For the purposes of the consolidated financial statements, the basis of presentation of such subsidiaries is converted to GAAP. All intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

Certain prior period amounts have been reclassified in order to conform with the current period presentation. These reclassifications have no impact on the Company's previously reported consolidated net income.

Changes in presentation

During the fourth quarter of 2022, the Company elected to change its presentation for deposits in transit from payment processors and financial institutions, which are related to customer transactions. Under the new presentation, these funds are included in customer custodial funds, whereas previously they were presented within the accounts and loans receivable, net of allowance financial statement line item. The change allows the Company to present cash and deposits in transit as customer custodial funds held for the exclusive benefit of customers, which the Company holds to meet its obligations for customer deposits at period end.

Additionally, the Company made a change in its presentation of customer custodial cash liabilities from operating activities, to present them as financing activities within its consolidated statements of cash flows.

Comparative amounts have been recast to conform to current period presentation. These recasts had no impact on the consolidated statements of operations, consolidated statements of comprehensive income or consolidated statements of changes in convertible preferred stock and stockholders' equity.

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Coinbase Global, Inc.
Notes to Consolidated Financial Statements

The following tables present the effects of the changes in presentation within the consolidated balance sheets and statements of cash flows (in thousands):

	As of and for the Year Ended December 31, 2021		
	As Previously Reported	Adjustment	As Adjusted
Consolidated Balance Sheets			
Customer custodial funds	$ 10,526,233	$ 91,319	$ 10,617,552
Accounts and loans receivable, net of allowance	396,025	(91,319)	304,706
Consolidated Statements of Cash Flows			
Cash flows from operating activities			
Accounts and loans receivable	$ (8,016)	$ 36,527	$ 28,511
Deposits in transit	—	(36,527)	(36,527)
Customer custodial cash liabilities	6,691,859	(6,691,859)	—
Net cash provided by operating activities	10,730,031	(6,691,859)	4,038,172
Cash flows from financing activities			
Customer custodial cash liabilities	$ —	$ 6,691,859	$ 6,691,859
Net cash provided by financing activities	3,284,225	6,691,859	9,976,084

	For the Year Ended December 31, 2020		
	As Previously Reported	Adjustment	As Adjusted
Consolidated Statements of Cash Flows			
Cash flows from operating activities			
Accounts and loans receivable	$ (157,156)	$ 39,989	$ (117,167)
Deposits in transit	—	(39,989)	(39,989)
Customer custodial cash liabilities	2,710,522	(2,710,522)	—
Net cash provided by operating activities	3,004,070	(2,710,522)	293,548
Cash flows from financing activities			
Customer custodial cash liabilities	$ —	$ 2,710,522	$ 2,710,522
Net cash provided by financing activities	18,801	2,710,522	2,729,323

Use of estimates

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions in the Company's consolidated financial statements and notes thereto.

Significant estimates and assumptions include the determination of the recognition, measurement, and valuation of current and deferred income taxes; the fair value of stock-based awards issued; the useful lives of long-lived assets; the impairment of long-lived assets; the valuation of privately-held strategic investments, including impairments; the Company's incremental borrowing rate; the fair value of customer crypto assets and liabilities; the fair value of assets acquired and liabilities assumed in business combinations, including contingent consideration arrangements; the fair value of derivatives and related hedges; the fair value of long-term debt; assessing the likelihood of adverse outcomes from claims and disputes; and loss provisions.

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Actual results and outcomes may differ from management's estimates and assumptions due to risks and uncertainties. To the extent that there are material differences between these estimates and actual results, the Company's consolidated financial statements will be affected. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the result of which forms the basis for making judgments about the carrying values of assets and liabilities.

Foreign currency transactions

The Company's functional currency is the U.S. dollar. The Company has exposure to foreign currency translation gains and losses arising from the Company's net investment in foreign subsidiaries. The revenues, expenses, and financial results of these foreign subsidiaries are recorded in their respective functional currencies. The financial statements of these subsidiaries are translated into U.S. dollars using a current rate of exchange, with gains or losses, net of tax as applicable, included in accumulated other comprehensive income (loss) ("AOCI") within the consolidated statements of changes in convertible preferred stock and stockholders' equity. Cumulative translation adjustments are released from AOCI and recorded in the consolidated statements of operations when the Company disposes or loses control of a consolidated subsidiary. Gains and losses resulting from remeasurement are recorded in other expense (income), net within the consolidated statements of operations.

Business combinations

The results of businesses acquired in a business combination are included in the Company's consolidated financial statements from the date of the acquisition. Purchase accounting results in assets and liabilities of an acquired business being recorded at their estimated fair values on the acquisition date. Any excess consideration over the fair value of assets acquired and liabilities assumed is recognized as goodwill. Acquisition-related costs incurred by the Company are recognized as an expense in general and administrative expenses within the consolidated statements of operations.

The Company uses its best estimates and assumptions to assign fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date. The Company's estimates are inherently uncertain and subject to refinement.

During the measurement period, which may be up to one year from the acquisition date, and to the extent that the value was not previously finalized, the Company may record adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed, with the corresponding offset to goodwill. In addition, uncertain tax positions and tax-related valuation allowances are initially recorded in connection with a business combination as of the acquisition date. The Company continues to collect information about facts and circumstance that existed at the date of acquisition and reevaluates these estimates and assumptions quarterly and records any adjustments to the Company's preliminary estimates to goodwill, provided that the Company is within the measurement period. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the Company's consolidated statements of operations.

Fair value measurements

The Company measures certain assets and liabilities at fair value. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- **Level 1**: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

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- **Level 2**: Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- **Level 3**: Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Cash and cash equivalents

Cash and cash equivalents include cash and interest-bearing highly liquid investments held at financial institutions, cash on hand that is not restricted as to withdrawal or use with an initial maturity of three months or less, and cash held in accounts at crypto trading venues. Crypto asset and fiat wallet service trading venues include other crypto asset trading platforms that hold money transmitter licenses, and where the Company holds funds in its accounts with those trading platforms. Cash and cash equivalents excludes customer legal tender, which is reported separately as customer custodial funds on the accompanying consolidated balance sheets. Refer to *Customer custodial funds and customer custodial cash liabilities* below for further details.

Restricted cash

The Company has restricted cash deposits at financial institutions related to operational restricted deposits and a standby letter of credit.

Customer custodial funds and customer custodial cash liabilities

Customer custodial funds represents restricted cash and cash equivalents maintained in segregated Company bank accounts that are held for the exclusive benefit of customers and deposits in transit from payment processors and financial institutions. Customer custodial cash liabilities represents the obligation to return cash deposits held by customers in their fiat wallets and unsettled fiat deposits and withdrawals. Deposits in transit represent settlements from third-party payment processors and banks for customer transactions. Deposits in transit are received within five business days of the transaction date. The Company establishes withdrawal-based limits in order to mitigate potential losses by preventing customers from withdrawing the crypto asset to an external blockchain address until the deposit settles. In certain jurisdictions, deposits in transit qualify as eligible liquid assets to meet regulatory requirements to fulfill the Company's direct obligations under customer custodial cash liabilities. The Company restricts the use of the assets underlying the customer custodial funds to meet regulatory requirements and classifies the assets as current based on their purpose and availability to fulfill the Company's direct obligation under customer custodial cash liabilities.

Certain jurisdictions where the Company operates require the Company to hold eligible liquid assets, as defined by applicable regulatory requirements and commercial law in these jurisdictions, equal to at least 100% of the aggregate amount of all customer custodial cash liabilities. Depending on the jurisdiction, eligible liquid assets can include cash and cash equivalents, customer custodial funds, and certain other customer receivables. As of December 31, 2022 and 2021, the Company's eligible liquid assets were greater than the aggregate amount of customer custodial cash liabilities.

USDC

USD Coin ("USDC") is accounted for as a financial instrument; one USDC can be redeemed for one U.S. dollar on demand from the issuer.

Accounts and loans receivable and allowance for doubtful accounts

Accounts and loans receivables are contractual rights to receive cash or crypto assets either on demand or on fixed or determinable dates, and are recognized as an asset on the consolidated balance sheets. Accounts and loans receivable consists of trade finance receivables, custodial fee revenue receivable, loans receivable, crypto asset loan receivables, interest receivable, and other receivables.

Trade finance receivables represent funds due for crypto assets delivered to credit eligible customers and are typically received within three business days from the transaction date. Trade finance receivables enable customers to instantly invest in crypto assets without pre-funding their trade.

Custodial fee revenue receivable represents the fee earned and receivable by the Company for providing a dedicated secure cold storage solution to customers. The fee is based on a contractual percentage of the daily value of assets under custody and is generally collected on a monthly basis. Such custodial fee revenue income is included in the net revenue in the consolidated statements of operations.

Loans receivable represent cash loans made to consumers and institutions. These loans are collateralized with crypto assets held by those users in their crypto asset wallets on the Company's platform. Loans receivable are subsequently measured at amortized cost.

Crypto asset loan receivables represent crypto asset loans made to institutions. These loans are collateralized with fiat, USDC, or crypto assets held by those users in their crypto asset wallet on the Company's platform. Crypto asset loan receivables are initially and subsequently measured at the fair value of the underlying crypto asset lent and adjusted for expected credit losses.

The Company recognizes an allowance for doubtful accounts for receivables based on expected credit losses. In determining expected credit losses, the Company considers historical loss experience, the aging of its receivable balance, and the fair value of any collateral held. For loans receivable and crypto asset loan receivables, the Company applies the collateral maintenance provision practical expedient. The Company would recognize credit losses on these loans if there is a collateral shortfall and it is not reasonably expected that the borrower will replenish such a shortfall.

Concentration of credit risk

The Company's cash and cash equivalents, restricted cash, customer custodial funds, and accounts and loans receivable are potentially subject to concentration of credit risk. Cash and cash equivalents, restricted cash, and customer custodial funds are primarily placed with financial institutions which are of high credit quality. The Company invests cash and cash equivalents, and customer custodial funds primarily in highly liquid, highly rated instruments which are uninsured. The Company may also have corporate deposit balances with financial institutions which exceed the Federal Deposit Insurance Corporation insurance limit of $250,000. The Company has not experienced losses on these accounts and does not believe it is exposed to any significant credit risk with respect to these accounts. The Company also holds cash at crypto trading venues and performs a regular assessment of these crypto trading venues as part of its risk management process.

The Company held $861.1 million and $100.1 million of USDC as of December 31, 2022 and 2021, respectively. The issuer of USDC reported that, as of December 31, 2022, underlying reserves were held in cash and short-duration U.S. Treasuries within segregated accounts for the benefit of USDC holders.

As of December 31, 2022 and 2021, the Company had one counterparty and no counterparties, respectively, who accounted for more than 10% of the Company's accounts and loans receivable, net. In January and February 2023, the Company received payments from this counterparty which accounted for their total receivable balance.

During the years ended December 31, 2022 and 2021, no counterparty accounted for more than 10% of total revenue.

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Crypto assets held

The crypto assets held by the Company, with no qualifying fair value hedge, are accounted for as intangible assets with indefinite useful lives, and are initially measured at cost. Crypto assets accounted for as intangible assets are subject to impairment losses if the fair value of crypto assets decreases below the carrying value at any time during the period. The fair value is measured using the quoted price of the crypto asset at the time its fair value is being measured in the Company's principal market. Impairment expense is reflected in other operating expense, net in the consolidated statements of operations. The Company assigns costs to transactions on a first-in, first-out basis.

Crypto assets held as the hedged item in qualifying fair value hedges are initially measured at cost. Subsequent changes in fair value attributable to the hedged risk are adjusted to the carrying amount of these crypto assets, with changes in fair value recorded in other operating expense, net in the consolidated statements of operations.

The Company recognizes crypto assets received through airdrops or forks if the crypto asset is expected to generate probable future benefit and if the Company is able to support the trading, custody, or withdrawal of these assets. The Company records the crypto assets received through airdrops or forks at their cost.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in lease right-of-use ("ROU") assets and lease liabilities on the consolidated balance sheets. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of future minimum lease payments over the lease term. Most leases do not provide an implicit rate, so the Company uses its incremental borrowing rate. The operating lease ROU assets also include any lease payments made before commencement and exclude lease incentives.

The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that those options will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company has made the policy election to account for short-term leases by recognizing the lease payments in profit or loss on a straight-line basis over the lease term and not recognizing these leases on the consolidated balance sheets. Variable lease payments are recognized in profit or loss in the period in which the obligation for those payments is incurred. The Company has real estate lease agreements with lease and non-lease components for which the Company has made the accounting policy election to account for these agreements as a single lease component.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the lesser of the estimated useful life of the asset or the remaining lease term. The estimated useful lives of the Company's property, equipment, and software are generally as follows:

Property and Equipment	Useful Life
Furniture and fixtures	Three to five years
Computer equipment	Two to five years
Leasehold improvements	Lesser of useful life or remaining lease term
Capitalized software	One to three years

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Coinbase Global, Inc.
Notes to Consolidated Financial Statements

Construction-in-progress represents costs incurred on the construction of leasehold improvements that have not been completed or placed in service as of the end of the year, and accordingly, no depreciation expense has been recorded.

Capitalized software consists of costs incurred during the application development stage of internal-use software or implementation of a hosting arrangement that is a service contract. Capitalized costs consist of salaries and compensation costs for employees, fees paid to third-party consultants who are directly involved in development efforts, and costs incurred for upgrades and enhancements to add functionality of the software. Other costs that do not meet the capitalization criteria are expensed as incurred.

Long-lived assets, including ROU assets, goodwill, and acquired intangible assets

The Company evaluates the recoverability of long-lived assets on an annual basis, or more frequently whenever circumstances indicate a long-lived asset may be impaired. When indicators of impairment exist, the Company estimates future undiscounted cash flows attributable to such assets. In the event future undiscounted cash flows do not exceed the carrying amount of the assets, the asset would be considered impaired. The impairment loss is measured based upon the difference between the carrying amount and the fair value of the assets.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired in a business combination. Goodwill is tested for impairment at the reporting unit level on an annual basis (October 1 for the Company) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. For the periods presented, the Company did not have any goodwill impairment charges.

Acquired intangible assets with a definite useful life are amortized over their estimated useful lives on a straight-line basis. Each period, the Company evaluates the estimated remaining useful life of its intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. Intangible assets assessed as having indefinite lives are not amortized, but are assessed for indicators that the useful life is no longer indefinite or for indicators of impairment each period.

Investments

The Company holds the following categories of investments, which are included in other non-current assets on the consolidated balance sheets.

Equity method investments

The Company holds equity investments in privately held companies. The Company applies the equity method of accounting for investments in other entities when it holds between 20% and 50% of the common stock or in-substance common stock in the entity, or when it exercises significant influence over the entity. Under the equity method, the Company's share of each entity's profit or loss is reflected in other expense (income), net in the consolidated statements of operations.

Strategic investments

The Company's strategic investments primarily include investments in equity instruments where the Company (1) holds less than 20% ownership in the entity, and (2) does not exercise significant influence. These investments are recorded at cost and adjusted for observable transactions for same or similar investments of the same issuer (referred to as the measurement alternative) or impairment.

Crypto asset borrowings

The Company borrows crypto assets from third parties on an unsecured basis. Such crypto assets borrowed by the Company are reported in crypto assets held on the consolidated balance sheets.

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The borrowings are accounted for as hybrid instruments, with a liability host contract that contains an embedded derivative based on the changes in the fair value of the underlying crypto asset. The host contract is not accounted for as a debt instrument because it is not a financial liability, is carried at the fair value of the assets acquired and reported in crypto asset borrowings on the consolidated balance sheets. The embedded derivative is accounted for at fair value, with changes in fair value recognized in other operating expense, net in the consolidated statements of operations. The embedded derivatives are included in crypto asset borrowings on the consolidated balance sheets.

The term of these borrowings can either be for a fixed term of less than one year or can be open-ended and repayable at the option of the Company or the lender. These borrowings bear a fee payable by the Company to the lender, which is based on a percentage of the amount borrowed and is denominated in the related crypto asset borrowed. The borrowing fee is recognized on an accrual basis and is included in other operating expense, net in the consolidated statements of operations.

Derivative contracts

Derivative contracts derive their value from underlying asset prices, other inputs or a combination of these factors. Derivative contracts are recognized as either assets or liabilities on the consolidated balance sheets at fair value, with changes in fair value recognized in other operating expense, net.

The Company enters into arrangements that result in obtaining the right to receive or obligation to deliver a fixed amount of crypto assets in the future. These are hybrid instruments, consisting of a debt host contract that is initially measured at the fair value of the underlying crypto assets and is subsequently carried at amortized cost, and an embedded forward feature based on the changes in the fair value of the underlying crypto asset. The embedded forward is bifurcated from the host contract, and is subsequently measured at fair value.

The Company also enters into foreign exchange forward contracts that act as economic hedges against the impact of changes in Euro on the Company's intercompany transactions. The Company records changes in fair value of the forward contracts as part of other expense (income), net in the consolidated statements of operations.

Derivatives designated as hedges

The Company applies hedge accounting to certain derivatives executed for risk management purposes. To qualify for hedge accounting, a derivative must be highly effective at reducing the risk associated with the exposure being hedged. The Company uses fair value hedges primarily to hedge the fair value exposure of crypto asset prices. For qualifying fair value hedges, the changes in the fair value of the derivative and the fair value of the hedged item are recognized in current-period earnings in other operating expense, net in the consolidated statements of operations. Derivative amounts affecting earnings are recognized in the same line item as the earnings effect of the hedged item.

Customer crypto assets and liabilities

Customer crypto assets and liabilities represent the Company's obligation to safeguard customers' crypto assets in digital wallets on the Company's platform. The Company safeguards these assets for customers and is obligated to safeguard them from loss, theft, or other misuse. The Company recognizes customer crypto liabilities and corresponding customer crypto assets, on initial recognition and at each reporting date, at fair value of the crypto assets. Any loss, theft, or other misuse would impact the measurement of customer crypto assets.

Revenue recognition

See *Note 5. Revenue*, for information on the Company's accounting policies for revenue recognition.

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Contract acquisition costs

The Company has elected to apply the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that would otherwise have been recognized is one year or less.

Transaction expense

Transaction expense includes costs incurred to operate the Company's platform, process crypto asset trades, and perform wallet services. These costs include account verification fees, miner fees to process transactions on blockchain networks, fees paid to payment processors and other financial institutions for customer transaction activity, and crypto asset losses due to transaction reversals. Transaction expense also includes rewards paid to users for staking activities conducted by the Company. Fixed-fee costs are expensed over the term of the contract and transaction-level costs are expensed as incurred.

Technology and development

Technology and development expenses include personnel-related expenses incurred in operating, maintaining, and enhancing the Company's platform. These costs also include website hosting, infrastructure expenses, costs incurred in developing new products and services and the amortization of acquired developed technology.

Sales and marketing

Sales and marketing expenses primarily include costs related to customer acquisition, advertising and marketing programs, and personnel-related expenses. Sales and marketing costs are expensed as incurred.

General and administrative

General and administrative expenses include personnel-related expenses incurred to support the Company's business, including legal, finance, compliance, human resources, customer support, executive, and other support operations. These costs also include software subscriptions for support services, facilities and equipment costs, depreciation, amortization of acquired customer relationship intangible assets, gains and losses on disposal of fixed assets, legal reserves and settlements, and other general overhead. General and administrative costs are expensed as incurred.

Other operating expense, net

Other operating expense, net includes the cost of the Company's crypto assets used to fulfill customer accommodation transactions. Periodically, as an accommodation to customers, the Company may fulfill customer transactions using its own crypto assets. The Company has custody and control of the crypto assets prior to the sale to the customer. Accordingly, the Company records the total value of the sale in other revenue and the cost of the crypto asset in other operating expense, net.

Other operating expense, net also includes impairment and realized gains on the sale of crypto assets, realized gains and losses resulting from the settlement of derivative instruments, and fair value gains and losses related to derivatives and derivatives designated in qualifying fair value hedge accounting relationships.

Stock-based compensation

The Company recognizes stock-based compensation expense using a fair-value based method for costs related to all equity awards granted under its equity incentive plans to employees, directors and non-employees of the Company including restricted stock, RSUs, stock options and purchase rights granted under the ESPP.

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The fair value of restricted stock and RSUs is estimated based on the fair value of the Company's common stock on the date of grant.

The Company estimates the fair value of stock options with only service-based conditions and purchase rights under the ESPP on the date of grant using the Black-Scholes-Merton Option-Pricing Model. The model requires management to make a number of assumptions, including the fair value and expected volatility of the Company's underlying common stock price, expected life of the option, risk-free interest rate, and expected dividend yield. The fair value of the underlying stock is the fair value of the Company's common stock on the date of grant. The expected stock price volatility assumption for the Company's stock is determined by using a weighted average of the historical stock price volatility of comparable companies from a representative peer group, as sufficient trading history for the Company's common stock is not available. The Company uses historical exercise information and contractual terms of options to estimate the expected term. The risk-free interest rate for periods within the expected life of the option is based on the U.S. Treasury zero coupon bonds with terms consistent with the expected term of the award at the time of grant. The expected dividend yield assumption is based on the Company's history and expectation of no dividend payouts.

Prior to the Direct Listing, the fair value of the underlying common stock was determined using the probability weighted expected return method, with a discounted cash flow model or a market multiples method used for each expected outcome. Following the Direct Listing, the fair value of the underlying common stock is the closing price of the Company's Class A common stock as reported on the Nasdaq Global Select Market on the grant date.

Stock-based compensation expense is recorded on a straight-line basis over the requisite service period. The Company has elected to account for forfeitures of awards as they occur, with previously recognized compensation reversed in the period that the awards are forfeited.

Income taxes

The Company accounts for income taxes using the asset and liability method whereby deferred tax asset and liability account balances are determined based on temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. A valuation allowance is established when management estimates that it is more likely than not that deferred tax assets will not be realized. Realization of deferred tax assets is dependent upon future pre-tax earnings, the reversal of temporary differences between book and tax income, and the expected tax rates in future periods.

The Company is required to evaluate the tax positions taken in the course of preparing its tax returns to determine whether tax positions are more likely than not of being sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the "more-likely-than-not" threshold would be recorded as a tax expense in the current year. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount that is initially recognized. It is the Company's practice to recognize interest and penalties related to income tax matters in income tax expense.

For U.S. federal tax purposes, crypto asset transactions are treated on the same tax principles as property transactions. The Company recognizes a gain or loss when crypto assets are exchanged for other property, in the amount of the difference between the fair market value of the property received and the tax basis of the exchanged crypto assets. Receipts of crypto assets in exchange for goods or services are included in taxable income at the fair market value on the date of receipt.

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Net income (loss) per share

The Company computes net income (loss) per share using the two-class method required for participating securities. The two-class method requires income available to common stockholders for the period to be allocated between common stock and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed. The Company's convertible preferred stock and certain of its restricted common stock were deemed participating securities. These participating securities do not contractually require the holders of such shares to participate in the Company's losses.

Basic net income (loss) per share is computed using the weighted-average number of outstanding shares of common stock during the period. Diluted net income (loss) per share is computed using the weighted-average number of outstanding shares of common stock and, when dilutive, potential shares of common stock outstanding during the period. Potential shares of common stock consist of incremental shares issuable upon the assumed exercise of stock options and warrants, vesting of RSUs, vesting of restricted common stock, conversion of the Company's convertible preferred stock and convertible notes, and settlement of contingent consideration.

Segment reporting

Operating segments are defined as components of an entity for which separate financial information is available and that is regularly reviewed by the Chief Operating Decision Maker (the "CODM") in deciding how to allocate resources to an individual segment and in assessing performance. The Company's Chief Executive Officer is the Company's CODM. The CODM reviews financial information presented on a global consolidated basis for purposes of making operating decisions, allocating resources, and evaluating financial performance. As such, the Company has determined that it operates as one operating segment and one reportable segment.

Recent accounting pronouncements

Recently adopted accounting pronouncements

On October 28, 2021, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2021-08, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers* ("ASU 2021-08"). ASU 2021-08 amends Accounting Standards Codification 805 ("ASC 805") to require acquiring entities to apply Topic 606 - *Revenue from Contracts with Customer*s to recognize and measure contract assets and contract liabilities in a business combination. The Company early adopted the standard on January 1, 2022. The adoption of the standard did not have a material impact on the Company's consolidated financial statements.

On March 31, 2022, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 121 ("SAB 121"). SAB 121 sets out interpretive guidance from the staff of the SEC regarding the accounting for obligations to safeguard crypto assets that an entity holds for its customers. Safeguarding is defined as taking actions to secure customer crypto assets and the associated cryptographic key information and protecting them from loss, theft, or other misuse. The guidance requires an entity to recognize a liability for the obligation to safeguard the users' assets, and recognize an associated asset for the crypto assets safeguarded. Both the liability and asset should be measured initially and subsequently at the fair value of the crypto assets being safeguarded. The guidance also requires additional disclosures related to the nature and amount of crypto assets that the entity is responsible for holding for its customers, with separate disclosure for each significant crypto asset, and the vulnerabilities the entity has due to any concentration in such activities. The Company has adopted this guidance as of June 30, 2022 with retrospective application as of January 1, 2022. The balances as of January 1, 2022 for the customer crypto assets and customer crypto liabilities were both $267.6 billion.

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Accounting pronouncements pending adoption

On June 30, 2022, FASB issued Accounting Standards Update No. 2022-03, *Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions* ("ASU 2022-03"). ASU 2022-03 clarifies that a contractual sale restriction prohibiting the sale of an equity security is a characteristic of the reporting entity holding the equity security and is not included in the equity security's unit of account. The standard requires specific disclosures related to equity securities that are subject to contractual sale restrictions, including (1) the fair value of such equity securities reflected in the balance sheet, (2) the nature and remaining duration of the corresponding restrictions, and (3) any circumstances that could cause a lapse in the restrictions. The new standard is effective for the Company for its fiscal year beginning January 1, 2024, with early adoption permitted. The Company is currently evaluating the impact of adopting the standard on the Company's consolidated financial statements.

3. RESTRUCTURING

In June 2022, the Company announced and completed a restructuring impacting approximately 18% of the Company's headcount. This strategic reduction of the existing global workforce was intended to manage the Company's operating expenses in response to market conditions and ongoing business prioritization efforts. As a result, approximately 1,100 employees in various departments and locations were terminated. As part of their termination, they were given separation pay and other personnel benefits.

The following expenses were recognized within restructuring expenses in the consolidated statements of operations during the year ended December 31, 2022 (in thousands). The Company does not expect to incur any additional charges in connection with this restructuring.

	Year Ended December 31, 2022
Separation pay	$ 38,741
Other personnel costs	1,962
Total	$ 40,703

The following table summarizes the balance of the restructuring reserve and the changes in the reserve as of and for the year ended December 31, 2022 (in thousands):

	Expenses Incurred	Payments	Adjustments	Accrued Balance as of December 31, 2022
Separation pay	$ 39,259	$ (38,741)	$ (518)	$ —
Other personnel costs	3,194	(1,962)	(1,232)	—
Total	$ 42,453	$ (40,703)	$ (1,750)	$ —

4. ACQUISITIONS

2022 acquisitions

Unbound Security, Inc.

On January 4, 2022, the Company completed the acquisition of Unbound Security, Inc. ("Unbound") by acquiring all issued and outstanding shares of capital stock and stock options of Unbound. Unbound is a pioneer in a number of cryptographic security technologies, which the Company believes will play a key role in the Company's product and security roadmap.

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In accordance with ASC 805, *Business Combinations*, the acquisition was accounted for as a business combination under the acquisition method. The purchase consideration was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date with the excess recorded as goodwill, none of which is expected to be deductible for tax purposes. The goodwill balance is primarily attributed to the assembled workforce, synergies, and the use of purchased technology to develop future products and technologies. The final allocation of purchase consideration to assets and liabilities remains in process as the Company continues to evaluate certain balances, estimates, and assumptions during the measurement period (up to one year from the acquisition date). Any changes in the fair value of the assets acquired and liabilities assumed during the measurement period may result in adjustments to goodwill. During the year ended December 31, 2022, a measurement period adjustment associated with deferred tax assets was recorded, resulting in an increase in other non-current assets of $4.1 million and a corresponding reduction in goodwill.

The total consideration transferred in the acquisition was $258.0 million, consisting of the following (in thousands):

Cash	$	151,424
Cash payable		126
Class A common stock of the Company		103,977
RSUs for shares of the Company's Class A common stock		2,457
Total purchase consideration	$	257,984

Included in the purchase consideration are $21.7 million in cash and 85,324 shares of the Company's Class A common stock that are subject to an indemnity holdback. The cash and shares subject to the indemnity holdback will be released 18 months after the closing date of the transaction.

The results of operations and the fair values of the assets acquired and liabilities assumed have been included in the consolidated financial statements from the date of acquisition. The following table summarizes the preliminary fair values of assets acquired and liabilities assumed as of the date of acquisition (in thousands):

Cash and cash equivalents	$	10,560
Restricted cash		573
Accounts and loans receivable, net of allowance		4,981
Prepaid expenses and other current assets		4,182
Lease right-of-use assets		1,059
Property and equipment, net		1,248
Goodwill		222,732
Intangible assets, net		28,500
Other non-current assets		3,476
Total assets		277,311
Accounts payable		719
Accrued expenses and other current liabilities		11,325
Lease liabilities		1,059
Other non-current liabilities		6,224
Total liabilities		19,327
Net assets acquired	$	257,984

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The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands, except for years data):

	Fair Value	Useful Life at Acquisition (in Years)
Developed technology	$ 15,700	1 - 5
In-process research and development ("IPR&D")	2,500	N/A
Customer relationships	10,300	2

The intangible assets will be amortized on a straight-line basis over their respective useful lives to technology and development expenses for developed technology and general and administrative expenses for customer relationships. Amortization of the IPR&D will be recognized in technology and development expenses once the research and development is placed into service as internally developed software. Management applied significant judgment in determining the fair value of intangible assets, which involved the use of estimates and assumptions with respect to development costs and profit, costs to recreate customer relationships, market participation profit, and opportunity cost.

Total acquisition costs of $3.0 million were incurred in relation to the acquisition, which were recognized as an expense and included in general and administrative expenses in the consolidated statements of operations.

The impact of this acquisition was not considered significant to the Company's consolidated financial statements for the current period presented and pro forma financial information has not been provided.

FairXchange, Inc.

On February 1, 2022, the Company completed the acquisition of FairXchange, Inc. ("FairX") by acquiring all issued and outstanding shares of capital stock, stock options and warrants of FairX. FairX is a derivatives exchange which is registered with the U.S. Commodity Futures Trading Commission as a designated contract market ("DCM") and the Company believes it has been a key stepping stone on the Company's path to offer crypto derivatives to consumers and institutional customers in the United States.

In accordance with ASC 805, *Business Combinations*, the acquisition was accounted for as a business combination under the acquisition method. The purchase consideration was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date with the excess recorded as goodwill, none of which is expected to be deductible for tax purposes. The goodwill balance is primarily attributed to the assembled workforce, market presence, synergies, and the use of purchased technology to develop future products and technologies. The final allocation of purchase consideration to assets and liabilities remains in process as the Company continues to evaluate certain balances, estimates, and assumptions during the measurement period (up to one year from the acquisition date). Any changes in the fair value of the assets acquired and liabilities assumed during the measurement period may result in adjustments to goodwill. During the year ended December 31, 2022, a measurement period adjustment associated with deferred tax assets was recorded, resulting in an increase in other non-current assets of $0.3 million and a corresponding reduction in goodwill.

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The total consideration transferred in the acquisition was $275.1 million, consisting of the following (in thousands):

Cash	$	56,726
Cash payable		10,442
Class A common stock of the Company - issued		174,229
Class A common stock of the Company - to be issued		33,693
Total purchase consideration	$	275,090

The aggregate purchase consideration includes 170,397 shares of the Company's Class A common stock to be issued after the acquisition date. The fair value of these shares on the acquisition date is included in additional paid-in capital. Additionally, included in the purchase consideration are $4.7 million in cash and 83,035 shares of the Company's Class A common stock that are subject to an indemnity holdback. The cash and shares subject to the indemnity holdback will be released 15 months after the closing date of the transaction.

The results of operations and the fair values of the assets acquired and liabilities assumed have been included in the consolidated financial statements from the date of acquisition. The following table summarizes the preliminary fair values of assets acquired and liabilities assumed as of the date of acquisition (in thousands):

Cash and cash equivalents	$	10,867
Accounts and loans receivable, net of allowance		411
Prepaid expenses and other current assets		20
Intangible assets, net		41,000
Goodwill		231,685
Other non-current assets		8,295
Total assets		292,278
Accounts payable		472
Accrued expenses and other current liabilities		5,796
Other non-current liabilities		10,920
Total liabilities		17,188
Net assets acquired	$	275,090

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands, except for years data):

		Fair Value	Useful Life at Acquisition (in Years)
DCM License	$	26,900	Indefinite
Developed technology		10,700	5
Trading relationships		3,400	3

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The developed technology and trading relationships will be amortized on a straight-line basis over their respective useful lives to technology and development expenses for developed technology and general and administrative for trading relationships. The DCM license has an indefinite useful life and will not be amortized. Management applied significant judgment in determining the fair value of intangible assets, which involved the use of estimates and assumptions with respect to forecasted revenues and expenses, development costs and profit, costs to recreate trading relationships, market participation profit, and opportunity cost.

Total acquisition costs of $1.1 million were incurred related to the acquisition, which were recognized as an expense and included in general and administrative expenses in the consolidated statements of operations.

The impact of this acquisition was not considered significant to the Company's consolidated financial statements for the current period presented and pro forma financial information has not been provided.

2021 acquisitions

Bison Trails

On February 8, 2021, the Company completed the acquisition of Bison Trails Co. ("Bison Trails") by acquiring all issued and outstanding common stock and stock options of Bison Trails. Bison Trails is a platform-as-a-service company that provides a suite of easy-to-use blockchain infrastructure products and services on multiple networks to custodians, exchanges and funds.

Prior to the acquisition, the Company held a minority ownership stake in Bison Trails, which was accounted for as a cost method investment. In accordance with ASC 805, *Business Combinations*, the acquisition was accounted for as a business combination achieved in stages under the acquisition method. Accordingly, the cost method investment was remeasured to fair value as of the acquisition date. The Company considered multiple factors in determining the fair value of the previously held cost method investment, including the price negotiated with the selling shareholders and current trading multiples for comparable companies. Based on this analysis, the Company recognized an $8.8 million gain on remeasurement, which was recorded in other expense (income), net in the consolidated statement of operations on the acquisition date.

The purchase consideration was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date with the excess recorded as goodwill, none of which is expected to be deductible for tax purposes. The goodwill balance is primarily attributed to the assembled workforce, market presence, synergies, and the use of purchased technology to develop future products and technologies.

The total consideration transferred in the acquisition was $457.3 million, consisting of the following (in thousands):

Class A common stock of the Company	$	389,314
Previously held interest on acquisition date		10,863
Cash		28,726
Replacement of Bison Trails options		28,365
Total purchase consideration	$	457,268

Included in the purchase consideration are 496,434 shares of the Company's Class A common stock that are subject to an indemnity holdback. The shares subject to the indemnity holdback was released 18 months after the closing date of the transaction.

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The results of operations and the fair values of the assets acquired and liabilities assumed have been included in the consolidated financial statements from the date of acquisition. The following table summarizes the estimated fair values of assets acquired and liabilities assumed using a cost-based approach (in thousands):

Cash and cash equivalents	$ 12,201
Crypto assets held	5,177
Accounts and loans receivable, net of allowance	2,323
Prepaid expenses and other current assets	122
Intangible assets, net	39,100
Goodwill	404,167
Other non-current assets	1,221
Lease right-of-use assets	808
Total assets	465,119
Accounts payable	526
Accrued expenses and other current liabilities	1,920
Lease liabilities	808
Other non-current liabilities	4,597
Total liabilities	7,851
Net assets acquired	$ 457,268

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands, except for years data):

	Fair Value	Useful Life at Acquisition (in Years)
Developed technology	$ 36,000	3
IPR&D	1,200	N/A
User base	1,900	3

The intangible assets will be amortized on a straight-line basis over their respective useful lives to technology and development expenses for developed technology and general and administrative expenses for user base. Amortization of the IPR&D will be recognized in technology and development expenses once the research and development is placed into service as internally developed software. Management applied significant judgement in determining the fair value of intangible assets, which involved the use of estimates and assumptions with respect to development costs and profit, costs to recreate customer relationships, market participation profit, and opportunity cost.

Total acquisition costs of $3.7 million were incurred related to the acquisition, which were recognized as an expense and included in general and administrative expenses in the consolidated statements of operations.

The impact of this acquisition was not considered significant to the Company's consolidated financial statements and pro forma financial information has not been provided.

Other acquisitions

During the year ended December 31, 2021, the Company also completed five other acquisitions that were not material individually, but were material when aggregated. In each of these acquisitions the Company acquired all issued and outstanding common stock and stock options of the acquiree.

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The total purchase consideration in each acquisition was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition dates, with the excess recorded as goodwill. During the year ended December 31, 2022, measurement period adjustments associated with deferred tax assets were recorded, resulting in an increase in other non-current assets of $1.9 million and a corresponding reduction in goodwill.

The aggregate total consideration transferred in these acquisitions was $211.0 million, consisting of the following (in thousands):

Common stock of the Company - issued	$	65,717
Common stock of the Company - to be issued		58,173
RSUs		3,019
Cash		62,425
Cash payable		5,918
Contingent consideration arrangement		15,752
Aggregate total purchase consideration	$	211,004

The aggregate purchase consideration included 160,840 shares of the Company's Class A common stock which was issued six months after the respective acquisition dates. The fair value of these shares on the respective acquisition dates was included in additional paid-in capital. Additionally, 51,619 shares of the Company's Class A common stock included in the aggregate purchase consideration that are to be issued, are subject to an indemnity holdback. The shares subject to the indemnity holdback will be released between 15 and 18 months after the closing date of each transaction.

Also included in the aggregate purchase consideration was the original estimated fair value of the contingent consideration arrangement agreed to in one of the acquisitions. The contingent consideration consists of two separate tranches. The first tranche will be settled one year after the closing date of the transaction and may result in delivery of up to 75,534 shares of the Company's Class A common stock if specified revenue targets are met during the first year after the closing date. The second tranche will be settled two years after the closing date of the transaction and may result in delivery of up to another 75,534 shares of the Company's Class A common stock, if specified revenue targets are met during the second year after the closing date. For each tranche, the revenue targets are adjusted for changes in the combined Bitcoin and Ethereum market capitalization since the closing date. The total number of the Company's Class A common stock issued to settle the contingent consideration arrangement will be adjusted downward in proportion to recognized revenues that do not meet the specified revenue targets.

In September 2022, upon resolution of the contingency and determination of the number of shares of the Company's Class A common stock to be issued under the first tranche of the contingent consideration arrangement, the Company reclassified the value of the first tranche from other non-current liabilities into additional paid-in capital on the consolidated balance sheets. The second tranche of the contingent consideration arrangement is included in other non-current liabilities and is subject to subsequent measurement at fair value with changes in fair value recognized through other expense (income), net.

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The results of operations and the fair values of the assets acquired and liabilities assumed have been included in the consolidated financial statements from the respective dates of acquisition. The following table summarizes the aggregate estimated fair values of assets acquired and liabilities assumed using a cost-based approach (in thousands):

Cash and cash equivalents	$ 8,039
Accounts and loans receivable, net of allowance	57
Prepaid expenses and other current assets	276
Intangible assets, net	62,100
Goodwill	144,379
Total assets	214,851
Accounts payable	359
Accrued expenses and other current liabilities	983
Other non-current liabilities	2,505
Total liabilities	3,847
Net assets acquired	$ 211,004

The excess of aggregate purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill of $144.4 million, of which $77.1 million is expected to be deductible for U.S. tax purposes. The goodwill balance is primarily attributed to the assembled workforce, market presence, synergies, and the use of purchased technology to develop future products and technologies.

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the dates of acquisition (in thousands, except for years data):

	Fair Value	Useful Life at Acquisition (in Years)
Developed technology	$ 45,900	2.5
User base	1,000	2.5
IPR&D	2,300	N/A
Customer relationships	12,900	4.3

The intangible assets will be amortized on a straight-line basis over their respective useful lives to technology and development expenses for developed technology and general and administrative expenses for customer relationships and user base. Amortization of the IPR&D will be recognized in technology and development expenses once the research and development is placed into service as internally developed software. Management applied significant judgement in determining the fair value of intangible assets, which involved the use of estimates and assumptions with respect to development costs and profit, costs to recreate customer relationships, market participation profit, and opportunity cost. These valuations incorporate significant unobservable inputs classified as Level 3.

Total acquisition costs of $4.3 million were incurred related to these other acquisitions, which were recognized as expenses and included in general and administrative expenses in the consolidated statements of operations. The Company also entered into employment agreements with key employees of the acquirees, which included stock-based compensation arrangements. In conjunction with these agreements, the Company recognized $5.5 million of compensation expenses on the acquisition dates included in technology and development expenses. Stock-based compensation arrangements offered to these key employees with vesting conditions will be recognized as compensation expense in future periods. See *Note 18. Stock-Based Compensation*, for additional details regarding stock-based compensation issued to employees.

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The impact of these acquisitions were not considered significant to the Company's consolidated financial statements and pro forma financial information has not been provided.

2020 acquisition

Tagomi

On July 31, 2020, the Company completed the acquisition of Tagomi Holdings, Inc. ("Tagomi"), by acquiring all issued and outstanding shares of common stock and stock options of Tagomi. Tagomi is an institutional trading platform for crypto assets and offers an end-to-end trading solution that caters to sophisticated traders and institutions. Tagomi operates an advanced trading platform which pools liquidity from multiple venues to offer efficient pricing, algorithmic trading, a suite of prime services (including delayed settlement and borrowing and lending of fiat currency and crypto assets), and a flexible account hierarchy and operational processes that meet the needs of institutional clients.

The total consideration transferred in the acquisition was $41.8 million, consisting of the following (in thousands):

Common stock of the Company	$	30,589
Replacement of Tagomi options and warrants		760
Cash		1,906
Settlement of pre-existing receivable		8,537
Total purchase consideration	$	41,792

The following table summarizes the estimated fair values of assets acquired and liabilities assumed as of the date of acquisition (in thousands):

Cash and cash equivalents	$	13,777
Customer custodial funds		19,837
Crypto assets held		5,687
Accounts and loans receivable, net of allowance		5,795
Prepaid expenses and other current assets		633
Intangible assets, net		7,350
Goodwill		22,516
Other non-current assets		1,611
Total assets		77,206
Customer custodial cash liabilities		20,787
Accounts payable		5,887
Accrued expenses and other current liabilities		66
Crypto asset borrowings		8,674
Total liabilities		35,414
Net assets acquired	$	41,792

The excess of purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill of $22.5 million, which is not deductible for tax purposes. The goodwill balance is primarily attributed to the market presence, synergies, and the use of purchased technology to develop future products and technologies.

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The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands, except for years data):

	Fair Value	Useful Life at Acquisition (in Years)
Developed technology	$ 6,600	3
Customer relationships	400	5
Licenses	350	Indefinite

The developed technology, customer relationships, and licenses represent the estimated fair value of Tagomi's trading platform, existing relationships with customers, and money transmitter licenses held, respectively. Total acquisition costs of $1.1 million were incurred related to the acquisition, which were recognized as an expense and included in general and administrative expenses in the consolidated statements of operations.

A related party of the Company was a prior equity holder of Tagomi, and as a result of the acquisition, was entitled to receive up to 264,527 shares of the Company's Class A common stock.

The impact of this acquisition was not considered significant to the Company's consolidated financial statements and pro forma financial information has not been provided.

5. REVENUE

Revenue recognition

The Company determines revenue recognition from contracts with customers through the following steps:

- identification of the contract, or contracts, with the customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of the revenue when, or as, the Company satisfies a performance obligation.

Revenue is recognized when control of the promised goods or services is transferred to the customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. The Company primarily generates revenue through transaction fees charged on the platform.

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The following table presents revenue of the Company disaggregated by revenue source (in thousands):

	Year Ended December 31, 2022	2021	2020
Net revenue			
Transaction revenue			
Consumer, net	$ 2,236,900	$ 6,490,992	$ 1,040,246
Institutional, net	119,344	346,274	55,928
Total transaction revenue	2,356,244	6,837,266	1,096,174
Subscription and services revenue			
Blockchain rewards	275,507	223,055	10,413
Custodial fee revenue	79,847	136,293	18,561
Interest income	326,956	25,835	5,535
Other subscription and services revenue(1)	110,261	132,304	10,484
Total subscription and services revenue	792,571	517,487	44,993
Total net revenue	3,148,815	7,354,753	1,141,167
Other revenue			
Crypto asset sales revenue	625	482,550	133,688
Corporate interest and other income	44,768	2,141	2,626
Total other revenue	45,393	484,691	136,314
Total revenue	$ 3,194,208	$ 7,839,444	$ 1,277,481

(1) During the third quarter of 2022, the Company rebranded the "Earn" campaign to the "Learning Rewards" campaign. $17.7 million of Learning Rewards revenue is included within other subscription and services revenue for the year ended December 31, 2022. $63.1 million and $7.7 million of Learning Rewards revenue has been reclassified from its own line item to other subscription and services revenue for the years ended December 31, 2021 and 2020 , respectively, to conform to the current period presentation.

Transaction revenue

Consumer transaction revenue represents transaction fees earned from customers that are primarily individuals, while institutional transaction revenue represents transaction fees earned from institutional customers, such as hedge funds, family offices, principal trading firms, and financial institutions. Institutional clients can trade spot via the Coinbase Spot Market and derivatives via the Coinbase Derivatives Exchange, or utilize Coinbase Prime services depending on their needs. High-frequency trading firms, such as market makers and principal traders, benefit from lower latency by connecting through the Coinbase Spot Market and Coinbase Derivatives Exchange, while corporations and family offices can access an integrated suite of investment services through Coinbase Prime.

The Company's service is comprised of a single performance obligation to provide a crypto asset matching service when customers buy, sell, or convert crypto assets. That is, the Company is an agent in transactions between customers and presents revenue for the fees earned on a net basis.

Judgment is required in determining whether the Company is the principal or the agent in transactions between customers. The Company evaluates the presentation of revenue on a gross or net basis based on whether it controls the crypto asset provided before it is transferred to the customer (gross) or whether it acts as an agent by arranging for other customers to provide the crypto asset to the customer (net). The Company does not control the crypto asset being provided before it is transferred to the buyer, does not have inventory risk related to the crypto asset, and is not responsible for the fulfillment of the crypto asset. The Company also does not set the price for the crypto asset as the price is a market rate established by users of the platform. As a result, the Company acts as an agent in facilitating the ability for a customer to purchase crypto assets from another customer.

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The Company considers its performance obligation satisfied, and recognizes revenue, at the point in time the transaction is processed. Contracts with customers are usually open-ended and can be terminated by either party without a termination penalty. Therefore, contracts are defined at the transaction level and do not extend beyond the service already provided.

The Company charges a fee at the transaction level. The transaction price, represented by the trading fee, is calculated based on volume and varies depending on payment type and the value of the transaction. Crypto asset purchase or sale transactions executed by a customer on the Company's platform is based on tiered pricing that is driven primarily by transaction volume processed for a specific historical period. The Company has concluded that this volume-based pricing approach does not constitute a future material right since the discount is within a range typically offered to a class of customers with similar volume. The transaction fee is collected from the customer at the time the transaction is executed. In certain instances, the transaction fee can be collected in crypto assets, with revenue measured based on the amount of crypto assets received and the fair value of the crypto assets at the time of the transaction.

The transaction price includes estimates for reductions in revenue from transaction fee reversals that may not be recovered from customers. Such reversals occur when the customer disputes a transaction processed on their credit card or their bank account for a variety of reasons and seeks to have the charge reversed after the Company has processed the transaction. These amounts are estimated based upon the most likely amount of consideration to which the Company will be entitled. All estimates are based on historical experience and the Company's best judgment at the time to the extent it is probable that a significant reversal of revenue recognized will not occur. All estimates of variable consideration are reassessed periodically. The total transaction price is allocated to the single performance obligation. While the Company recognizes transaction fee reversals as a reduction of net revenue, crypto asset losses related to those same transaction reversals are included in transaction expense.

Blockchain rewards

Blockchain rewards are primarily comprised of staking revenue in which the Company participates in networks with proof-of-stake consensus algorithms, through creating or validating blocks on the network using the staking validators that it controls. Blockchain protocols, or the participants that form the protocol networks, reward users for performing various activities on the blockchain. The most common form today is participating in proof-of-stake networks, however, there are other consensus algorithms. The Company considers itself the principal in transactions with the blockchain networks, and therefore presents such blockchain rewards earned on a gross basis. In exchange for participating in the consensus mechanism of these networks, the Company earns rewards in the form of the native token of the network. Each block creation or validation is a performance obligation. Revenue is recognized at the point when the block creation or validation is complete and the rewards are transferred into a digital wallet that the Company controls. Revenue is measured based on the number of tokens received and the fair value of the token at contract inception. Blockchain services offered as part of Coinbase Cloud's blockchain infrastructure solutions are included in other subscription and services revenue. The Company's staking revenue is included within blockchain rewards.

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Custodial fee revenue

The Company provides a dedicated secure cold storage solution to customers and earns a fee, which is based on a contractual percentage of the daily value of assets under custody. The fee is collected on a monthly basis. These contracts typically have one performance obligation which is provided and satisfied over the term of the contracts as customers simultaneously receive and consume the benefits of the services. The contract may be terminated by a customer at any time, without incurring a penalty. Customers are billed on the last day of the month during which services were provided, with the amounts being due within thirty days of receipt of the invoice. Accounts receivable from customers for custodial fee revenue, net of allowance, were $7.8 million and $22.4 million as of December 31, 2022 and 2021, respectively. The allowance recognized against these fees was not material for any of the periods presented.

Interest income and corporate interest and other income

The Company earns income on fiat funds under a revenue sharing arrangement with the issuer of USDC, pursuant to which the Company shares any interest income generated from USDC reserves pro rata based on (i) the amount of USDC distributed by each respective party and (ii) the amount of USDC held on each respective party's platform. The Company's income is dependent on the balance of such fiat funds and the prevailing interest rate environment. The Company also earns interest income on loans issued to its consumers and institutional users. Additionally, the Company holds customer custodial funds and cash and cash equivalents at certain third-party banks which earn interest. Interest income earned from customer custodial funds, cash and cash equivalents and loans is calculated using the interest method and is not within the scope of Topic 606 – *Revenue from Contracts with Customers*. Interest earned on revenue sharing, customer custodial funds, and loans is included in interest income within subscription and services revenue. Interest earned on cash and cash equivalents is included in corporate interest and other income, within other revenue.

Other subscription and services revenue

Other subscription and services revenue primarily includes revenue from Coinbase Cloud, which includes staking application, delegation, and infrastructure services, Coinbase One, Learning Rewards, and other subscription licenses. Generally, revenue from other subscription and services contains one performance obligation, may have variable and non-cash consideration, and is recognized at a point in time or over the period that services are provided.

Other revenue

Other revenue includes the sale of crypto assets and corporate interest and other income. Periodically, as an accommodation to customers, the Company may fulfill customer transactions using the Company's own crypto assets held for operating purposes. The Company has custody and control of the crypto assets prior to the sale to the customer and records revenue at the point in time when the sale to the customer is processed. Accordingly, the Company records the total value of the sale in other revenue and the cost of the crypto assets in other operating expense, net within the consolidated statements of operations. The cost of crypto assets used in fulfilling customer transactions was $0.5 million, $436.0 million and $131.9 million for the years ended December 31, 2022 , 2021 and 2020, respectively.

Related party transactions

Certain of the Company's directors, executive officers, and principal owners, including immediate family members, are users of the Company's platform. The Company recognized revenue from related party customers of $12.9 million, $29.1 million and $3.4 million for the years ended December 31, 2022, 2021, and 2020 respectively. As of December 31, 2022 and 2021, amounts receivable from related party customers were $1.3 million and $4.5 million, respectively.

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Revenue by geographic location

In the table below are the revenues disaggregated by geography, based on domicile of the customers or booking location, as applicable (in thousands):

	Year Ended December 31,		
	2022	2021	2020
United States	$ 2,684,425	$ 6,339,270	$ 966,153
Rest of the world[1]	509,783	1,500,174	311,328
Total revenue	$ 3,194,208	$ 7,839,444	$ 1,277,481

(1) No other individual country accounted for more than 10% of total revenue.

6. ACCOUNTS AND LOANS RECEIVABLE, NET OF ALLOWANCE

Accounts and loans receivable, net of allowance consisted of the following (in thousands):

	December 31,	
	2022	2021
Trade finance receivables	$ —	$ 1,865
Custodial fee revenue receivable	8,434	23,727
Loans receivable	98,203	218,461
Crypto asset loan receivables	85,826	—
Interest and other receivables[1]	223,413	85,204
Allowance for doubtful accounts[2]	(11,500)	(24,551)
Total accounts and loans receivable, net of allowance	$ 404,376	$ 304,706

(1) Includes accounts receivables denominated in crypto assets of $6.9 million and $26.4 million as of December 31, 2022 and 2021, respectively. See *Note 14. Derivatives* for additional details.
(2) Includes provision for transaction losses of $3.2 million and $16.8 million as of December 31, 2022 and 2021, respectively.

Loans receivable

The Company issues fiat loans to consumers and institutions. As of December 31, 2022 and 2021, the Company had issued loans with an outstanding balance of $98.2 million and $218.5 million, respectively. The related interest receivable on the loans as of December 31, 2022 and 2021, was $0.7 million and $1.3 million, respectively.

The amounts loaned are collateralized with crypto assets held by the borrower in their crypto asset wallet on the Company's platform. The Company does not have the right to use such collateral unless the borrower defaults on the loans. Due to the collateral requirements, the Company's process for collateral maintenance, and collateral held on platform, the Company's credit exposure is significantly limited and no allowance was recorded against these loans receivable. The loans are measured at amortized cost. The carrying value of the loans approximates their fair value due to their short-term duration of less than 12 months. As of December 31, 2022 and 2021, there were no loans receivable past due. See *Note 12. Accrued Expenses and Other Current Liabilities,* for additional details regarding the Company's obligation to return collateral.

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Crypto asset loan receivables

The Company enters into transactions where it lends crypto assets to unaffiliated institutional customers. The Company evaluates the crypto asset loan receivables for credit loss. Due to the collateral requirements, the Company's process for collateral maintenance, and collateral held on platform, the Company's credit exposure is significantly limited and no allowance, write-offs or recoveries were recorded against these crypto asset loan receivables as of and during the years ended December 31, 2022, 2021 and 2020. As of December 31, 2022 and 2021, there were no crypto asset loan receivables past due.

The Company requires that borrowers pledge assets as collateral for those loans. See *Note 12. Accrued Expenses and Other Current Liabilities,* for additional details regarding the Company's obligation to return collateral.

7. LEASES

The Company has operating leases for corporate offices. The leases have remaining lease terms of less than one year to four years. The leases generally contain options to extend or terminate the lease. However, these were not included in determining the lease terms as the Company is not reasonably certain to exercise those options. The Company rents or subleases certain of these corporate offices to third parties. The Company recognized sublease income of $5.3 million, $6.7 million and $6.6 million for the years ended December 31, 2022, 2021 and 2020, respectively. The remaining terms of these subleases range from thirteen months to two years.

The components of lease cost were as follows (in thousands):

	Year Ended December 31,		
	2022	2021	2020
Operating lease cost	$ 36,724	$ 34,074	$ 30,231
Short-term lease cost	707	374	358
Total lease cost	$ 37,431	$ 34,448	$ 30,589

Other information related to leases was as follows as of:

	December 31,	
	2022	2021
Weighted-average remaining lease term (in years)	1.2	2.0
Weighted-average discount rate	3.01 %	3.02 %

The interest rate used to determine the present value of the future lease payments is the Company's incremental borrowing rate because the interest rate implicit in the leases is not readily determinable. The Company's incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located.

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Maturities of lease liabilities were as follows (in thousands):

2023	$ 36,259
2024	33,607
2025	8,820
2026	792
Thereafter	—
Total lease payments	79,478
Less imputed interest	(3,700)
Total	$ 75,778

430 California office space

In September 2020, the Company renegotiated the terms of its office space lease in San Francisco, California, which included a partial give back of space for which the lease had not yet commenced. The terms of the agreement provided that the Company would pay a cancellation fee of $7.9 million and commit to enter into leases at the lessor's other properties, with a minimum committed spend of $15.5 million spread over the period from September 2020 to December 2025.

In February 2023, the Company entered into an early termination agreement for its remaining office space lease in San Francisco, California, which will now terminate on March 31, 2023. The Company will pay a termination fee of $25.0 million and commit to spend an additional $2.0 million at the lessor's other properties by March 31, 2025. The Company's estimated lease liability as of March 31, 2023 and prior to the termination was expected to be $43.7 million.

8. PROPERTY AND EQUIPMENT, NET

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

	December 31, 2022	December 31, 2021
Furniture and fixtures	$ 7,217	$ 7,307
Construction in progress	163	535
Computers and equipment	5,852	3,542
Leasehold improvements	45,099	43,048
Capitalized software	198,537	47,044
Total cost	256,868	101,476
Accumulated depreciation and amortization	(85,015)	(42,246)
Total, net	$ 171,853	$ 59,230

Depreciation and amortization expense was $48.0 million, $18.4 million, and $14.3 million for the years ended December 31, 2022, 2021 and 2020, respectively. Total additions to capitalized software were $178.6 million, $22.2 million and $12.1 million for the years ended December 31, 2022, 2021 and 2020, respectively. During the years ended December 31, 2022, 2021 and 2020, the Company recorded impairment charges of $21.8 million, $0, and $0, respectively, related to its property and equipment. Impairment expense is included in other operating expense, net in the consolidated statements of operations.

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Long-lived assets, which consisted of property and equipment, net and operating lease ROU assets, by geography were as follows (in thousands):

	December 31,	
	2022	2021
United States	$ 229,737	$ 145,203
Rest of the world[(1)]	11,473	12,412
Total long-lived assets	$ 241,210	$ 157,615

(1) No other individual country accounted for more than 10% of total long-lived assets.

9. GOODWILL, INTANGIBLE ASSETS, NET AND CRYPTO ASSETS HELD

Goodwill

The following table reflects the changes in the carrying amount of goodwill (in thousands):

	Year Ended December 31,	
	2022	2021
Balance, beginning of period	$ 625,758	$ 77,212
Additions due to business combinations	454,417	548,546
Measurement period adjustments[(1)]	(6,269)	—
Balance, end of period	$ 1,073,906	$ 625,758

(1) The measurement period adjustments consisted of $4.1 million, $0.3 million and $1.9 million related to the Unbound acquisition, FairX acquisition and certain other acquisitions that were material when aggregated, respectively, and which were associated with the changes in deferred tax assets as a result of changes in estimates.

There was no impairment recognized against goodwill at the beginning or end of the periods presented.

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Intangible assets, net

Intangible assets, net consisted of the following (in thousands, except years data):

As of December 31, 2022	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net	Weighted Average Remaining Useful Life (in Years)
Amortizing intangible assets				
Acquired developed technology	$ 126,692	$ (81,172)	$ 45,520	2.3
User base	2,997	(2,154)	843	0.8
Customer relationships	86,691	(45,717)	40,974	2.6
Non-compete agreement	2,402	(1,641)	761	1.6
Assembled workforce	60,800	(44,857)	15,943	0.4
Trade Relationships	3,400	(1,039)	2,361	2.1
In-process research and development[(1)]	1,877	—	1,877	N/A
Indefinite-lived intangible assets				
Domain name	250	—	250	N/A
Licenses	26,900	—	26,900	N/A
Total	$ 312,009	$ (176,580)	$ 135,429	

(1) Amortization begins once the technology is placed in service. IPR&D is expected to have a useful life of three years once placed in service.

As of December 31, 2021	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net	Weighted Average Remaining Useful Life (in Years)
Amortizing intangible assets				
Acquired developed technology	$ 100,908	$ (34,865)	$ 66,043	2.0
User base	2,997	(1,020)	1,977	1.8
Customer relationships	79,491	(27,789)	51,702	3.7
Non-compete agreement	2,402	(1,161)	1,241	2.6
Assembled workforce	60,800	(8,324)	52,476	1.4
In-process research and development[(1)]	3,000	—	3,000	N/A
Indefinite-lived intangible assets				
Domain name	250	—	250	N/A
Total	$ 249,848	$ (73,159)	$ 176,689	

(1) Amortization begins once the technology is placed in service. IPR&D is expected to have a useful life of three years once placed in service.

Amortization expense of intangible assets was $106.1 million, $45.3 million and $16.7 million for the years ended December 31, 2022, 2021 and 2020, respectively. The Company estimates that there is no significant residual value related to its amortizing intangible assets.

During the years ended December 31, 2022, 2021 and 2020 the Company recorded impairment charges of $4.7 million, $0.5 million and $0, respectively, related to its intangible assets, excluding crypto assets held. Impairment expense is included in other operating expense, net in the consolidated statements of operations.

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The expected future amortization expense for intangible assets other than IPR&D as of December 31, 2022 is as follows (in thousands):

2023	$ 66,924
2024	21,361
2025	13,120
2026	4,819
2027	178
Thereafter	—
Total expected future amortization expense	$ 106,402

Crypto assets held

Crypto assets held consisted of the following (in thousands):

	December 31, 2022	December 31, 2021
Recorded at impaired cost		
Crypto assets held as investments	$ 155,251	$ 209,415
Crypto assets held for operating purposes	67,577	357,093
Total crypto assets held recorded at impaired cost	222,828	566,508
Recorded at fair value(1)		
Crypto assets held as investments	133,416	—
Crypto assets borrowed	68,149	421,685
Total crypto assets held recorded at fair value	201,565	421,685
Total crypto assets held	$ 424,393	$ 988,193

(1) Recorded at fair value as these crypto assets are held as the hedged item in qualifying fair value hedges.

The Company recorded gross impairment charges of $757.3 million, $329.2 million and $8.4 million during the years ended December 31, 2022, 2021 and 2020 respectively, due to the observed market price of crypto assets decreasing below the carrying value during the respective periods. The Company partially recovered impairments recorded during the respective periods through subsequent crypto asset sales and disposals. Impairment expense is included in other operating expense, net in the consolidated statements of operations.

See *Note 14. Derivatives*, for additional details regarding crypto assets held designated as hedged items in fair value hedges. See *Note 15. Fair Value Measurements*, for additional details regarding the carrying value of the Company's crypto assets held.

When the Company borrows crypto assets, it may be required to pledge collateral. The collateral requirements range from 100% to 110% of the fair value of the crypto assets borrowed, and the Company is required to pledge additional assets to maintain its required collateral percentage. The lender may have the right to use the collateral. If the lender has the right to use the collateral or if the collateral is fiat, the Company derecognizes the collateral that has been pledged and recognizes a right to receive the collateral. The lender is not obligated to return the collateral if the Company defaults on its borrowings. The Company has not defaulted on any of its borrowings. See *Note 11. Prepaid Expenses and Other Assets,* for additional details regarding the assets pledged as collateral.

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10. CUSTOMER ASSETS AND LIABILITIES

The following table presents customers' cash and crypto positions (in thousands):

	December 31,	
	2022	2021
Customer custodial funds	$ 5,041,119	$ 10,617,552
Customer crypto assets(1)	75,413,188	—
Total customer assets	80,454,307	10,617,552
Customer custodial cash liabilities	$ 4,829,587	$ 10,480,612
Customer crypto liabilities(1)	75,413,188	—
Total customer liabilities	80,242,775	10,480,612

(1) The Company adopted SAB 121 as of January 1, 2022. Prior to 2022, the Company did not record customer crypto assets and liabilities on its consolidated balance sheets.

The Company safeguards crypto assets for customers in digital wallets and portions of cryptographic keys necessary to access crypto assets on the Company's platform. The Company safeguards these assets and/or keys and is obligated to safeguard them from loss, theft, or other misuse. The Company records customer crypto assets as well as corresponding customer crypto liabilities, in accordance with recently adopted guidance, SAB 121. The Company maintains a record of all assets in digital wallets held on the Company's platform as well as the full or a portion of private keys including backup keys, which are maintained on behalf of customers. For crypto assets where the Company does not maintain a private key or the ability to recover a customer's private key, these balances are not recorded, as there is no related safeguarding obligation in accordance with SAB 121. The Company records the assets and liabilities, on the initial recognition and at each reporting date, at the fair value of the crypto assets which it safeguards for its customers.

The Company has committed to securely store all crypto assets and cryptographic keys (or portions thereof) it holds on behalf of customers, and the value of these assets have been recorded as customer crypto liabilities and corresponding customer crypto assets. As such, the Company may be liable to its customers for losses arising from theft or loss of private keys. The Company has no reason to believe it will incur any expense associated with such potential liability because (i) it has no known or historical experience of claims to use as a basis of measurement, (ii) it accounts for and continually verifies the amount of crypto assets on its platform, and (iii) it has established security around private key management to minimize the risk of theft or loss. The Company has adopted a number of measures to safeguard crypto assets it secures including, but not limited to, holding customer crypto assets on a 1:1 basis and strategically storing custodied assets offline using Coinbase's cold storage process. The Company also does not reuse or rehypothecate customer crypto assets nor grant security interests in customer crypto assets, in each case unless required by law or expressly agreed to by the customer. Any loss or theft would impact the measurement of the customer crypto assets. During the year ended December 31, 2022, no losses have been incurred in connection with customer crypto assets.

As of December 31, 2022, customer crypto assets and customer crypto liabilities safeguarded for related parties were $3.5 billion. As of December 31, 2022, customer custodial cash liabilities due to related party customers were $14.2 million. As of December 31, 2021, customer custodial cash liabilities due to related party customers were immaterial.

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The following table sets forth the fair value of customer crypto assets, as shown on the consolidated balance sheets, as customer crypto assets and customer crypto liabilities, as of December 31, 2022 (in billions):

	Fair Value	Percentage of Total[1]
Bitcoin	$ 32.5	43.1 %
Ethereum[2]	20.8	27.6 %
USDC	1.1	1.4 %
Other crypto assets	21.0	27.9 %
Total customer crypto assets	$ 75.4	100.0 %

(1) As of December 31, 2022, no assets other than Bitcoin and Ethereum individually represented more than 5% of total customer crypto assets.
(2) As of December 31, 2022, Ethereum included $3.0 billion of Ethereum 2.

See *Note 15. Fair Value Measurements*, for additional details regarding the customer crypto assets and customer crypto liabilities.

11. PREPAID EXPENSES AND OTHER ASSETS

Prepaid expenses and other current assets, and other non-current assets consisted of the following (in thousands):

	December 31, 2022	December 31, 2021
Prepaid expenses and other current assets		
Prepaid expenses	$ 98,204	$ 123,246
Deposits	—	9,658
Assets pledged as collateral	100,007	—
Other	18,837	2,945
Total prepaid expenses and other current assets	$ 217,048	$ 135,849
Other non-current assets		
Strategic investments	$ 326,683	$ 363,950
Deferred tax assets	1,046,791	573,547
Deposits	10,989	13,347
Other	17,257	1,463
Total other non-current assets	$ 1,401,720	$ 952,307

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Assets pledged as collateral

The Company has pledged USDC that serves exclusively as collateral for certain crypto asset borrowings with a fair value of at least 100% of the loan amount outstanding. The Company has pledged Bitcoin that serves exclusively as collateral for fiat loans with a fair value of at least 110% of the loan amount outstanding.

As of December 31, 2022, the balance of the Company's pledged collateral consisted of the following (in thousands, except units):

	December 31, 2022	
	Units	Fair Value
Asset		
USDC	47,633,897	$ 47,634
Bitcoin	650	10,743
Fiat	N/A	41,630
Total		$ 100,007

As of December 31, 2021, the Company did not have any assets pledged as collateral recorded on the consolidated balance sheets.

Strategic investments

The Company makes strategic investments in various companies and technologies through Coinbase Ventures. Strategic investments primarily include equity investments in privately held companies without readily determinable fair values where the Company (1) holds less than 20% ownership in the entity, and (2) does not exercise significant influence, and accordingly, these investments are recorded at cost and adjusted for observable transactions for same or similar investments of the same issuer (referred to as the measurement alternative) and impairment. The changes in the carry value of strategic investments accounted for under the measurement alternative are presented below (in thousands):

	Year Ended December 31,	
	2022	2021
Carrying amount, beginning of period	$ 352,431	$ 26,146
Net additions[(1)]	62,975	320,316
Upward adjustments	900	8,019
Previously held interest in Bison Trails (see Note 4)	—	(2,000)
Impairments and downward adjustments	(101,021)	(50)
Carrying amount, end of period[(2)]	$ 315,285	$ 352,431

(1) Net additions include additions from purchases and reductions due to exits of securities and reclassifications due to changes to capital structure.
(2) Excludes $11.4 million and $11.5 million of strategic investments during the years ended December 31, 2022 and 2021, respectively, that are not accounted for under the measurement alternative.

Upward adjustments, impairments and downward adjustments from remeasurement of investments are included in other expense (income), net in the consolidated statements of operations. As of December 31, 2022, cumulative upward adjustments were $4.9 million and cumulative impairments and downward adjustments were $102.0 million. As of December 31, 2021, cumulative upward adjustments and cumulative impairments and downward adjustments were $4.6 million and $0.5 million, respectively.

During the years ended December 31, 2022 and 2021, the Company invested an aggregate of $13.8 million and $203.1 million, respectively, in investees in which certain related parties of the Company held an interest over 10%.

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12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	December 31,	
	2022	2021
Accrued expenses	$ 75,532	$ 195,810
Accrued payroll and payroll related	90,257	146,313
Income taxes payable	5,534	4,553
Short-term borrowings	20,519	20,060
Obligation to return collateral	26,874	—
Other payables[(1)]	112,520	72,823
Total accrued expenses and other current liabilities	$ 331,236	$ 439,559

(1) Includes other payables denominated in crypto assets of $8.8 million as of December 31, 2022 and an immaterial amount as of December 31, 2021. See *Note 14. Derivatives* for additional details.

Short-term borrowings

Short-term borrowings include borrowings with open terms or amounts payable within the next 12 months or sooner at the option of the Company or the lender. The weighted average interest rate on these borrowings were 4.49% and 5.00% per annum as of December 31, 2022 and 2021, respectively. During the year ended December 31, 2022, the Company repaid an aggregate of $191.1 million of short-term borrowings.

Obligation to return collateral

For loans receivable and crypto asset loans receivables, the Company requires borrowers to post collateral. The collateral requirements range from 30% to 175% of the fair value of the loan, and the borrower is required to pledge additional assets to maintain their required collateral percentage. The collateral pledged by borrowers is held on the Company's platform and the Company may have the right to use the collateral. If the Company has the right to use the collateral, or if the collateral is fiat, the Company records the collateral as an asset with a corresponding obligation to return collateral. The Company is not obligated to return the collateral if the borrower defaults. As of December 31, 2022, the obligation to return collateral was comprised of only USDC.

13. INDEBTEDNESS

The components of indebtedness were as follows as of December 31, 2022 (in thousands, except percentages):

Indebtedness	Effective Interest Rate	Principal Amount	Unamortized Debt Discount and Issuance Costs	Net Carrying Amount
0.50% 2026 Convertible Notes due on June 1, 2026	0.98 %	$ 1,437,500	$ (23,339)	$ 1,414,161
3.38% 2028 Senior Notes due on October 1, 2028	3.57 %	1,000,000	(10,022)	989,978
3.63% 2031 Senior Notes due on October 1, 2031	3.77 %	1,000,000	(10,691)	989,309
Total		$ 3,437,500	$ (44,052)	$ 3,393,448

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The components of indebtedness were as follows as of December 31, 2021 (in thousands, except percentages):

Indebtedness	Effective Interest Rate	Principal Amount	Unamortized Debt Discount and Issuance Costs	Net Carrying Amount
0.50% 2026 Convertible Notes due on June 1, 2026	0.98 %	$ 1,437,500	$ (29,436)	$ 1,408,064
3.38% 2028 Senior Notes due on October 1, 2028	3.57 %	1,000,000	(11,565)	988,435
3.63% 2031 Senior Notes due on October 1, 2031	3.77 %	1,000,000	(11,704)	988,296
Total		$ 3,437,500	$ (52,705)	$ 3,384,795

Convertible senior notes

In May 2021, the Company issued an aggregate principal amount of $1.4 billion of convertible senior notes due in 2026 (the “2026 Convertible Notes”) pursuant to an indenture, dated May 18, 2021 (the “Convertible Notes Indenture”), between the Company and U.S. Bank National Association, as trustee. The 2026 Convertible Notes were offered and sold in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”).

The 2026 Convertible Notes are senior unsecured obligations of the Company and bear interest at a rate of 0.50% per year payable semi-annually in arrears on June 1 and December 1 of each year, beginning on December 1, 2021. The 2026 Convertible Notes mature on June 1, 2026, unless earlier converted, redeemed or repurchased. The proceeds received of $1.4 billion were net of a 1% original issue discount.

The initial conversion rate and conversion rate for the 2026 Convertible Notes is 2.6994 shares of the Company's Class A common stock per $1,000 principal amount of 2026 Convertible Notes, which is equivalent to an initial conversion price of approximately $370.45 per share of the Class A common stock. The conversion rate and conversion price are subject to customary adjustments under certain circumstances in accordance with the terms of the Convertible Notes Indenture.

The 2026 Convertible Notes will be convertible at the option of the holders before December 1, 2025 only upon the occurrence of certain events, and from and after December 1, 2025, at any time at their election until the close of business on the second scheduled trading day immediately preceding June 1, 2026, only under certain circumstances. Upon conversion, the Company may satisfy its conversion obligation by paying or delivering, as applicable, cash, shares of the Company’s Class A common stock or a combination of cash and shares of the Company’s Class A common stock, at the Company’s election, based on the applicable conversion rate. In addition, if certain corporate events that constitute a make-whole fundamental change (as defined in the Convertible Notes Indenture) occur, then the conversion rate will, in certain circumstances, be increased for a specified period of time. Additionally, in the event of a corporate event constituting a fundamental change (as defined in the Convertible Notes Indenture), holders of the 2026 Convertible Notes may require the Company to repurchase all or a portion of their 2026 Convertible Notes at a repurchase price equal to 100% of the principal amount of the 2026 Convertible Notes being repurchased, plus accrued and unpaid special interest or additional interest, if any, to, but excluding, the date of the fundamental change repurchase.

The Company accounted for the 2026 Convertible Notes wholly as debt because (1) the conversion features do not require bifurcation as a derivative under ASC 815 and (2) the 2026 Convertible Notes were not issued at a substantial premium.

Discounts on the 2026 Convertible Notes reflect a 1% original issue discount of $14.4 million and debt issuance costs related to the 2026 Convertible Notes of $19.4 million, which include commissions payable to the initial purchasers and third-party offering costs.

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Capped calls

On May 18, 2021, in connection with the pricing of the 2026 Convertible Notes, the Company entered into privately negotiated capped call transactions (the “Capped Calls”) with certain financial institutions (the "option counterparties") at a cost of $90.1 million. The Capped Calls cover, subject to customary adjustments, the number of shares of the Company’s Class A common stock initially underlying the 2026 Convertible Notes. By entering into the Capped Calls, the Company expects to reduce the potential dilution to its Class A common stock (or, in the event a conversion of the 2026 Convertible Notes is settled in cash, to reduce its cash payment obligation) in the event that at the time of conversion of the 2026 Convertible Notes its Class A common stock price exceeds the conversion price of the 2026 Convertible Notes. The Capped Calls have an initial strike price of approximately $370.45 per share of Class A common stock and an initial cap price of approximately $478.00 per share of Class A common stock.

The Capped Calls meet the criteria for classification in equity, are not remeasured each reporting period and are included as a reduction to additional paid-in capital within stockholders’ equity.

Senior notes

In September 2021, the Company completed the issuance of an aggregate principal amount of $1.0 billion of senior notes due on October 1, 2028 (the “2028 Senior Notes”) and an aggregate principal amount of $1.0 billion of senior notes due on October 1, 2031 (the “2031 Senior Notes” and together with the 2028 Senior Notes, the “Senior Notes”). The Senior Notes were issued within the United States only to persons reasonably believed to be qualified institutional buyers pursuant to Rule 144A under the Securities Act, and outside the United States to non-U.S. persons pursuant to Regulation S under the Securities Act.

The Company issued the Senior Notes at par and paid approximately $24.0 million in total debt issuance costs, which includes commissions payable to the initial purchasers and third-party offering costs. Interest on the Senior Notes is payable semi-annually in arrears on April 1 and October 1 of each year, beginning on April 2022 at 3.375% per annum for the 2028 Senior Notes and 3.625% per annum for the 2031 Notes. The entire principal amount of the Senior Notes is due at the time of maturity, unless repurchased or redeemed at an earlier date. The Senior Notes were issued pursuant to an indenture, dated September 17, 2021 (the “Senior Notes Indenture”), among the Company, the Guarantor (as defined below) and U.S. Bank National Association, as trustee.

The Senior Notes are redeemable at the Company’s discretion, in whole or in part, at any time. If redeemed prior to October 1, 2024 for the 2028 Senior Notes and October 1, 2026 for the 2031 Senior Notes, the redemption price is subject to a make-whole premium calculated by reference to then-current U.S. Treasury rates plus a fixed spread, plus any accrued and unpaid interest. If redeemed on or after those respective dates, the make-whole premium does not apply.

In addition, prior to October 1, 2024, the Company may redeem up to 40% of the aggregate principal amount of the Senior Notes with net cash proceeds from certain equity offerings at a redemption price equal to 103.375% of the principal amount of the 2028 Senior Notes to be redeemed and 103.625% of the principal amount of the 2031 Senior Notes to be redeemed, in each case, plus any accrued and unpaid interest. Upon the occurrence of a change of control triggering event (as defined in the Senior Notes Indenture), the Company must offer to repurchase each series of Senior Notes at a repurchase price equal to 101% of the principal amount of the Senior Notes to be repurchased, plus any accrued and unpaid interest, to, but excluding, the applicable repurchase date.

The Senior Notes are guaranteed by one of the Company’s domestic subsidiaries, Coinbase, Inc. (the “Guarantor”).

The indenture governing the Senior Notes contains customary covenants that restrict the ability of the Company and certain of its subsidiaries to incur debt and liens. The Company is not aware of any instances of non-compliance with the covenants as of December 31, 2022.

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Interest

The following table summarizes the interest expense for the 2026 Convertible Notes, the 2028 Senior Notes and the 2031 Senior Notes (in thousands):

	Year Ended December 31,		
	2022	2021	2020
Coupon interest	$ 77,235	$ 24,129	$ —
Amortization of debt discount and issuance costs	8,653	5,031	—
Total	$ 85,888	$ 29,160	$ —

Debt discounts and debt issuance costs are amortized to interest expense using the effective interest method over the contractual term of the respective note.

14. DERIVATIVES

The following outlines the Company's derivatives and the related hedge accounting designation, as applicable.

Type of Derivative	Description of Derivative	Location of Host Contract and Derivative on Balance Sheets
Crypto asset borrowings(1)	The Company borrowed crypto assets that resulted in the obligation to deliver a fixed amount of crypto assets in the future.	Crypto asset borrowings
Accounts and loans receivable denominated in crypto assets	Accounts receivable denominated in crypto assets: The Company provided services for which, under the contract, the customer pays in crypto assets. The amount of crypto assets are fixed at the time of invoicing. Crypto asset loans receivable: The Company lends crypto assets to institutions. The amount of crypto assets are fixed at the time of loan origination. In both of the above cases, the right to receive fixed amounts of crypto assets consists of a receivable host contract and an embedded forward contract to purchase crypto assets.	Accounts and loans receivable, net of allowance
Other payables denominated in crypto assets	The Company entered into arrangements that result in the obligation to deliver a fixed amount of crypto assets in the future.	Accrued expenses and other current liabilities
Crypto asset futures(1)	The Company entered into short positions on futures contracts to minimize the exposure on the change in the fair value price of crypto assets held.	Accounts and loans receivable, net of allowance
Crypto assets pledged as collateral	The Company derecognizes the collateral that has been pledged and recognizes a right to receive a fixed amount of crypto assets pledged as collateral if the lender has the right to use the collateral. The Company has pledged Bitcoin that serves exclusively as collateral for fiat loans.	Prepaid expenses and other current assets

(1) For risk management purposes, the Company applies hedge accounting using these derivative instruments in qualifying fair value hedges to primarily hedge the fair value exposure of crypto asset prices.

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Impact of derivatives on the consolidated balance sheets

The following table summarizes the notional amounts of derivative instruments outstanding, measured in U.S. dollar equivalents (in thousands):

	December 31, 2022	December 31, 2021
Designated as hedging instrument		
Crypto asset borrowings with embedded derivatives	$ 80,999	$ 669,445
Crypto asset futures(1)	136,230	—
Not designated as hedging instrument		
Crypto asset borrowings with embedded derivatives	70,462	—
Accounts and loans receivable denominated in crypto assets	101,598	17,415
Other payables denominated in crypto assets	4,267	—
Crypto asset futures(1)	12,462	—
Crypto assets pledged as collateral	13,103	—

(1) Derivative transactions are measured in terms of the notional amount; however, this amount is not recorded on the consolidated balance sheets and is not, when viewed in isolation, a meaningful measure of the risk profile of the derivative instruments. The notional amount is generally not exchanged, but is used only as the underlying basis on which the value of exchange payments or settlement under these contracts are determined.

The following tables summarize information on derivative assets and liabilities that are reflected on the Company's consolidated balance sheets, by accounting designation (in thousands):

	Gross Derivative Assets			Gross Derivative Liabilities		
December 31, 2022	Not Designated as Hedges	Designated as Hedges	Total Derivative Assets	Not Designated as Hedges	Designated as Hedges	Total Derivative Liabilities
Crypto asset borrowings with embedded derivatives(1)	$ 2,266	$ —	$ 2,266	$ 657	$ 1,653	$ 2,310
Accounts and loans receivable denominated in crypto assets	302	—	302	9,146	—	9,146
Other payables denominated in crypto assets	1,270	—	1,270	5,767	—	5,767
Crypto assets pledged as collateral	—	—	—	2,360	—	2,360
Total fair value of derivative assets and liabilities	$ 3,838	$ —	$ 3,838	$ 17,930	$ 1,653	$ 19,583

	Gross Derivative Assets			Gross Derivative Liabilities		
December 31, 2021	Not Designated as Hedges	Designated as Hedges	Total Derivative Assets	Not Designated as Hedges	Designated as Hedges	Total Derivative Liabilities
Crypto asset borrowings with embedded derivatives(1)	$ —	$ 336,396	$ 336,396	$ —	$ 93,616	$ 93,616
Accounts receivable denominated in crypto assets	9,033	—	9,033	—	—	—
Total fair value of derivative assets and liabilities	$ 9,033	$ 336,396	$ 345,429	$ —	$ 93,616	$ 93,616

(1) During the years ended December 31, 2022 and 2021, the fees on these borrowings ranged from 0.0% to 9.0% and 0.0% to 10.0%, respectively. During the years ended December 31, 2022 and 2021, the Company incurred $6.7 million and $11.8 million, respectively, of borrowing fees in crypto assets. Borrowing fees are included in other operating expense, net in the consolidated statements of operations.

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Impact of derivatives on the consolidated statements of operations

Gains (losses) on derivative instruments recognized in the Company's consolidated statements of operations were as follows (in thousands):

	Year Ended December 31, 2022			Year Ended December 31, 2021		
	Derivatives	Hedged Items	Income Statement Impact	Derivatives	Hedged Items	Income Statement Impact
Designated as fair value hedging instruments						
Crypto asset borrowings with embedded derivatives[1]	$ 359,240	$ (359,528)	$ (288)	$ 87,730	$ (70,577)	$ 17,153
Crypto asset futures[1]	13,571	(12,994)	577	—	—	—
Not designated as hedging instruments						
Crypto asset borrowings with embedded derivatives[1]	11,242	—	11,242	—	—	—
Accounts and loans receivable denominated in crypto assets[1]	(24,969)	—	(24,969)	—	—	—
Other payables denominated in crypto assets[1]	5,271	—	5,271	—	—	—
Crypto asset futures[1]	1,735	—	1,735	—	—	—
Foreign currency forward contracts[2]	(59,063)	—	(59,063)	—	—	—
Crypto assets pledged as collateral[1]	(2,360)	—	(2,360)	—	—	—
Total	$ 304,667	$ (372,522)	$ (67,855)	$ 87,730	$ (70,577)	$ 17,153

(1) Changes in fair value are recognized in other operating expense, net in the consolidated statements of operations.
(2) Changes in fair value are recognized in other expense (income), net. The forward contracts were closed out during the fourth quarter of 2022, and as of December 31, 2022, the Company does not have any open contracts for foreign exchange forwards.

The following amounts were recorded on the consolidated balance sheets related to certain cumulative fair value hedge basis adjustments that are expected to reverse through the consolidated statements of operations in future periods as an adjustment to other operating expense, net (in thousands):

		Cumulative Amount of Fair Value Hedging Adjustments Included in the Carrying Amount of Hedged Items		
December 31, 2022	Carrying Amount of the Hedged Items	Active Hedging Relationships	Discontinued Hedging Relationships	Total
Crypto assets held	$ 201,565	$ (562)	$ 670	$ 108

		Cumulative Amount of Fair Value Hedging Adjustments Included in the Carrying Amount of Hedged Items		
December 31, 2021	Carrying Amount of the Hedged Items	Active Hedging Relationships	Discontinued Hedging Relationships	Total
Crypto assets held	$ 421,685	$ (240,771)	$ —	$ (240,771)

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15. FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the Company's assets and liabilities measured and recorded at fair value on a recurring basis (in thousands):

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents(1)	$ 2,250,065	$ —	$ —	$ 2,250,065
Customer custodial funds(2)	2,088,132	—	—	2,088,132
Crypto assets held(3)	201,565	—	—	201,565
Derivative assets(4)	—	3,838	—	3,838
Crypto asset loan receivables(5)	—	85,826	—	85,826
Customer crypto assets	—	75,413,188	—	75,413,188
Total assets	$ 4,539,762	$ 75,502,852	$ —	$ 80,042,614
Liabilities				
Derivative liabilities(4)	$ —	$ 19,583	$ —	$ 19,583
Contingent consideration arrangement	—	—	1,855	1,855
Customer crypto liabilities	—	75,413,188	—	75,413,188
Total liabilities	$ —	$ 75,432,771	$ 1,855	$ 75,434,626

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents(1)	$ 4,813,621	$ —	$ —	$ 4,813,621
Customer custodial funds(2)	3,566,072	—	—	3,566,072
Crypto assets held(3)	—	421,685	—	421,685
Derivative assets(4)	—	345,429	—	345,429
Total assets	$ 8,379,693	$ 767,114	$ —	$ 9,146,807
Liabilities				
Derivative liabilities(4)	$ —	$ 93,616	$ —	$ 93,616
Contingent consideration arrangement	—	—	14,828	14,828
Total liabilities	$ —	$ 93,616	$ 14,828	$ 108,444

(1) Represents money market funds. Excludes $2.0 billion of corporate cash held in deposit at banks and $143.2 million held at venues, which were not measured and recorded at fair value as of December 31, 2022. Excludes $2.1 billion of corporate cash held in deposit at banks and $168.9 million held at venues, which were not measured and recorded at fair value as of December 31, 2021.
(2) Represents money market funds. Excludes customer custodial funds of $3.0 billion and $7.1 billion held in deposit at financial institutions and not measured and recorded at fair value as of December 31, 2022 and 2021, respectively.
(3) Includes crypto assets held that have been designated as hedged items in fair value hedges and excludes crypto assets of $222.8 million and $566.5 million held at cost as of December 31, 2022 and 2021, respectively.
(4) See *Note 14. Derivatives* for additional details.
(5) Includes the embedded derivative asset of $0.3 million and $0 and embedded derivative liability of $6.0 million and $0 related to the Company's crypto asset loan receivables as of December 31, 2022 and 2021, respectively. See *Note 14. Derivatives* for additional details.

The Company did not make any transfers into or out of Level 3 of the fair value hierarchy during the years ended December 31, 2022 and 2021.

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Customer crypto assets and liabilities represent the Company's obligation to safeguard customers' crypto assets. Accordingly, the Company has valued the assets and liabilities using quoted market prices for the underlying crypto assets which is based on Level 2 inputs.

Level 3 contingent consideration arrangement liability

The following table presents a reconciliation of the contingent consideration arrangement measured at fair value on a recurring basis using significant unobservable inputs (in thousands):

	Year Ended December 31,	
	2022	2021
Balance, beginning of period	$ 14,828	$ —
Fair value recorded in connection with acquisition	—	15,752
Change in fair value	(8,312)	(924)
Settlement	(4,661)	—
Balance, end of period	$ 1,855	$ 14,828

On October 21, 2022, the Company issued 57,640 shares of its Class A common stock to settle a certain contingent consideration arrangement pursuant to the terms of the arrangement.

The Company's contingent consideration arrangements were included in other non-current liabilities and changes in fair value are recognized through other expense (income), net.

During the years ended December 31, 2022 and 2021, the estimated fair value of the contingent consideration arrangement was determined using the Monte Carlo Simulation Model and applying a risk-adjusted discount rate to the expected payoff on each of the settlement dates. The expected payoff was determined by forecasting revenues for the acquired entity and simulating changes to the price of the Company's Class A common stock, as well as Bitcoin and Ethereum market capitalization, using a risk-neutral Geometric Brownian Motion Path. The simulations also utilized the estimated volatility of and correlation between these variables. The following significant unobservable inputs were used:

	Year Ended December 31,	
	2022	2021
Discount rate	30.0 %	30.0 %
Volatility of forecasted revenues	100.0% - 129.0%	146.1 %

Assets and liabilities measured and recorded at fair value on a non-recurring basis

The Company's non-financial assets, such as goodwill, intangible assets, property and equipment, and crypto assets held but not designated in hedging relationships are adjusted to fair value when an impairment charge is recognized. The Company's strategic investments are also measured at fair value on a non-recurring basis. Such fair value measurements are based predominantly on Level 3 inputs. The carrying value of the Company's strategic investments is adjusted based on an Option-Pricing Model that uses publicly available market data of comparable companies and other unobservable inputs including expected volatility, expected time to liquidity, adjustments for other company-specific developments, and the rights and obligations of the securities the Company holds. Fair value of crypto assets held are predominantly based on Level 1 inputs.

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Assets and liabilities not measured and recorded at fair value

The Company's financial instruments, including certain cash and cash equivalents, restricted cash, certain customer custodial funds, USDC, customer custodial cash liabilities, short-term borrowings and loans receivable are carried at amortized cost, which approximates their fair value. If these financial instruments were recorded at fair value, they would be based on Level 1 inputs, except for short-term borrowings and loans receivable which would be based on Level 2 and Level 3 inputs, respectively.

The Company estimates the fair value of its 2026 Convertible Notes and Senior Notes based on quoted prices in markets that are not active, which is considered a Level 2 valuation input. As of December 31, 2022, the estimated fair value of the 2026 Convertible Notes and Senior Notes were $826.1 million and $1.0 billion, respectively.

16. CONVERTIBLE PREFERRED STOCK

On April 1, 2021, in anticipation of the Direct Listing and following a vote by the requisite holders of the convertible preferred stock, all outstanding shares of the Company's convertible preferred stock were converted into 8,556,952 shares of the Company's Class A common stock and 103,850,006 shares of the Company's Class B common stock. Effective immediately following the conversion, the Company amended and restated its certificate of incorporation (the "Restated Certificate of Incorporation") to authorize 500,000,000 shares of undesignated preferred stock. See *Note 17. Common Stock* for additional details. The Company's board of directors (the "Board") has the authority to determine the price, rights, preferences, privileges and restrictions, including voting rights, of those shares without any further vote or action by the stockholders.

As of December 31, 2022 and 2021, there was no convertible preferred stock issued and outstanding.

17. COMMON STOCK

Effective April 1, 2021, the Company filed the Restated Certificate of Incorporation, amending and restating its certificate of incorporation to authorize 10,000,000,000 shares of Class A common stock, 500,000,000 shares of Class B common stock, 500,000,000 shares of undesignated common stock, and 500,000,000 shares of undesignated preferred stock. Shares of Class A common stock and Class B common stock will be treated equally, identically and ratably, on a per share basis, with respect to dividends that may be declared by the Board. Holders of Class A common stock are entitled to one vote per share, and holders of Class B common stock are entitled to 20 votes per share. Holders of Class A common stock and Class B common stock generally vote together as a single class on all matters (including the election of directors) submitted to a vote of the stockholders of the Company. Upon a liquidation, dissolution or winding-up of the Company, the assets legally available for distribution to stockholders would be distributed ratably among the holders of Class A common stock and Class B common stock and any participating preferred stock or new series of common stock outstanding at that time, subject to prior satisfaction of all outstanding debt and liabilities and the preferential rights of and the payment of liquidation preferences, if any, on any outstanding shares of preferred stock or new series of common stock. Shares of Class B common stock are convertible at any time at the option of the holder into shares of Class A common stock on a one-to-one basis. In addition, each share of Class B common stock will automatically convert into a share of Class A common stock upon a sale or transfer (other than with respect to certain estate planning and other transfers). Further, upon certain events specified in the Restated Certificate of Incorporation, all outstanding shares of Class B common stock will convert automatically into shares of Class A common stock.

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The Company has reserved shares of Class A common stock and Class B common stock for issuance for the following purposes (in thousands):

	December 31,	
	2022	2021
Class A common stock		
Options issued and outstanding under the 2013 Amended and Restated Stock Plan (the "2013 Plan")	982	1,569
Options issued and outstanding under the 2019 Equity Incentive Plan (the "2019 Plan")	25,314	29,311
RSUs issued and outstanding under the 2019 Plan	2,418	5,851
Options issued and outstanding under the 2021 Equity Incentive Plan (the "2021 Plan")	862	—
RSUs issued and outstanding under the 2021 Plan	2,911	1,402
Shares available for future issuance under the 2021 Plan	42,819	35,856
Shares available for future issuance under the ESPP	6,701	5,125
Replacement options issued and outstanding from the Tagomi acquisition	1	4
Replacement options issued and outstanding from the Bison Trails acquisition	134	223
RSUs issued and outstanding from other acquisitions	—	229
Shares available for future issuance of warrants	2,296	2,296
Total Class A common stock shares reserved	84,438	81,866
Class B common stock		
Options issued and outstanding under the 2013 Plan	4,502	6,101
Total Class B common stock shares reserved	4,502	6,101

18. STOCK-BASED COMPENSATION

Stock plans

The Company maintains four equity incentive plans: the 2013 Plan, the 2019 Plan, and the 2021 Plan (together, the "Plans"), and the ESPP. Following the Direct Listing, the Company has only issued awards under the 2021 Plan and the ESPP, and no additional awards will be granted under the 2013 Plan and 2019 Plan. In addition, certain of the Company's existing options assumed in connection with acquisitions are governed by the terms of the acquired company's equity awards plan.

In February 2021, the Board approved and adopted the 2021 Plan. The 2021 Plan became effective on March 31, 2021, the date immediately prior to the effective date of the Company's registration statement for the Direct Listing. The 2021 Plan serves as the successor to the 2019 Plan. Outstanding awards under the 2013 Plan and 2019 Plan continue to be subject to their original terms and conditions. The 2021 Plan provides for the granting of incentive stock options, RSUs, restricted stock, stock appreciation rights and performance and stock bonus awards to assist in attracting, retaining and motivating employees. The number of shares available for grant and issuance under the 2021 Plan will be automatically increased on January 1st of each of the first ten fiscal years during the term of the 2021 Plan by the lesser of (a) five percent of the total number of shares of all classes of the Company's common stock issued and outstanding on an as converted to common stock basis on each December 31st immediately prior to the date of increase or (b) such number of shares determined by the Board.

As of December 31, 2022 and 2021, only stock options and RSUs were issued and outstanding under the Plans.

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Stock options

Options granted under the Plans may be either incentive stock options ("ISOs") or nonqualified stock options ("NSOs"). ISOs may be granted only to Company employees (including officers and directors who are also employees). NSOs may be granted to Company employees and non-employees.

Options under the Plans may be granted for contractual periods of up to ten years and at prices determined by the Board, provided, however, that the exercise price of an ISO and NSO shall not be less than 100% of the estimated fair value of the underlying shares on the date of the grant (110% if granted to a stockholder who owns more than ten percent of the total combined voting power of all classes of stock of the Company or any parent or subsidiary).

Under the 2013 Plan and 2019 Plan, options granted to new employees of the Company generally vest over four years and vest at a rate of 25% upon the first anniversary of the issuance date and 1/48 per month thereafter. Refresher options granted to existing employees of the Company generally vest in equal monthly installments over four years. No additional awards have been or will be granted under the 2013 Plan and 2019 Plan following the Company's Direct Listing.

Under the 2021 Plan, options are granted to executives and eligible non-executive employees which vest in equal quarterly installments over a period of three years.

The 2013 Plan and 2019 Plan allow for a seven-year exercise window post-termination for employees of the Company who have provided at least two years of continuous service to the Company as of their termination date.

Activity of options outstanding are as follows (in thousands, except per share and years data):

	Options Outstanding	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Balance at January 1, 2022	37,208	$ 18.60	7.83	$ 8,698,078
Granted	937	177.79		
Exercised	(3,858)	13.32		
Forfeited and cancelled	(2,492)	26.57		
Balance at December 31, 2022	31,795	$ 23.31	6.95	$ 504,222
Vested and exercisable at December 31, 2022	19,205	$ 19.25	6.53	$ 351,598
Vested and expected to vest at December 31, 2022	25,690	$ 23.27	6.79	$ 431,404

During the year ended December 31, 2022, the Company granted stock options for the purchase of 937,247 shares of the Company's Class A common stock with a weighted-average grant date fair value of $82.30 per share to certain employees of the Company. The stock options vest over three years at a rate of 1/12 per quarter.

As of December 31, 2022, there was total unrecognized compensation cost of $130.2 million related to unvested stock options. These costs are expected to be recognized over a weighted-average period of approximately 2.3 years.

The intrinsic value is calculated as the difference between the exercise price of the underlying stock option award and the estimated fair value of the Company's common stock. The aggregate intrinsic value of stock options exercised during the years ended December 31, 2022 and 2021 was $336.3 million and $5.9 billion, respectively.

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During the year ended December 31, 2022, 7,592,673 stock options vested with a weighted-average grant date fair value of $12.46 per share. During the year ended December 31, 2021, 14,966,504 stock options vested with a weighted-average grant date fair value of $8.74 per share.

The assumptions used under the Black-Scholes-Merton Option-Pricing Model and the weighted average calculated value of the options granted to employees were as follows:

	Year Ended December 31,	
	2022	2021
Dividend yield	0.0 %	0.0 %
Expected volatility	59.3 %	44.0 %
Expected term (in years)	5.8	4.8
Risk-free interest rate	2.1 %	0.5 %

Early exercise of stock options

Stock options granted under the Plans provide employee option holders the right to exercise unvested options for restricted common stock, which is subject to a repurchase right held by the Company at the original purchase price in the event the optionee's employment is terminated either voluntarily or involuntarily prior to vesting of the exercised stock. Early exercises of options are not deemed to be substantive exercises for accounting purposes and accordingly, amounts received for early exercises are recorded as a liability. These repurchase terms are considered to be a forfeiture provision and do not result in variable accounting. As of December 31, 2022 and 2021, there were 166,481 and 478,271 shares, respectively, subject to repurchase related to stock options early exercised and not yet vested, but that are expected to vest. These amounts are reclassified to common stock and additional paid in capital as the underlying shares vest. As of December 31, 2022 and 2021, the Company recorded a liability related to these shares subject to repurchase in the amount of $3.3 million and $8.9 million, respectively, which is included within accrued expenses and other current liabilities on the accompanying consolidated balance sheets.

Chief Executive Officer performance award

On August 11, 2020, the Company granted its Chief Executive Officer an option award to purchase up to 9,293,911 shares of the Company's Class A common stock, at an exercise price of $23.46 per share. Vesting of the award is dependent on both performance-based and market-based conditions being met.

The performance condition was contingent on the Company's registration statement being declared effective by the SEC under the Securities Act. The occurrence of this event was considered to not be probable until such time that it occurred. The market condition is contingent on the Company's Class A common stock price achieving stock price target milestones.

The total grant date fair value of this award was $56.7 million. The Company determined the fair value of the option using a Monte Carlo Simulation Model (a binomial lattice-based valuation model). The Monte Carlo Simulation Model uses multiple input variables to determine the probability of satisfying the market condition requirements. The fair value of the option is not subject to change based on future market conditions. Once the performance condition becomes probable of being achieved, the fair value of the option is recognized as compensation expense over the requisite service period, using the accelerated attribution method regardless of whether, and the extent to which, the market condition is ultimately satisfied.

During April 2021, as a result of the Company's registration statement being declared effective by the SEC, the performance condition of the option award granted to the Chief Executive Officer was met. On July 8, 2021, the first price target of the award was met, resulting in the vesting of 3,159,930 shares subject to the option award. During the years ended December 31, 2022, 2021 and 2020, compensation expense of $3.9 million, $29.5 million and $0 was recognized related to this award, respectively.

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Restricted stock units

The Company's RSUs vest upon the satisfaction of a service-based condition. In general, the RSUs vest over a service period ranging from one to four years. Once vested, the RSUs are settled by delivery of the Company's Class A common stock.

Activity of RSUs outstanding are as follows (in thousands, except per share data):

	Number of Shares	Weighted-Average Grant Date Fair Value per Share
Balance at January 1, 2022	7,482	$ 157.22
Granted	11,867	112.35
Vested	(12,107)	125.75
Forfeited and cancelled	(1,913)	159.25
Balance at December 31, 2022	5,329	$ 127.85

For RSUs granted during the year ended December 31, 2022, the closing price of the Company's Class A common stock as reported on The Nasdaq Global Select Market on the grant date was used as the fair value.

In December 2022, the Company modified certain RSU awards held by 1,198 employees to accelerate vesting of the remaining unvested awards on December 21, 2022 instead of the original vest date of February 20, 2023. The modification of awards did not result in any incremental compensation cost, however $36.1 million of stock-based compensation expense was accelerated and recognized upon modification.

As of December 31, 2022, there was total unrecognized compensation cost of $605.7 million related to unvested RSUs. These costs are expected to be recognized over a weighted-average period of approximately 2.0 years.

Restricted common stock

As part of the Company's acquisitions, the Company has issued shares of restricted Class A common stock. Vesting of this restricted Class A common stock is dependent on a service-based vesting condition that is generally satisfied over three years. The Company has the right to repurchase shares at par value for which the vesting condition is not satisfied. Activity of shares of restricted Class A common stock is as follows (in thousands, except per share data):

	Number of Shares	Weighted-Average Grant Date Fair Value per Share
Balance at January 1, 2022	2,014	$ 137.57
Granted	323	137.05
Vested	(1,051)	136.57
Forfeited and cancelled	(11)	60.15
Balance at December 31, 2022	1,275	$ 139.72

As of December 31, 2022, there was total unrecognized compensation cost of $135.1 million related to unvested restricted Class A common stock. These costs are expected to be recognized over a weighted-average period of approximately 1.4 years.

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Employee Stock Purchase Plan

In February 2021, the Board approved and adopted the ESPP. The ESPP became effective on April 1, 2021, the effective date of the Company's registration statement for the Direct Listing. The ESPP allows eligible employees the option to purchase shares of the Company's Class A common stock at a 15% discount, over a series of offering periods through accumulated payroll deductions over the period. The ESPP also includes a look-back provision for the purchase price if the stock price on the purchase date is lower than the stock price on the offering date. The Company recognizes stock-based compensation expenses related to purchase rights issued pursuant to its ESPP on a straight-line basis over the offering period, which is 24 months. The fair value of purchase rights under the ESPP is estimated on the date of grant using the Black-Scholes-Merton Option-Pricing Model.

The number of shares available for grant and issuance under the ESPP will be automatically increased on January 1st of each of the first ten fiscal years during the term of the ESPP by the lesser of (a) one percent of the total number of shares of all classes of the Company's common stock outstanding on an as converted to common stock basis on each December 31st immediately prior to the date of increase or (b) such number of shares determined by the Board or the compensation committee of the Board.

The grant date of the initial offering period was May 3, 2021, and that offering period will end on April 30, 2023. Subsequent offering periods will commence in each May and November after the start of the initial offering period. For the year ended December 31, 2022, total compensation expense of $28.4 million was recognized related to the ESPP. As of December 31, 2022, the Company recorded a liability of $6.7 million related to the accumulated payroll deductions, which are refundable to employees who withdraw from the ESPP. This amount is included within accrued expenses and other current liabilities on the accompanying consolidated balance sheets.

Stock-based compensation expense

Stock-based compensation is included in the following components of expenses on the accompanying consolidated statements of operations (in thousands):

	Year Ended December 31,		
	2022	2021	2020
Technology and development	$ 1,093,983	$ 571,861	$ 36,869
Sales and marketing	76,153	32,944	1,566
General and administrative	395,687	215,880	34,190
Total	$ 1,565,823	$ 820,685	$ 72,625

During the years ended December 31, 2022, 2021 and 2020, $118.0 million, $3.5 million and $3.0 million of stock-based compensation expense was included in capitalized software, respectively.

19. INCOME TAXES

The components of income (loss) before income taxes were attributable to the following regions (in thousands):

	Year Ended December 31,		
	2022	2021	2020
Domestic	$ (3,071,951)	$ 2,977,406	$ 396,709
Foreign	7,369	49,541	12,490
	$ (3,064,582)	$ 3,026,947	$ 409,199

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Coinbase Global, Inc.
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(Benefit from) provision for income taxes consisted of the following (in thousands):

	Year Ended December 31,		
	2022	2021	2020
Current			
Federal	$ 1,654	$ (51,942)	$ 65,269
State	3,985	4,456	18,162
Foreign	22,763	8,642	2,977
Total current	28,402	(38,844)	86,408
Deferred			
Federal	(361,056)	(438,810)	1,373
State	(126,713)	(93,959)	(514)
Foreign	19,734	(25,560)	(385)
Total deferred	(468,035)	(558,329)	474
Total (benefit from) provision for income taxes	$ (439,633)	$ (597,173)	$ 86,882

The effective income tax rate differs from the statutory federal income tax rate as follows:

	Year Ended December 31,		
	2022	2021	2020
Provision for income taxes at U.S. statutory rate	21.00 %	21.00 %	21.00 %
State income taxes, net of federal benefit	5.04	(4.67)	3.39
Foreign rate differential	(0.02)	(1.09)	(0.24)
Non-deductible compensation	(1.34)	0.83	0.99
Equity compensation	(3.43)	(31.95)	0.27
Adjustment to prior year provision	(0.23)	0.14	(0.11)
Research and development credits	1.40	(9.60)	(1.86)
Change in valuation allowance	(6.37)	1.65	—
Foreign tax credit	—	—	(0.05)
Subpart F income	—	—	0.09
Foreign Derived Intangible Income (“FDII”)	—	—	(1.50)
Global Intangible Low Taxed Income (“GILTI”)	(0.94)	—	0.06
Uncertain tax positions	(0.60)	3.07	0.46
CARES Act - NOL Carryback	—	—	(1.20)
Other	(0.16)	0.89	(0.07)
	14.35 %	(19.73)%	21.23 %

The Company’s effective tax rate of 14.35% for 2022 reflects a tax benefit on pretax loss reduced by certain nondeductible compensation and a valuation allowance recorded on impairment charges. The Company’s effective tax rate of (19.73)% for 2021 reflects a tax benefit on pretax income due primarily to deductible stock option exercises as a result of the Company’s Direct Listing, and research and development credits.

The Company’s effective tax rate for 2021 was significantly lower compared to 2020 due primarily to an increase in 2021 tax benefits from deductible stock options as a result of the Company’s Direct Listing, and an increase in 2021 research and development credits.

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's deferred tax assets and liabilities consisted of the following (in thousands):

	December 31,	
	2022	2021
Deferred tax assets		
Safeguarded crypto liabilities	$ 19,086,117	$ —
Accruals and reserves	6,248	19,184
Net operating loss carryforward	396,613	262,574
Lease liability	19,967	26,338
Tax credit carryforward	301,862	285,029
Stock-based compensation	24,527	50,292
Intangibles	27,022	7,339
Capitalized expenses	415,981	—
Capital losses - realized / unrealized	225,211	37,932
Gross deferred tax assets	20,503,548	688,688
Less valuation allowance	(252,258)	(54,383)
Total deferred tax assets	20,251,290	634,305
Deferred tax liabilities		
Safeguarded crypto assets	(19,086,117)	—
State taxes	(23,212)	(973)
Depreciation and amortization	(35,893)	(15,937)
Prepaid expenses	(5,938)	(3,439)
Right of use asset	(18,246)	(24,347)
Installment gain	(13,443)	(15,859)
Other	(21,650)	(203)
Total deferred tax liabilities	(19,204,499)	(60,758)
Total net deferred tax assets	$ 1,046,791	$ 573,547

As of December 31, 2022, the Company had $1.0 billion in net deferred tax assets. At each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets. On the basis of this evaluation, only the portion of the deferred tax asset that is more likely than not to be realized was recognized. However, if the Company is not able to generate sufficient taxable income from its operations in the future, then a valuation allowance to reduce the Company's U.S. deferred tax assets may be required, which would increase the Company's expenses in the period the allowance is recognized.

A valuation allowance of $252.3 million and $54.4 million was recorded against the Company's net deferred tax asset balance as of December 31, 2022 and 2021, respectively. The valuation allowance as of December 31, 2022 includes allowances primarily related to realized and unrealized capital losses on digital assets and Coinbase Ventures investments, and California research and development credits.

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In accordance with the Company's adoption of SAB 121, a deferred tax asset and deferred tax liability are being disclosed relating to safeguarded customer crypto assets and liabilities. A deferred tax asset is reported on the safeguarded liability, and an offsetting deferred tax liability, measured at the same amount, is reported on the safeguarded assets.

As of December 31, 2022, the Company had U.S. federal net operating loss carryforwards of $1.3 billion, and as of December 31, 2021 the Company estimated a U.S. federal net operating loss carryforwards of $873.6 million. On the Company's 2021 tax return, the Company elected to capitalize expenses which replaced the estimated 2021 net operating loss carryforward into 2022. The U.S. federal net operating losses carry forward indefinitely. Additionally, the Company had U.S. state net operating losses of $1.4 billion as of December 31, 2022. Generally, California and other significant U.S. states have a twenty-year carryforward for net operating losses.

Activity related to the Company's unrecognized tax benefits consisted of the following (in thousands):

	Year Ended December 31,		
	2022	2021	2020
Balance, beginning of year	$ 111,019	$ 12,807	$ 10,344
Settlements	(6,128)	—	—
Increase related to tax positions taken during a prior year	13,940	—	212
Decreases related to tax positions taken during a prior year	(9,187)	—	(882)
Increases related to tax positions taken during the current year	14,462	98,212	3,133
Balance, end of year	$ 124,106	$ 111,019	$ 12,807

As of December 31, 2022 and 2021, the Company had $124.1 million and $111.0 million, respectively, of unrecognized tax benefits, of which $114.4 million and $84.9 million, respectively, would reduce income tax expense and affect the effective tax rate, if recognized. It is reasonably possible that the balance of unrecognized tax benefits could decrease within the next twelve months as a result of audit closures. The potential reduction in unrecognized tax benefits is $2.2 million, of which $1.8 million would favorably impact the Company's effective tax rate. The Company accounts for interest and penalties related to exposures as a component of income tax expense. The Company recorded $0.5 million and $0.3 million of accrued interest and penalties, respectively, as of December 31, 2022 and $0.6 million and $0.4 million of accrued interest and penalties, respectively, as of December 31, 2021.

The Company files U.S. federal, state, and foreign income tax returns in jurisdictions with varying statutes of limitations. Currently these statutes of limitations are open from 2020 forward for the U.S., 2018 forward for California, 2021 forward for the United Kingdom, and 2018 forward for Ireland. During 2022, the IRS completed the audit of the Company's U.S. federal income tax returns for years 2017 to 2019, and the state of California completed the audit of the Company's income tax returns for 2016 to 2017.

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20. NET (LOSS) INCOME PER SHARE

The computation of net (loss) income per share is as follows (in thousands, except per share amounts):

	Year Ended December 31,		
	2022	2021	2020
Basic net (loss) income per share:			
Numerator			
Net (loss) income	$ (2,624,949)	$ 3,624,120	$ 322,317
Less: Income allocated to participating securities	—	(527,162)	(214,061)
Net (loss) income attributable to common stockholders, basic	$ (2,624,949)	$ 3,096,958	$ 108,256
Denominator			
Weighted-average shares of common stock used to compute net (loss) income per share attributable to common stockholders, basic	222,314	177,319	68,671
Net (loss) income per share attributable to common stockholders, basic	$ (11.81)	$ 17.47	$ 1.58
Diluted net (loss) income per share:			
Numerator			
Net (loss) income	$ (2,624,949)	$ 3,624,120	$ 322,317
Less: Income allocated to participating securities	—	(439,229)	(194,846)
Add: Interest on convertible notes, net of tax	—	6,208	—
Less: Fair value gain on contingent consideration arrangement, net of tax	(6,230)	(695)	—
Net (loss) income attributable to common stockholders, diluted	$ (2,631,179)	$ 3,190,404	$ 127,471
Denominator			
Weighted-average shares of common stock used to compute net (loss) income per share attributable to common stockholders, basic	222,314	177,319	68,671
Weighted-average effect of potentially dilutive securities:			
Stock options	—	36,396	22,146
RSUs	—	3,773	—
Restricted common stock	—	9	—
Warrants	—	72	392
Convertible notes	—	2,388	—
Contingent consideration	24	8	—
Weighted-average shares of common stock used to compute net (loss) income per share attributable to common stockholders, diluted	222,338	219,965	91,209
Net (loss) income per share attributable to common stockholders, diluted	$ (11.83)	$ 14.50	$ 1.40

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Certain shares of the Company's restricted Class A common stock granted as consideration in acquisitions and the Company's convertible preferred stock outstanding during 2021 are participating securities. These participating securities do not contractually require the holders of such shares to participate in the Company's losses.

The rights, including the liquidation and dividend rights, of the holders of Class A common stock and Class B common stock are identical, except with respect to voting. As a result, the undistributed earnings are allocated on a proportionate basis and the resulting income (loss) per share will, therefore, be the same for both Class A common stock and Class B common stock on an individual or combined basis.

The following potentially dilutive shares were not included in the calculation of diluted shares outstanding as the effect would have been anti-dilutive (in thousands):

	Year Ended December 31,		
	2022	2021	2020
Stock options	31,795	6,134	12,831
RSUs	5,329	151	3,766
Convertible notes	3,880	—	—
Restricted common stock	1,602	5	—
ESPP	1,945	295	—
Total	44,551	6,585	16,597

21. COMMITMENTS AND CONTINGENCIES

Indemnifications

In the event any registrable securities are included in a registration statement, the Company's Amended and Restated Investors' Rights Agreement (the "IRA") entered into with certain of the Company's stockholders provides indemnity to each stockholder, their partners, members, officers, directors, and stockholders, legal counsel, and accountants; each underwriter, if any; and each person who controls each stockholder or underwriter, against any damages incurred in connection with investigating or defending any claim or proceeding arising as a result of such registration from which damages may result. The Company will reimburse each such party for any legal and any other expenses reasonably incurred, provided that the Company will not be liable in any such case to the extent the damages arise out of or are based upon any actions or omissions made in reliance upon and in conformity with written information furnished by or on behalf of such stockholder or underwriter and stated to be specifically for use therein.

The Company also has indemnity agreements with certain officers and directors of the Company pursuant to which the Company must indemnify the officer or director against all expenses, judgments, fines, and amounts paid in settlement reasonably incurred in connection with a third party proceeding, if the indemnitee acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the Company, and in the case of a criminal proceeding, had no reasonable cause to believe the indemnitee's conduct was unlawful.

It is not possible to determine the maximum potential exposure under these indemnification agreements: (i) because the facts and circumstances involved in each claim are unique and the Company cannot predict the number or nature of claims that may be made; (ii) due to the unique facts and circumstances involved in each particular agreement; and (iii) due to the requirement for a registration of the Company's securities before any of the indemnification obligations contemplated in the IRA become effective.

The Company has also provided indemnities or similar commitments on standard commercial terms in the ordinary course of business.

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Legal and regulatory proceedings

The Company is subject to various litigation, regulatory investigations, and other legal proceedings that arise in the ordinary course of its business. The Company is also subject to regulatory oversight by numerous regulatory and other governmental agencies. The Company reviews its lawsuits, regulatory investigations, and other legal proceedings on an ongoing basis and provides disclosure and records loss contingencies in accordance with the loss contingencies accounting guidance. In accordance with such guidance, the Company establishes accruals for such matters when potential losses become probable and can be reasonably estimated. If the Company determines that a loss is reasonably possible and the loss or range of loss can be estimated, the Company discloses the possible loss in the consolidated financial statements.

In July and August 2021, three purported securities class actions were filed in the U.S. District Court for the Northern District of California against the Company, its directors, certain of its officers and employees, and certain venture capital and investment firms. The complaints alleged violations of Sections 11, 12(a)(2) and 15 of the Securities Act, in connection with the registration statement and prospectus filed in connection with the Direct Listing. In November 2021, these actions were consolidated and recaptioned as *In re Coinbase Global Securities Litigation*, and an amended complaint was filed. The plaintiff seeks, among other relief, unspecified compensatory damages, attorneys' fees, and costs. The Company disputes the claims in these cases and is vigorously defending against them. Based on the preliminary nature of the proceedings in these cases, the outcome of these matters remain uncertain and the Company cannot estimate the potential impact, if any, on its business or financial statements at this time. The Company has subsequently received, and expects to receive in the future, similar shareholder claims.

In October 2021, a purported class action captioned *Underwood et al. v. Coinbase Global, Inc.*, was filed in the U.S. District Court for the Southern District of New York against the Company alleging claims under Sections 5, 15(a)(1) and 29(b) of the Exchange Act and violations of certain California and Florida state statutes. On March 11, 2022, plaintiffs filed an amended complaint adding Coinbase, Inc. and Brian Armstrong as defendants and adding causes of action. Among other relief requested, the plaintiffs sought injunctive relief, unspecified damages, attorneys' fees and costs. On February 1, 2023, the court dismissed all federal claims (with prejudice) and state law claims (without prejudice) against Coinbase Global, Inc., Coinbase, Inc. and Brian Armstrong. Subsequently, on February 9, 2023, the plaintiffs filed a notice of appeal of the District Court's ruling. The Company and other defendants continue to dispute the claims in this case and intend to vigorously defend against them. Based on the nature of the proceedings in this case, the outcome of this matter remains uncertain and the Company cannot estimate the potential impact, if any, on its business or financial statements at this time.

In December 2021, a shareholder derivative suit captioned *Shin v. Coinbase Global, Inc.*, was filed in New York state court against the Company and its directors, alleging breach of fiduciary duties, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets, and seeking unspecified damages and injunctive relief. The Company has subsequently received, and expects to receive in the future, similar derivative claims. The Company disputes the claims in these cases and intends to vigorously defend against them. Based on the preliminary nature of the proceedings in these cases, the outcome of these matters remain uncertain and the Company cannot estimate the potential impact, if any, on its business or financial statements at this time.

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During 2022, the Company's subsidiary, Coinbase, Inc., which holds a BitLicense from the New York Department of Financial Services ("NYDFS") and is therefore subject to examinations and investigations by the NYDFS, was subject to an investigation by the NYDFS relating to its compliance program including compliance with the Bank Secrecy Act and sanctions laws, cybersecurity, and customer support. In January 2023, the NYDFS announced a consent order focused on historical shortcomings in Coinbase, Inc.'s compliance program. Pursuant to the consent order, Coinbase, Inc. has paid a $50 million penalty in January 2023 and agreed to invest an additional $50 million in its compliance function by the end of 2024. The $50 million penalty was included in general and administrative expenses in the consolidated statements of operations for the year ended December 31, 2022, and in accrued expenses and other current liabilities in the consolidated balance sheets as of December 31, 2022.

The Company has received investigative subpoenas and requests from the SEC for documents and information about certain customer programs, operations, and existing and intended future products, including the Company's processes for listing assets, the classification of certain listed assets, its staking programs, and its stablecoin and yield-generating products. Based on the ongoing nature of these matters, the outcomes remain uncertain and the Company cannot estimate the potential impact, if any, on its business or financial statements at this time.

The Company believes the ultimate resolution of existing legal and regulatory investigation matters will not have a material adverse effect on the financial condition, results of operations, or cash flows of the Company. However, in light of the uncertainties inherent in these matters, it is possible that the ultimate resolution of one or more of these matters may have a material adverse effect on the Company's results of operations for a particular period, and future changes in circumstances or additional information could result in additional accruals or resolution in excess of established accruals, which could adversely affect the Company's results of operations, potentially materially.

Tax regulation

Current promulgated tax rules related to crypto assets are unclear and require significant judgments to be made in interpretation of the law, including but not limited to the areas of income tax, information reporting, transaction level taxes and the withholding of tax at source. Additional legislation or guidance may be issued by U.S. and non-U.S. governing bodies that may differ significantly from the Company's practices or interpretation of the law, which could have unforeseen effects on the Company's financial condition and results of operations, and accordingly, the related impact on the Company's financial condition and results of operations is not estimable.

22. SUBSEQUENT EVENTS

Reduction in force

On January 10, 2023, the Company announced a further restructuring plan (the "Restructuring Plan") to manage its operating expenses in response to the ongoing market conditions impacting the cryptoeconomy and ongoing business prioritization efforts. The Restructuring Plan involves a reduction of the Company's workforce by approximately 950 employees. The Company expects execution of the Restructuring Plan to be substantially complete by the second quarter of 2023.

In connection with these actions, the Company estimates that it will incur approximately $149 million to $163 million in total restructuring expenses, consisting of approximately $58 million to $68 million in cash charges related to employee severance and other termination benefits. Of the aggregate charges that the Company expects to incur in connection with the Restructuring Plan, the Company expects that approximately $91 million to $95 million will be in stock-based compensation expenditures relating to the acceleration of the vesting of outstanding equity awards in accordance with the terms of such awards. The Company expects to recognize substantially all of these charges in the first quarter of 2023.

C. AUDITED CONSOLIDATED FINANCIAL STATEMENTS COINBASE FOR THE YEAR ENDED 31 DECEMBER 2023

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Item 8. Financial Statements and Supplementary Data

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Coinbase Global, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Coinbase Global, Inc. (the "Company") as of December 31, 2023 and 2022, the related consolidated statements of operations, comprehensive income (loss), changes in preferred stock and stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2023, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 15, 2024, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

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

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which they relate.

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Customer Crypto Assets, Crypto Assets Held, and USDC- Crypto Assets in Cold Storage — Refer to Notes 2, 9, and 10 to the financial statements

Critical Audit Matter Description

Crypto assets are generally accessible only by the possessor of the unique private key relating to the digital wallet in which the crypto assets are held. Accordingly, private keys must be safeguarded and secured in order to prevent an unauthorized party from accessing the crypto assets within a digital wallet. The Company primarily holds crypto assets for its own use, and on behalf of customers, in wallets within its cold storage environment. The loss, theft, or otherwise compromise of access to the private keys required to access the crypto assets in cold storage could adversely affect the Company's ability to access the crypto assets within its environment. This could result in loss of corporate crypto assets held or loss of crypto assets safeguarded on behalf of customers.

We identified crypto assets in cold storage as a critical audit matter due to the nature and extent of audit effort required to obtain sufficient appropriate audit evidence to address the risks of material misstatement related to the existence and rights & obligations of crypto assets in cold storage. The nature and extent of audit effort required to address the matter includes significant involvement of more experienced engagement team members and discussions and consultations with subject matter experts related to the matter.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to crypto assets in cold storage included the following, among others:

- We consulted with subject matter experts regarding our planned audit response to address risks of material misstatement of crypto assets in cold storage.
- We tested the effectiveness of controls within the Company's private key management process including controls related to physical access, key generation, and segregation of duties across the processes.
- We tested the effectiveness of management's reconciliation control of internal books and records to external blockchains.
- We tested the effectiveness of management's control to segregate corporate crypto asset balances from customer crypto asset balances.
- We tested the effectiveness of controls within the processes of customer crypto asset deposits and customer crypto asset withdrawals.
- We obtained evidence to evaluate crypto asset balances for appropriate segregation between corporate crypto assets and customer crypto assets.
- We utilized our proprietary audit tool to independently obtain evidence from public blockchains to test the existence of crypto asset balances.
- We obtained evidence that management has control of the private keys required to access crypto assets in cold storage through a combination of decoding cryptographic messages signed using selected private keys or through observing the movement of selected crypto assets.
- We evaluated the reliability of audit evidence obtained from public blockchains.

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Commitments and Contingencies - SEC complaint and legal actions by U.S. state securities regulators — Refer to Note 22 to the financial statements

Critical Audit Matter Description

The Securities and Exchange Commission ("SEC") filed a complaint against the Company in 2023 alleging that the Company has acted as an unregistered securities exchange, broker, and clearing agency and has, through its staking program, offered and sold securities without registering its offers and sales. Additionally, the Company is the subject of various legal actions initiated by U.S. state securities regulators. The Company reviews its lawsuits, regulatory investigations, and other legal proceedings on an ongoing basis and provides disclosure and records loss contingencies in accordance with the loss contingencies accounting guidance. In accordance with such guidance, the Company establishes accruals for such matters when potential losses become probable and can be reasonably estimated. If the Company determines that a loss is reasonably possible and the loss or range of loss can be estimated, the Company discloses the possible loss in the financial statements. Because the outcome of these matters remains uncertain, the Company has not recorded or disclosed a loss contingency as of December 31, 2023. An adverse resolution of the SEC's complaint or legal actions initiated by U.S. state securities regulators could have a material impact on the Company's business and financial statements.

We identified the evaluation of potential loss contingencies, and related disclosures, related to the SEC complaint and legal actions initiated by U.S. state securities regulators as a critical audit matter because auditing management's judgment in determining the probability and estimate of loss required significant auditor judgment.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the potential loss contingencies involving the SEC complaint and legal actions initiated by the U.S. state securities regulators included the following, among others:

- We tested the effectiveness of internal controls related to management's review of loss contingencies and approval of the accounting treatment and related disclosures.
- We inquired of the Company's internal and external legal counsel to understand the legal merits and the basis for the Company's conclusion specific to the likelihood of loss and the estimate of potential loss or range of loss, as applicable.
- We obtained and evaluated management's evaluation of the probability of loss and estimation of loss through inquiries, reading the court rulings and briefs prepared by management, and obtaining written responses from internal and external legal counsels.
- We evaluated events subsequent to December 31, 2023 that might impact our evaluation of the probability of loss, including any related accrual or disclosure.
- We obtained written representations from executives of the Company.
- We evaluated whether the Company's disclosures were consistent with our testing.

/s/ Deloitte & Touche LLP

San Francisco, California
February 15, 2024

We have served as the Company's auditor since 2020.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Coinbase Global, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Coinbase Global, Inc. (the “Company”) as of December 31, 2023, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2023 of the Company and our report dated February 15, 2024, expressed an unqualified opinion.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, 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.

/s/ Deloitte & Touche LLP

San Francisco, California
February 15, 2024

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Coinbase Global, Inc.
Consolidated Balance Sheets
(In thousands, except par value data)

	December 31, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 5,139,351	$ 4,425,021
Restricted cash	22,992	25,873
Customer custodial funds	4,570,845	5,041,119
Safeguarding customer crypto assets	192,583,060	75,413,188
USDC	576,028	861,149
Accounts and loans receivable, net of allowance	361,715	404,376
Income tax receivable	63,726	60,441
Prepaid expenses and other current assets	148,814	217,048
Total current assets	203,466,531	86,448,215
Crypto assets held	449,925	424,393
Deferred tax assets	1,272,233	1,046,791
Lease right-of-use assets	12,737	69,357
Property and equipment, net	192,550	171,853
Goodwill	1,139,670	1,073,906
Intangible assets, net	86,422	135,429
Other non-current assets	362,885	354,929
Total assets	$ 206,982,953	$ 89,724,873
Liabilities and Stockholders' Equity		
Current liabilities:		
Customer custodial cash liabilities	$ 4,570,845	$ 4,829,587
Safeguarding customer crypto liabilities	192,583,060	75,413,188
Accounts payable	39,294	56,043
Accrued expenses and other current liabilities	447,050	331,236
Crypto asset borrowings	62,980	151,505
Lease liabilities, current	10,902	33,734
Total current liabilities	197,714,131	80,815,293
Lease liabilities, non-current	3,821	42,044
Long-term debt	2,979,957	3,393,448
Other non-current liabilities	3,395	19,531
Total liabilities	200,701,304	84,270,316
Commitments and contingencies (Note 22)		
Preferred stock, $0.00001 par value; 500,000 shares authorized and zero shares issued and outstanding at December 31, 2023 and 2022, respectively	—	—
Stockholders' equity:		
Class A common stock, $0.00001 par value; 10,000,000 shares authorized at December 31, 2023 and 2022; 195,192 and 182,796 shares issued and outstanding at December 31, 2023 and 2022, respectively	2	2
Class B common stock, $0.00001 par value; 500,000 shares authorized at December 31, 2023 and 2022; 46,856 and 48,070 shares issued and outstanding at December 31, 2023 and 2022, respectively	—	—
Additional paid-in capital	4,491,571	3,767,686
Accumulated other comprehensive loss	(30,270)	(38,606)
Retained earnings	1,820,346	1,725,475
Total stockholders' equity	6,281,649	5,454,557
Total liabilities and stockholders' equity	$ 206,982,953	$ 89,724,873

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

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Coinbase Global, Inc.
Consolidated Statements of Operations
(In thousands, except per share data)

	Year Ended December 31, 2023	2022	2021
Revenue:			
Net revenue	$ 2,926,540	$ 3,148,815	$ 7,354,753
Other revenue	181,843	45,393	484,691
Total revenue	3,108,383	3,194,208	7,839,444
Operating expenses:			
Transaction expense	420,705	629,880	1,267,924
Technology and development	1,324,541	2,326,354	1,291,561
Sales and marketing	332,312	510,089	663,689
General and administrative	1,041,308	1,600,586	909,392
Crypto asset impairment, net	(34,675)	722,211	153,160
Restructuring	142,594	40,703	—
Other operating expense, net	43,260	74,593	477,148
Total operating expenses	3,270,045	5,904,416	4,762,874
Operating (loss) income	(161,662)	(2,710,208)	3,076,570
Interest expense	82,766	88,901	29,160
Other (income) expense, net	(167,583)	265,473	20,463
(Loss) income before income taxes	(76,845)	(3,064,582)	3,026,947
Benefit from income taxes	(171,716)	(439,633)	(597,173)
Net income (loss)	$ 94,871	$ (2,624,949)	$ 3,624,120
Net income (loss) attributable to common stockholders:			
Basic	$ 94,752	$ (2,624,949)	$ 3,096,958
Diluted	$ 94,751	$ (2,631,179)	$ 3,190,404
Net income (loss) per share attributable to common stockholders:			
Basic	$ 0.40	$ (11.81)	$ 17.47
Diluted	$ 0.37	$ (11.83)	$ 14.50
Weighted-average shares of common stock used to compute net income (loss) per share attributable to common stockholders:			
Basic	235,796	222,314	177,319
Diluted	254,391	222,338	219,965

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

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Coinbase Global, Inc.
Consolidated Statements of Comprehensive Income (Loss)
(In thousands)

	Year Ended December 31,		
	2023	2022	2021
Net income (loss)	$ 94,871	$ (2,624,949)	$ 3,624,120
Other comprehensive income (loss):			
Translation adjustment, gross	9,077	(41,502)	(9,651)
Income tax effect	741	(6,291)	—
Translation adjustment, net of tax	8,336	(35,211)	(9,651)
Comprehensive income (loss)	$ 103,207	$ (2,660,160)	$ 3,614,469

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

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Coinbase Global, Inc.
Consolidated Statements of Changes in Preferred Stock and Stockholders' Equity
(In thousands)

	Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total
	Shares	Amount	Shares	Amount				
Balance at January 1, 2021	112,878	$ 562,467	73,108	$ —	$ 231,024	$ 6,256	$ 726,304	$ 963,584
Conversion of preferred stock	(112,878)	(562,467)	112,878	2	562,465	—	—	562,467
Issuance of equity instruments as consideration for business combinations	—	—	3,985	—	544,588	—	—	544,588
Issuance of common stock from exercise of warrants	—	—	412	—	433	—	—	433
Issuance of common stock upon settlement of Restricted Stock Units ("RSUs") and restricted common stock, net of shares withheld	—	—	1,775	—	(262,794)	—	—	(262,794)
Issuance of common stock upon exercise of stock options, net of repurchases	—	—	24,909	—	212,476	—	—	212,476
Issuance of common stock under the 2021 Employee Stock Purchase Plan (the "ESPP")	—	—	50	—	12,444	—	—	12,444
Stock-based compensation expense	—	—	—	—	824,153	—	—	824,153
Purchase of capped calls	—	—	—	—	(90,131)	—	—	(90,131)
Comprehensive loss	—	—	—	—	—	(9,651)	—	(9,651)
Net income	—	—	—	—	—	—	3,624,120	3,624,120
Balance at December 31, 2021	—	$ —	217,117	$ 2	$ 2,034,658	$ (3,395)	$ 4,350,424	$ 6,381,689
Issuance of equity instruments as consideration for business combinations	—	$ —	1,663	$ —	$ 314,356	$ —	$ —	$ 314,356
Issuance of common stock to settle contingent consideration	—	—	58	—	4,661	—	—	4,661
Issuance of common stock upon settlement of RSUs and restricted common stock, net of shares withheld	—	—	7,870	—	(351,867)	—	—	(351,867)
Issuance of common stock upon exercise of stock options, net of repurchases	—	—	3,883	—	56,737	—	—	56,737
Issuance of common stock under the ESPP	—	—	275	—	21,622	—	—	21,622
Stock-based compensation expense	—	—	—	—	1,683,840	—	—	1,683,840
Other	—	—	—	—	3,679	—	—	3,679
Comprehensive loss	—	—	—	—	—	(35,211)	—	(35,211)
Net loss	—	—	—	—	—	—	(2,624,949)	(2,624,949)
Balance at December 31, 2022	—	$ —	230,866	$ 2	$ 3,767,686	$ (38,606)	$ 1,725,475	$ 5,454,557
Issuance of equity instruments as consideration for business combination	—	$ —	961	$ —	$ 11,302	$ —	$ —	$ 11,302
Issuance of common stock to settle contingent consideration	—	—	28	—	2,291	—	—	2,291
Issuance of common stock upon settlement of RSUs and restricted common stock, net of shares withheld	—	—	6,833	—	(277,798)	—	—	(277,798)
Issuance of common stock upon exercise of stock options, net of repurchases	—	—	2,979	—	50,804	—	—	50,804
Issuance of common stock under the ESPP	—	—	381	—	18,959	—	—	18,959
Stock-based compensation expense	—	—	—	—	834,285	—	—	834,285
Stock-based compensation expense recognized in relation to restructuring	—	—	—	—	84,042	—	—	84,042
Comprehensive income	—	—	—	—	—	8,336	—	8,336
Net income	—	—	—	—	—	—	94,871	94,871
Balance at December 31, 2023	—	$ —	242,048	$ 2	$ 4,491,571	$ (30,270)	$ 1,820,346	$ 6,281,649

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

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Coinbase Global, Inc.
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31, 2023	2022	2021
Cash flows from operating activities			
Net income (loss)	$ 94,871	$ (2,624,949)	$ 3,624,120
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	139,642	154,069	63,651
Other impairment expense	18,793	26,518	500
Investment impairment expense	29,375	101,445	—
Stock-based compensation expense	780,668	1,565,823	820,685
Restructuring stock-based compensation expense	84,042	—	—
Provision for transaction losses and doubtful accounts	11,059	(13,051)	22,390
Deferred income taxes	(216,334)	(468,035)	(558,329)
Unrealized loss (gain) on foreign exchange	17,190	28,516	(14,944)
Non-cash lease expense	40,429	31,123	34,542
(Gain) loss on investments	(50,121)	3,056	(20,138)
Fair value (gain) loss on derivatives	(41,033)	7,410	(32,056)
Gain on extinguishment of long-term debt, net	(117,383)	—	—
Crypto asset impairment expense	96,783	757,257	329,152
Crypto assets received as revenue	(460,878)	(470,591)	(1,015,920)
Crypto asset payments for expenses	298,255	383,221	815,783
Realized gain on crypto assets	(145,594)	(36,666)	(178,234)
Other operating activities, net	16,981	883	5,532
Net changes in operating assets and liabilities	326,206	(1,031,448)	141,438
Net cash provided by (used in) operating activities	922,951	(1,585,419)	4,038,172
Cash flows from investing activities			
Capitalized internal-use software development costs	(63,202)	(61,038)	(22,073)
Business combinations, net of cash acquired	(30,730)	(186,150)	(70,911)
Purchase of investments	(11,822)	(63,048)	(326,513)
Purchase of assembled workforce	—	—	(60,800)
Loans originated	(586,691)	(207,349)	(336,189)
Proceeds from repayment of loans	513,698	327,539	124,520
Assets pledged as collateral	(27,899)	(41,630)	—
Assets pledged as collateral returned	68,338	—	—
Settlement of crypto futures contract	(43,339)	—	—
Purchase of crypto assets held	(277,367)	(1,400,032)	(3,009,086)
Disposal of crypto assets held	461,325	969,185	2,574,032
Other investing activities, net	3,081	(1,299)	2,280
Net cash provided by (used in) investing activities	5,392	(663,822)	(1,124,740)
Cash flows from financing activities			
Issuance of common stock upon exercise of stock options, net of repurchases	47,944	51,497	217,064
Taxes paid related to net share settlement of equity awards	(277,798)	(351,867)	(262,794)
Proceeds received under the ESPP	16,297	20,848	19,889
Customer custodial cash liabilities	(274,822)	(5,562,558)	6,691,859
Issuance of convertible senior notes, net	—	—	1,403,753
Issuance of senior notes, net	—	—	1,976,011
Purchase of capped calls	—	—	(90,131)
Repayment of long-term debt	(303,533)	—	—
Assets received as collateral	66,014	—	—
Assets received as collateral returned	(64,952)	—	—
Proceeds from short-term borrowings	31,640	190,956	20,000
Repayments of short-term borrowings	(52,122)	(191,073)	—
Other financing activities	—	3,679	433
Net cash (used in) provided by financing activities	(811,332)	(5,838,518)	9,976,084
Net increase (decrease) in cash, cash equivalents, and restricted cash	117,011	(8,087,759)	12,889,516
Effect of exchange rates on cash, cash equivalents, and restricted cash	8,772	(163,257)	(64,883)
Cash, cash equivalents, and restricted cash, beginning of period	9,429,646	17,680,662	4,856,029
Cash, cash equivalents, and restricted cash, end of period	$ 9,555,429	$ 9,429,646	$ 17,680,662
Supplemental disclosure of cash flow information			
Cash paid during the period for interest	$ 76,142	$ 82,399	$ 3,793
Cash paid during the period for income taxes	39,122	35,888	68,614
Operating cash outflows for amounts included in the measurement of operating lease liabilities	14,730	14,528	20,061

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

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Coinbase Global, Inc.
Notes to Consolidated Financial Statements

1. NATURE OF OPERATIONS

Coinbase, Inc. was founded in 2012. In April 2014, in connection with a corporate reorganization, Coinbase, Inc. became a wholly-owned subsidiary of Coinbase Global, Inc. (together with its consolidated subsidiaries, the "Company"). On April 14, 2021, the Company completed the direct listing of its Class A common stock on the Nasdaq Global Select Market (the "Direct Listing").

The Company provides a trusted platform that serves as a compliant gateway to the onchain economy and enables customers to engage in a wide variety of activities, including discovering, trading, staking, storing, spending, earning, and using their crypto assets in both proprietary and third-party product experiences enabled by access to decentralized applications. The Company offers (i) consumers their primary financial account for the cryptoeconomy, (ii) institutions a full-service prime brokerage platform with access to deep pools of liquidity across the crypto marketplace, and (iii) developers a suite of products granting access to the Company's ecosystem.

The Company is a remote-first company. Accordingly, the Company does not maintain a headquarters or principal executive offices. Substantially all of the Company's executive team meetings are held virtually, with meetings occasionally held in-person at locations that are either not in the Company's offices or in various of the Company's offices distributed around the world. The Company holds all of its stockholder meetings virtually.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation and principles of consolidation

The accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("GAAP"), and include the accounts of the Company and its subsidiaries. The Company's subsidiaries are entities in which the Company holds, directly or indirectly, more than 50% of the voting rights, or where it exercises control. Certain subsidiaries of the Company have a basis of presentation different from GAAP. For the purposes of these consolidated financial statements, the basis of presentation of such subsidiaries is converted to GAAP. All intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

Certain prior period amounts have been reclassified in order to conform with the current period presentation. These reclassifications have no impact on the Company's previously reported consolidated results.

Use of estimates

The preparation of the consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions in the consolidated financial statements and notes thereto.

Significant estimates and assumptions include the determination of the recognition, measurement, and valuation of current and deferred income taxes; the fair value of performance stock-based awards issued; the useful lives of long-lived assets; the impairment of long-lived assets; the valuation of privately-held strategic investments, including impairments; the fair value of safeguarding customer crypto assets and liabilities; the identification and valuation of assets acquired and liabilities assumed in business combinations; the fair value of derivatives and related hedges; loss contingency identification and valuation, including assessing the likelihood of adverse outcomes from positions, claims, and disputes, recoveries of losses recorded, and associated timing.

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Actual results and outcomes may differ from management's estimates and assumptions due to risks and uncertainties. To the extent that there are material differences between these estimates and actual results, the consolidated financial statements will be affected. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable, the result of which forms the basis for making judgments about the carrying values of assets and liabilities.

Foreign currency transactions

The Company's functional currency is the U.S. dollar. The Company has exposure to foreign currency translation gains and losses arising from the Company's net investment in foreign subsidiaries. The revenues, expenses, and financial results of these foreign subsidiaries are recorded in their respective functional currencies. The financial statements of these subsidiaries are translated into U.S. dollars using a current rate of exchange, with gains or losses, net of tax as applicable, included in accumulated other comprehensive income (loss) ("AOCI") within the consolidated statements of changes in preferred stock and stockholders' equity. Cumulative translation adjustments are released from AOCI and recorded in the consolidated statements of operations when the Company disposes or loses control of a consolidated subsidiary. Gains and losses resulting from remeasurement are recorded in other expense (income), net within the consolidated statements of operations.

Realized gains and losses on foreign exchange resulting from the settlement of the Company's foreign currency assets and liabilities and unrealized impacts on foreign exchange resulting from remeasurement of transactions and monetary assets and liabilities denominated in non-functional currencies are recognized as a component of other (income) expense, net on the consolidated statements of operations.

Fair value measurements

The Company measures certain assets and liabilities at fair value. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

- **Level 1**: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- **Level 2**: Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- **Level 3**: Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Cash and cash equivalents

Cash and cash equivalents include cash and interest-bearing highly liquid investments held at financial institutions, cash on hand that is not restricted as to withdrawal or use with an initial maturity of three months or less, and cash held in accounts at venues. Venues include other crypto asset trading platforms that hold money transmitter licenses and payment processors. Cash and cash equivalents excludes customer legal tender, which is reported separately as customer custodial funds on the accompanying consolidated balance sheets. Refer to Customer custodial funds and customer custodial cash liabilities below for further details.

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Restricted cash

The Company has restricted cash deposits at financial institutions related to operational restricted deposits.

Customer custodial funds and customer custodial cash liabilities

Customer custodial funds represent restricted cash and cash equivalents maintained in segregated Company bank accounts that are held for the exclusive benefit of customers and deposits in transit from payment processors and financial institutions. Under GAAP, the balance in these accounts that exceeds customer custodial cash liabilities is presented within cash and cash equivalents. Customer custodial cash liabilities represent the obligation to return cash deposits held by customers in their fiat wallets and unsettled fiat deposits and withdrawals. Deposits in transit represent settlements from third-party payment processors and banks for customer transactions. Deposits in transit are typically received within five business days of the transaction date. The Company establishes withdrawal-based limits in order to mitigate potential losses by preventing customers from withdrawing the crypto asset to an external blockchain address until the deposit settles. In certain jurisdictions, deposits in transit qualify as eligible liquid assets to meet regulatory requirements to fulfill the Company's direct obligations under customer custodial cash liabilities. The Company restricts the use of the assets underlying the customer custodial funds to meet regulatory requirements and classifies the assets as current based on their purpose and availability to fulfill the Company's direct obligation under customer custodial cash liabilities.

Certain jurisdictions where the Company operates require the Company to hold eligible liquid assets, as defined by applicable regulatory requirements and commercial law in these jurisdictions, equal to at least 100% of the aggregate amount of all customer custodial cash liabilities. Depending on the jurisdiction, eligible liquid assets can include cash and cash equivalents, customer custodial funds, and certain other customer receivables. As of December 31, 2023 and 2022, the Company's eligible liquid assets were greater than the aggregate amount of customer custodial cash liabilities.

Safeguarding customer crypto assets and liabilities

The Company safeguards crypto assets for customers in digital wallets and portions of cryptographic keys necessary to access crypto assets on the Company's platform. The Company safeguards these assets and/or keys and is obligated to safeguard them from loss, theft, or other misuse. The Company records safeguarding customer crypto assets and liabilities, in accordance with Staff Accounting Bulletin 121 ("SAB 121"). The Company maintains a record of all crypto assets in digital wallets held on the Company's platform as well as the full or a portion of private keys including backup keys, which are maintained on behalf of customers. For crypto assets where the customer can transact without the involvement of the Company or crypto assets where the Company does not maintain a private key or the ability to recover a customer's private key or their crypto assets, these balances are not recorded, as there is no related safeguarding obligation in accordance with SAB 121. The Company records the safeguarding customer crypto assets and liabilities, on the initial recognition and at each reporting date, at the fair value of the crypto assets which it safeguards for its customers.

The Company is committed to securely storing all customer crypto assets and cryptographic keys (or portions thereof) held on behalf of customers. The value of these safeguarded assets is recorded as safeguarding customer crypto liabilities and corresponding safeguarding customer crypto assets. As such, the Company may be liable to its customers for losses arising from theft or loss of private keys. The Company has no reason to believe it will incur any expense associated with such potential liability because (i) it has no known or historical experience of claims to use as a basis of measurement, (ii) it accounts for and continually verifies the amount of crypto assets on its platform, and (iii) it has established security around private key management to minimize the risk of theft or loss. The Company has adopted a number of measures to safeguard crypto assets it secures including, but not limited to, holding customer crypto assets on a 1:1 basis and strategically storing custodied assets offline using the Company's cold storage process. The Company also does not reuse or rehypothecate customer crypto assets nor grant security interests in customer crypto assets, in each case unless required by law or expressly agreed to by the institutional customer. Any loss or theft would impact the measurement of the customer crypto assets.

USDC

USDC is a stablecoin redeemable on a one-to-one basis for U.S. dollars. USDC is accounted for as a financial instrument on the consolidated balance sheets.

Accounts and loans receivable and allowance for doubtful accounts

Accounts and loans receivable are contractual rights to receive cash or crypto assets either on demand or on fixed or determinable dates, and are recognized as an asset on the consolidated balance sheets. Accounts receivable consists of stablecoin revenue receivable, customer fee revenue receivable, and other receivables. Loans receivable consists of fiat loans receivable and crypto asset loans receivable.

Stablecoin revenue receivable represents the pro rata portion of income earned and receivable on USDC reserves through the Company's arrangement with the issuer of USDC. Revenue derived by the Company from this arrangement is dependent on various factors including the balance of USDC on the Company's platform, the total market capitalization of USDC, and the prevailing interest rate environment.

Customer fee accounts receivable primarily comprise receivables from custodial fee revenue and other subscription and services revenue, which includes fees earned from providing services such as dedicated secure cold storage, staking, delegation, infrastructure, financing, and software licenses. Receivables are recorded at the transaction price, representing consideration to which the Company expects to be entitled to in exchange for satisfying performance obligations. For obligations satisfied over time, receivables are recognized as revenue is earned, typically monthly. For obligations satisfied at a point in time, receivables are recognized when the obligation is complete.

Fiat loans receivable represents cash loans made to institutions, and prior to November 20, 2023, to consumers. These loans are collateralized with USDC or certain crypto assets held by those users on the Company's platform. The Company generally does not have the right to use such collateral unless the borrower defaults on the loans. See *Collateral* below for additional details regarding the Company's obligation to return collateral. Fiat loans receivable are measured at amortized cost. The carrying value of the loans approximates their fair value due to their short-term duration of less than 12 months.

Crypto asset loans receivable represents crypto asset loans made to institutions. These loans are collateralized with fiat, USDC, or certain crypto assets held by those users on the Company's platform. Crypto asset loans receivable are initially and subsequently measured at the fair value of the underlying crypto asset lent and adjusted for expected credit losses.

The Company also loans USDC. When USDC is loaned, it is not derecognized from the consolidated balance sheets as the Company maintains effective control over the transferred USDC. Therefore, there are no USDC loans receivable recorded, and the loaned USDC remains presented in USDC in the consolidated balance sheets.

The Company recognizes an allowance for doubtful accounts for receivables based on expected credit losses. In determining expected credit losses, the Company considers historical loss experience, the aging of its receivable balance, and the fair value of any collateral held. For fiat loans receivable and crypto asset loans receivable, the Company applies the collateral maintenance provision practical expedient. Due to the collateral requirements the Company applies to such loans, the Company's process for collateral maintenance, and collateral held on the Company's platform, the Company's credit exposure is significantly limited and no allowance, write-offs or recoveries were recorded against fiat loans receivable or crypto asset loans receivable for the periods presented. The Company would recognize credit losses on these loans if there is a collateral shortfall and it is not reasonably expected that the

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borrower will replenish such a shortfall. Due to the nature of the collateral the Company requires to be pledged, the Company is readily able to liquidate in the case of the borrower's default.

Collateral

Company assets pledged as collateral

The Company enters into fiat, USDC, and crypto asset borrowing arrangements with certain institutional customers that require the Company to pledge collateral in the form of fiat, USDC, or crypto assets in which the lender may have the right to sell, repledge, or rehypothecate such collateral without the Company's consent. The Company also enters into certain derivative contracts which require the Company to pledge collateral in the form of fiat. The Company is required to maintain a collateral to loan ratio per the borrowing arrangements.

If the lender has the right to use the collateral or if the collateral is fiat, the Company presents the collateral pledged as a right to receive the collateral within prepaid expenses and other current assets in the consolidated balance sheets. The lender is not obligated to return collateral equal to the fair value of the borrowings if the Company defaults on its borrowings. As of December 31, 2023, the Company has not defaulted on any of its borrowings.

Borrower assets pledged as collateral

For loans receivable, the Company requires borrowers to pledge collateral, for which it may then be required to record a corresponding obligation to return the collateral to the borrower. As of December 31, 2023, the collateral requirements ranged from 115% to 250% of the fair value of the loan, and the borrower is required to pledge additional assets to maintain their required collateral percentage. The Company may have the right to use collateral pledged by the borrower. If the Company has the right to use collateral denominated in USDC, crypto assets, or fiat, the Company records the collateral as an asset within USDC, crypto assets held, or cash and cash equivalents, respectively, with a corresponding obligation to return collateral within accrued expenses and other current liabilities, in the consolidated balance sheets. For collateral denominated in USDC or crypto assets that is pledged against fiat loans receivable, the Company will only record the collateral if it has also been subsequently sold. The Company is not obligated to return collateral equal to the fair value of the borrowings if the borrower defaults. Due to the nature of the collateral the Company requires to be pledged by borrowers, the Company is readily able to liquidate in the case of the borrower's default.

Off-balance sheet collateral arrangements

The Company may pledge USDC collateral to lenders which are not recognized as assets pledged as collateral as they do not meet the derecognition criteria. This collateral continues to be shown within USDC on the consolidated balance sheets.

The Company may receive collateral denominated in USDC or crypto assets pledged by borrowers where the Company does not have a right to use the collateral and does not recognize it on the consolidated balance sheets since the collateral does not meet the recognition criteria.

Concentration of credit risk

The Company's cash and cash equivalents, restricted cash, customer custodial funds, and accounts and loans receivable are potentially subject to concentration of credit risk. Cash and cash equivalents, restricted cash, and customer custodial funds are primarily placed with financial institutions which are of high credit quality. The Company invests cash and cash equivalents and customer custodial funds primarily in highly liquid, highly rated instruments which are uninsured. The Company may also have corporate deposit balances with financial institutions which exceed the Federal Deposit Insurance Corporation insurance limit of $250,000. The Company has not experienced losses on these accounts and does not believe it is exposed to any significant credit risk with respect to these accounts. The

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Company also holds cash and crypto at crypto asset trading venues and payment processors and performs a regular assessment of these venues as part of its risk management process.

The issuer of USDC reported that, as of December 31, 2023, underlying reserves were held in cash, short-duration U.S. Treasuries, and overnight U.S. Treasury repurchase agreements within segregated accounts for the benefit of USDC holders.

As of December 31, 2023 and 2022, the Company had four and one counterparties, respectively, who accounted for more than 10% of the Company's accounts and loans receivable, net. See *Note 13. Collateral* for details on collateralization of loans receivable.

During the years ended December 31, 2023 and 2022, no counterparty accounted for more than 10% of total revenue, respectively.

Crypto assets held

The crypto assets held by the Company, with no qualifying fair value hedge, are accounted for as intangible assets with indefinite useful lives, and are initially measured at cost. Crypto assets accounted for as intangible assets are subject to impairment losses if the fair value of crypto assets decreases below the carrying value at any time during the period. The fair value is measured using the quoted price of the crypto asset at the time its fair value is being measured in the Company's principal market. Gross impairments, net of subsequent realized gains on the sale and disposal of previously impaired crypto assets held are reflected in crypto asset impairment, net in the consolidated statements of operations. The Company assigns costs to crypto assets on a first-in, first-out basis.

Crypto assets held as the hedged item in qualifying fair value hedges are initially measured at cost. Subsequent changes in fair value attributable to the hedged risk are adjusted to the carrying amount of these crypto assets, with changes in fair value recorded in other operating expense, net in the consolidated statements of operations.

The Company recognizes crypto assets received through airdrops or forks if the crypto asset is expected to generate probable future benefit and if the Company is able to support the trading, custody, or withdrawal of these assets. The Company records the crypto assets received through airdrops or forks at their cost.

Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in lease right-of-use ("ROU") assets and lease liabilities on the consolidated balance sheets. ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of future minimum lease payments over the lease term. Most leases do not provide an implicit rate, so the Company uses its incremental borrowing rate. The operating lease ROU assets also include any lease payments made before commencement and exclude lease incentives.

The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that those options will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company has made the policy election to account for short-term leases by recognizing the lease payments in profit or loss on a straight-line basis over the lease term and not recognizing these leases on the consolidated balance sheets. Variable lease payments are recognized in profit or loss in the period in which the obligation for those payments is incurred. The Company has real estate lease agreements with lease and non-lease components for which the Company has made the accounting policy election to account for these agreements as a single lease component.

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Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the lesser of the estimated useful life of the asset or the remaining lease term. The estimated useful lives of the Company's property, equipment, and software are generally as follows:

Property and Equipment	Useful Life
Furniture and fixtures	Three to five years
Computer equipment	Two to five years
Leasehold improvements	Lesser of useful life or remaining lease term
Capitalized software	One to three years

Capitalized software consists of costs incurred during the application development stage of internal-use software or implementation of a hosting arrangement that is a service contract. Capitalized costs consist of salaries and other compensation costs for employees, fees paid to third-party consultants who are directly involved in development efforts, and costs incurred for upgrades and enhancements to add functionality of the software. Other costs that do not meet the capitalization criteria are expensed as incurred.

The Company evaluates impairments of its property and equipment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. If the asset is not recoverable, measurement of an impairment loss is based on the fair value of the asset. When an impairment loss is recognized, the carrying amount of the asset is reduced to its estimated fair value.

Business combinations, goodwill, and acquired intangible assets

The results of businesses acquired in a business combination are included in the consolidated financial statements from the date of the acquisition. The Company accounts for its business combinations using the acquisition method of accounting, which requires, among other things, allocation of the fair value of purchase consideration to the tangible and intangible assets acquired and liabilities assumed at their estimated fair values on the acquisition date. Any excess consideration over the fair value of assets acquired and liabilities assumed is recognized as goodwill. Acquisition-related costs incurred by the Company are recognized as an expense in general and administrative expenses within the consolidated statements of operations.

The Company uses its best estimates and assumptions to assign fair value to the tangible and intangible assets acquired and liabilities assumed at the acquisition date. The Company's estimates are inherently uncertain and subject to refinement.

During the measurement period, which may be up to one year from the acquisition date, and to the extent that the value was not previously finalized, the Company may record adjustments to the fair value of these tangible and intangible assets acquired and liabilities assumed, with the corresponding offset to goodwill. In addition, uncertain tax positions and tax-related valuation allowances are initially recorded in connection with a business combination as of the acquisition date. The Company continues to collect information about facts and circumstances that existed at the date of acquisition, reevaluates these estimates and assumptions quarterly, and records any adjustments to the Company's preliminary estimates to goodwill, provided that the Company is within the measurement period. Upon the conclusion of the measurement period or final determination of the fair value of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of operations.

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Goodwill is tested for impairment at the reporting unit level on an annual basis (October 1 for the Company) and between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. For the periods presented, the Company did not have any goodwill impairment charges.

Acquired intangible assets with a definite useful life are amortized over their estimated useful lives on a straight-line basis. Each period, the Company evaluates the estimated remaining useful life of its intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. Intangible assets assessed as having indefinite lives are not amortized, but are assessed for indicators that the useful life is no longer indefinite or for indicators of impairment each period.

The Company evaluates the recoverability of acquired intangible assets on an annual basis, or more frequently whenever circumstances indicate an intangible asset may be impaired. When indicators of impairment exist, the Company estimates future undiscounted cash flows attributable to such assets. In the event future undiscounted cash flows do not exceed the carrying amount of the assets, the asset would be considered impaired. The impairment loss is measured based upon the difference between the carrying amount and the fair value of the assets.

Investments

The Company holds strategic investments, which are included in other non-current assets on the consolidated balance sheets. The Company's strategic investments primarily include equity investments in privately held companies without readily determinable fair values where the Company (1) holds less than 20% ownership in the entity, and (2) does not exercise significant influence. These investments are recorded at cost and adjusted for observable transactions for same or similar investments of the same issuer (referred to as the measurement alternative) or impairment.

Crypto asset borrowings

The Company borrows USDC and crypto assets from third parties on a secured and unsecured basis. When USDC is borrowed, it is not recorded on the consolidated balance sheets as the transfer criteria in ASC Topic 860, *Transfers and Servicing*, have not been met. Crypto assets borrowed by the Company are reported in crypto assets held on the consolidated balance sheets.

Crypto asset borrowings are accounted for as hybrid instruments, with a liability host contract that contains an embedded derivative based on the changes in the fair value of the underlying crypto asset. The host contract is not accounted for as a debt instrument because it is not a financial liability, is carried at the initial fair value of the assets acquired and reported in crypto asset borrowings on the consolidated balance sheets. The embedded derivative is accounted for at fair value, with changes in fair value recognized in other operating expense, net in the consolidated statements of operations. The embedded derivatives are included in crypto asset borrowings on the consolidated balance sheets.

The term of these borrowings either can be for a fixed term of less than one year or open-ended and repayable at the option of the Company or the lender. These borrowings bear a fee payable by the Company to the lender, which is based on a percentage of the amount borrowed and is denominated in the related crypto asset borrowed. The borrowing fee is recognized on an accrual basis and is included in other operating expense, net in the consolidated statements of operations.

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Derivative contracts

Derivative contracts derive their value from underlying asset prices, other inputs, or a combination of these factors. Derivative contracts are recognized as either assets or liabilities on the consolidated balance sheets at fair value, with changes in fair value recognized in other operating expense, net. Cash flows from derivative contracts are recognized as investing activities and adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities in the consolidated statements of cash flows.

The Company enters into arrangements that result in obtaining the right to receive or obligation to deliver a fixed amount of crypto assets in the future. These are hybrid instruments, consisting of a receivable or debt host contract that is initially measured at the fair value of the underlying crypto assets and is subsequently carried at amortized cost, and an embedded forward feature based on the changes in the fair value of the underlying crypto asset. The embedded forward is bifurcated from the host contract, and is subsequently measured at fair value.

Derivatives designated as hedges

The Company applies hedge accounting to certain derivatives executed for risk management purposes. To qualify for hedge accounting, a derivative must be highly effective at reducing the risk associated with the exposure being hedged. The Company uses fair value hedges primarily to hedge the fair value exposure of crypto asset prices. Derivative amounts affecting earnings are recognized in the same line item as the earnings effect of the hedged item.

Long-term debt and interest expense

Long-term debt is carried at amortized cost. The Company accounted for the 2026 Convertible Notes wholly as debt because (1) the conversion features do not require bifurcation as a derivative under ASC Topic 815, *Derivatives and Hedging*, and (2) the 2026 Convertible Notes were not issued at a substantial discount.

The Company recognizes gains and losses on extinguishment of long-term debt as the difference between the reacquisition price and the net carrying amount of the debt, and these gains and losses are recognized in current-period earnings in other expense (income), net in the consolidated statements of operations.

Debt discounts and debt issuance costs are amortized to interest expense using the effective interest method over the contractual term of the respective note.

The Capped Calls meet the criteria for classification in equity, are not remeasured each reporting period and are included as a reduction to additional paid-in capital within stockholders' equity.

Revenue recognition

The Company determines revenue recognition from contracts with customers through the following steps:

- identification of the contract, or contracts, with the customer;
- identification of the performance obligations in the contract;
- determination of the transaction price;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of the revenue when, or as, the Company satisfies a performance obligation.

Revenue is recognized when control of the promised goods or services is transferred to the customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services.

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Transaction revenue

Consumer transaction revenue represents transaction fees earned from customers that are primarily individuals, while institutional transaction revenue represents transaction fees earned from institutional customers, such as hedge funds, family offices, principal trading firms, and financial institutions.

The Company's service comprises a single performance obligation to provide a crypto asset matching service when customers buy, sell or convert crypto assets, or trade derivatives. That is, the Company is an agent in transactions between customers and presents revenue for the fees earned on a net basis.

Judgment is required in determining whether the Company is the principal or the agent in transactions between customers. The Company evaluates the presentation of revenue on a gross or net basis based on whether it controls the crypto asset provided before it is transferred to the customer (gross) or whether it acts as an agent by arranging for other customers to provide the crypto asset to the customer (net). The Company does not control the crypto asset being provided before it is transferred to the buyer, does not have inventory risk related to the crypto asset, and is not responsible for the fulfillment of the crypto asset. The Company also does not set the price for the crypto asset as the price is a market rate established by users of the platform. As a result, the Company acts as an agent in facilitating the ability for a customer to purchase crypto assets from another customer.

The Company considers its performance obligation satisfied, and recognizes revenue, at the point in time the transaction is processed. Contracts with customers are usually open-ended and can be terminated by either party without a termination penalty. Therefore, contracts are defined at the transaction level and do not extend beyond the service already provided.

The Company charges a fee at the transaction level. The transaction price, represented by the transaction fee, is calculated based on volume and varies depending on payment type and the value of the transaction. Crypto asset purchase or sale transactions executed by a customer on the Company's platform is based on tiered pricing that is driven primarily by transaction volume processed for a specific historical period. The Company has concluded that this volume-based pricing approach does not constitute a future material right since the discount is within a range typically offered to a class of customers with similar volume. The transaction fee is collected from the customer at the time the transaction is executed. In certain instances, the transaction fee can be collected in crypto assets, with revenue measured based on the amount of crypto assets received and the fair value of the crypto assets at the time of the transaction.

The transaction price includes estimates for reductions in revenue from transaction fee reversals that may not be recovered from customers. Such reversals occur when the customer disputes a transaction processed on their credit card or their bank account for a variety of reasons and seeks to have the charge reversed after the Company has processed the transaction. These amounts are estimated based upon the most likely amount of consideration to which the Company will be entitled. All estimates are based on historical experience and the Company's best judgment at the time to the extent it is probable that a significant reversal of revenue recognized will not occur. All estimates of variable consideration are reassessed periodically. The total transaction price is allocated to the single performance obligation. While the Company recognizes transaction fee reversals as a reduction of net revenue, crypto asset losses related to those same transaction reversals are included in transaction expense.

Stablecoin revenue

Since 2018, the Company has earned income on fiat funds under an arrangement with the issuer of USDC which was included in interest income within subscriptions and services revenue. On August 18, 2023, the Company entered into an updated arrangement with the same counterparty. Pursuant to the arrangement, the Company earns a pro rata portion of income earned on USDC reserves based on the amount of USDC held on each respective party's platform, and from the distribution and usage of USDC after certain expenses. Revenue derived by the Company from this arrangement is dependent on various factors including the balance of USDC on the Company's platform, the total market capitalization of

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USDC, and the prevailing interest rate environment. The arrangement is treated as an executory contract accounted for on an accrual basis. Prior period revenue recognized under the previous arrangement was reclassified to the stablecoin revenue line within subscription and services revenue, to conform to current period presentation.

Blockchain rewards

Blockchain rewards primarily comprises staking revenue, in which the Company participates in networks with proof-of-stake consensus algorithms through creating or validating blocks on the network using the staking validators that it controls. Blockchain protocols, or the participants that form the protocol networks, reward users for performing various activities on the blockchain. The most common form today is participating in proof-of-stake networks, however, there are other consensus algorithms. The Company considers itself the principal in transactions with the blockchain networks, and therefore presents such blockchain rewards earned on a gross basis. In exchange for participating in the consensus mechanism of these networks, the Company recognizes revenue in the form of the native token of the network. Each block creation or validation is a performance obligation. Revenue is recognized at the point when the block creation or validation is complete and the rewards are transferred into a digital wallet that the Company controls. Revenue is measured based on the number of tokens received and the fair value of the token at contract inception.

Interest income and corporate interest income

The Company holds customer custodial funds and cash and cash equivalents at certain third-party banks which earn interest. Interest income earned from customer custodial funds, cash and cash equivalents and loans is calculated using the interest method and is not within the scope of Topic 606 – Revenue from Contracts with Customers. Interest earned on customer custodial funds and loans is included in interest income within subscription and services revenue. Interest earned on the Company’s corporate cash and cash equivalents is included in corporate interest and other income within other revenue.

Custodial fee revenue

The Company provides a dedicated secure cold storage solution to customers and earns a fee, which is based on a contractual percentage of the daily value of assets under custody. The fee is collected on a monthly basis. These contracts typically have one performance obligation which is provided and satisfied over the term of the contracts as customers simultaneously receive and consume the benefits of the services. The contract may be terminated by a customer at any time, without incurring a penalty. Customers are billed on the last day of the month during which services were provided, with the amounts generally being due within thirty days of receipt of the invoice.

Other subscription and services revenue

Other subscription and services revenue primarily comprises revenue from Coinbase One, Coinbase Cloud, which includes staking application, delegation, and infrastructure services, Prime Financing, and revenue from other subscription licenses. Generally, revenue from other subscription and services contains one performance obligation, may have variable and non-cash consideration, and is recognized at a point in time or over the period that services are provided.

Transaction expense

Transaction expense includes costs incurred to operate the Company’s platform, process crypto asset trades, and perform wallet services. These costs include blockchain rewards distributed to customers for their participation in blockchain activities such as staking, account verification fees, and fees paid to payment processors and other financial institutions for customer transaction activity, contract acquisition costs, crypto asset losses due to transaction reversals, and miner fees to process transactions on blockchain networks. Transaction expense also includes rewards paid to users for staking activities

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conducted by the Company. Fixed-fee costs are expensed over the term of the contract and transaction-level costs are expensed as incurred. The Company has elected to apply the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that would otherwise have been recognized is one year or less.

Stock-based compensation

The Company recognizes stock-based compensation expense using a fair-value based method for costs related to all equity awards granted under its equity incentive plans to employees, directors, and non-employees of the Company including restricted stock, RSUs, stock options, and purchase rights granted under the ESPP.

Valuation

The fair value of restricted stock and RSUs is estimated based on the fair value of the Company's common stock on the date of grant.

The Company estimates the fair value of stock options with only service-based conditions and purchase rights under the ESPP on the date of grant using the Black-Scholes-Merton Option-Pricing Model. The model requires management to make a number of assumptions, including the fair value and expected volatility of the Company's underlying common stock price, expected life of the option, risk-free interest rate, and expected dividend yield, which are calculated as follows:

- The fair value of the underlying stock is the fair value of the Company's common stock on the date of grant. Prior to the Direct Listing, this fair value was determined using the probability weighted expected return method, with a discounted cash flow model or a market multiples method used for each expected outcome. Following the Direct Listing, this fair value is the closing price of the Company's Class A common stock as reported on the Nasdaq Global Select Market on the grant date.
- The expected stock price volatility assumption for the Company's stock is determined by using a weighted average of the historical stock price volatility of comparable companies from a representative peer group, as sufficient trading history for the Company's common stock is not available.
- The Company uses historical exercise information and contractual terms of options to estimate the expected term.
- The risk-free interest rate for periods within the expected life of the option is based on the U.S. Treasury zero coupon bonds with terms consistent with the expected term of the award at the time of grant.
- The expected dividend yield assumption is based on the Company's history and expectation of no dividend payouts.

The Company has two types of performance awards outstanding: performance stock options subject to a market condition and performance RSUs subject to both a market condition and a financial performance condition. The Company determines the fair value of performance awards subject to a market condition using a Monte Carlo Simulation Model (a binomial lattice-based valuation model). The Monte Carlo Simulation Model uses multiple input variables to determine the probability of satisfying the market condition requirements. The fair values of the awards are not subject to change based on future market conditions. The fair value of performance RSUs, or tranches thereof, subject to a financial performance condition is estimated based on the fair value of the Company's Class A common stock on the date of grant.

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Expense attribution

Stock-based compensation expense for RSUs and stock options with only service-based conditions, and purchase rights under the ESPP, is recorded on a straight-line basis over the requisite service period. The Company has elected to account for forfeitures of awards as they occur, with previously recognized compensation reversed in the period that the awards are forfeited.

The Company uses the accelerated attribution method to recognize expense over the requisite service period for performance awards, or tranches thereof, subject to a market condition. Once the associated performance condition, if any, becomes probable of being achieved, regardless of whether or not the market condition is ultimately satisfied, stock-based compensation expense is recognized according to the market-based fair value measured on the grant date and subject to continued service over the period.

For performance awards, or tranches thereof, subject to financial performance conditions, the Company evaluates the cumulative revenue and the cumulative adjusted EBITDA results at each reporting date to determine which performance condition and level of achievement becomes most probable of being achieved for the assessment period. Once a threshold of achievement is reached, stock-based compensation expense is recognized over the requisite service period based on the result that is probable of occurring at each reporting date until the final vesting date, subject to continued service over the period.

Early exercise option

Certain stock options granted provide employee option holders the right to exercise unvested options for restricted common stock, which is subject to a repurchase right held by the Company at the original purchase price in the event the optionee's employment is terminated either voluntarily or involuntarily prior to vesting of the exercised stock. Early exercises of options are not deemed to be substantive exercises for accounting purposes and accordingly, amounts received for early exercises are recorded as a liability. These repurchase terms are considered to be a forfeiture provision and do not result in variable accounting. These amounts are reclassified to common stock and additional paid in capital as the underlying shares vest.

Technology and development

Technology and development expenses include personnel-related expenses incurred in operating, maintaining, and enhancing the Company's platform and in developing new products and services. These costs also include website hosting and infrastructure expenses, and the amortization of internally developed and acquired developed technology. Certain costs of developing new products and services are capitalized to property and equipment, net.

Sales and marketing

Sales and marketing expenses primarily include personnel-related expenses, marketing programs costs, and costs related to customer acquisition. Sales and marketing costs are expensed as incurred.

General and administrative

General and administrative expenses include personnel-related expenses incurred to support the Company's business, including executive, customer support, compliance, finance, human resources, legal, and other support operations. These costs also include software subscriptions for support services, facilities and equipment costs, depreciation, amortization of acquired customer relationship intangible assets, gains and losses on disposal of fixed assets, indirect taxes, accrued legal contingencies and settlements, and other general overhead. General and administrative costs are expensed as incurred.

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Other operating expense, net

Other operating expense, net includes realized gains and losses resulting from the settlement of derivative instruments and fair value gains and losses related to derivatives and derivatives designated in qualifying fair value hedge accounting relationships.

Other operating expense, net also includes the cost of the Company's crypto assets used to fulfill customer accommodation transactions. Periodically, as an accommodation to customers, the Company may fulfill customer transactions using its own crypto assets. The Company has custody and control of the crypto assets prior to the sale to the customer. Accordingly, the Company records the total value of the sale in other revenue and the cost of the crypto asset in other operating expense, net. Contributions towards political action committees are also included in other operating expense, net.

Other (income) expense, net

Other (income) expense, net includes net gains on the repurchase of certain of the Company's long-term debt, realized foreign exchange gains and losses resulting from the settlement of the Company's foreign currency assets and liabilities, and unrealized foreign exchange impacts resulting from remeasurement of transactions and monetary assets and liabilities denominated in non-functional currencies, and impairment recognized on certain strategic equity investments in privately held companies without readily determinable fair values and gains and losses on investments, net, which consists primarily of realized and unrealized gains and losses from fair value adjustments. Unrealized gains and losses from fair value adjustments on certain financial instruments are also included in other (income) expense, net.

Income taxes

The Company accounts for income taxes using the asset and liability method whereby deferred tax asset and liability account balances are determined based on temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. A valuation allowance is established when management estimates that it is more likely than not that deferred tax assets will not be realized. Realization of deferred tax assets is dependent upon future pre-tax earnings, the reversal of temporary differences between book and tax income, and the expected tax rates in future periods.

The Company is required to evaluate the tax positions taken in the course of preparing its tax returns to determine whether tax positions are more likely than not of being sustained by the applicable tax authority. Tax benefits of positions not deemed to meet the "more-likely-than-not" threshold would be recorded as a tax expense in the current year. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount that is initially recognized. It is the Company's practice to recognize interest and penalties related to income tax matters in income tax expense.

For U.S. federal tax purposes, crypto asset transactions are treated on the same tax principles as property transactions. The Company recognizes a gain or loss when crypto assets are exchanged for other property, in the amount of the difference between the fair market value of the property received and the tax basis of the exchanged crypto assets. Receipts of crypto assets in exchange for goods or services are included in taxable income at the fair market value on the date of receipt.

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Net income (loss) per share

The Company computes net income (loss) per share using the two-class method required for participating securities. The two-class method requires income available to common stockholders for the period to be allocated between common stock and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed. The Company's preferred stock and certain of its restricted common stock were deemed participating securities. These participating securities do not contractually require the holders of such shares to participate in the Company's losses.

Basic net income (loss) per share is computed using the weighted-average number of outstanding shares of common stock during the period. Diluted net income (loss) per share is computed using the weighted-average number of outstanding shares of common stock and, when dilutive, potential shares of common stock outstanding during the period. Potential shares of common stock consist of incremental shares issuable upon the assumed exercise of stock options and warrants, vesting of RSUs, vesting of restricted common stock, conversion of the Company's preferred stock and convertible notes, and settlement of contingent consideration.

Segment reporting

Operating segments are defined as components of an entity for which separate financial information is available and that is regularly reviewed by the Chief Operating Decision Maker (the "CODM") in deciding how to allocate resources to an individual segment and in assessing performance. The Company's Chief Executive Officer is the Company's CODM. The CODM reviews financial information presented on a global consolidated basis for purposes of making operating decisions, allocating resources, and evaluating financial performance. As such, the Company has determined that it operates as one operating segment and one reportable segment.

Recent accounting pronouncements

Accounting pronouncements pending adoption

On December 14, 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures ("ASU 2023-09"). ASU 2023-09 requires that entities disclose specific categories in their rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold. The new standard is effective for the Company beginning December 15, 2024, with early adoption permitted effective for fiscal years beginning January 1, 2024. The Company is currently evaluating the impact of adopting the standard.

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On December 14, 2023, FASB issued Accounting Standards Update No. 2023-08, Accounting for and Disclosure of Crypto Assets ("ASU 2023-08"), which requires entities that hold crypto assets to subsequently measure such assets at fair value with changes recognized in net income each reporting period. The guidance also requires crypto assets measured at fair value to be presented separately from other intangible assets on the balance sheet and changes in the fair value measurement of crypto assets to be presented separately on the income statement from changes in the carrying amounts of other intangible assets. The new standard is effective for the Company beginning December 15, 2024, with early adoption permitted. The Company adopted ASU 2023-08 on January 1, 2024 and will apply the modified retrospective transition approach. While the Company is in the process of finalizing implementation, based on a preliminary assessment, the Company anticipates it will recognize an incremental $720 million to $760 million increase in fair value on crypto assets held with the corresponding cumulative-effect adjustment amount recorded to the opening balance of retained earnings.

On November 27, 2023, FASB issued Accounting Standards Update No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures ("ASU 2023-07"), which requires that an entity disclose significant segment expenses impacting profit and loss that are regularly provided to the chief operating decision maker. The update is required to be applied retrospectively to prior periods presented, based on the significant segment expense categories identified and disclosed in the period of adoption. The amendments in ASU 2023-07 are required to be adopted for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the impact of adopting the standard.

3. RESTRUCTURING

2023 Restructuring

In January 2023, the Company announced and completed a restructuring impacting approximately 21% of the Company's headcount as of December 31, 2022 (the "2023 Restructuring"). The 2023 Restructuring was intended to manage the Company's operating expenses in response to the ongoing market conditions impacting the cryptoeconomy and ongoing business prioritization efforts. As a result, approximately 950 employees in various departments and locations were terminated. As part of their termination, they were given separation pay and other personnel benefits.

The Company does not expect to incur any additional charges in connection with the 2023 Restructuring and the cash payments associated with the restructuring were completed during the third quarter of 2023. The following expenses were recognized within restructuring expenses in the consolidated statements of operations during the year ended December 31, 2023 (in thousands):

	Year Ended December 31, 2023
Separation pay	$ 56,733
Stock-based compensation[1]	84,042
Other personnel costs	1,819
Total	$ 142,594

(1) Represents stock-based compensation expenditures for the year ended December 31, 2023 relating to the acceleration of the vesting of outstanding equity awards in accordance with the terms of such awards.

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The following table summarizes the balance of the 2023 Restructuring reserve and the changes in the reserve as of and for the year ended December 31, 2023 (in thousands):

	Expenses Incurred[(1)]	Payments	Adjustments[(2)]	Accrued Balance as of December 31, 2023
Separation pay	$ 57,745	$ (56,733)	$ (1,012)	$ —
Other personnel costs	2,702	(1,819)	(883)	—
Total	$ 60,447	$ (58,552)	$ (1,895)	$ —

(1) Excludes stock-based compensation as it was not reflected in the Company's restructuring reserve on the consolidated balance sheets.
(2) Reductions of $1.0 million and $0.9 million during the year ended December 31, 2023 were due to the release of accruals for certain separation pay expenses and other personnel costs, respectively, recorded as of March 31, 2023, which were not utilized.

2022 Restructuring

In June 2022, the Company announced and completed a restructuring impacting approximately 18% of the Company's headcount as of June 10, 2022 (the "2022 Restructuring"). This strategic reduction of the existing global workforce was intended to manage the Company's operating expenses in response to market conditions and ongoing business prioritization efforts. As a result, approximately 1,100 employees in various departments and locations were terminated. As part of their termination, they were given separation pay and other personnel benefits. The Company did not incur any additional charges related to the 2022 Restructuring. The cash payments associated with the 2022 Restructuring were substantially completed during the third quarter of 2022 and the remaining balance was fully paid out during the year ended December 31, 2022.

The following expenses were recognized within restructuring expenses in the consolidated statements of operations for the year ended December 31, 2022 (in thousands):

	Year Ended December 31, 2022
Separation pay	$ 38,741
Other personnel costs	1,962
Total	$ 40,703

The following table summarizes the balance of the 2022 Restructuring reserve and the changes in the reserve as of and for the year ended December 31, 2022 (in thousands):

	Expenses Incurred	Payments	Adjustments	Accrued Balance as of December 31, 2022
Separation pay	$ 39,259	$ (38,741)	$ (518)	$ —
Other personnel costs	3,194	(1,962)	(1,232)	—
Total	$ 42,453	$ (40,703)	$ (1,750)	$ —

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4. ACQUISITIONS

Information on acquisitions completed during the periods presented is set forth below. The impact of these acquisitions was not considered significant to the consolidated financial statements for the periods presented, and pro forma financial information has not been provided.

2023 acquisitions

One River Digital Asset Management, LLC

On March 3, 2023, the Company completed the acquisition of One River Digital Asset Management, LLC ("ORDAM") by acquiring all issued and outstanding membership units of ORDAM. ORDAM is an institutional digital asset manager which is registered as an investment adviser with the SEC. The Company believes the acquisition aligns with the Company's long-term strategy to unlock further opportunities for institutions to participate in the cryptoeconomy.

Prior to the acquisition, the Company held a minority ownership stake in ORDAM, which was accounted for as a cost method investment. In accordance with ASC Topic 805, *Business Combinations*, the acquisition was accounted for as a business combination achieved in stages under the acquisition method. Accordingly, the cost method investment was remeasured to fair value as of the acquisition date. As the fair value of the cost method investment was equal to its carrying value, no gain or loss on remeasurement was recorded on the acquisition date.

The purchase consideration was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date with the excess recorded as goodwill. The goodwill balance is primarily attributed to the assembled workforce, market presence, synergies, and time-to-market advantages. The final allocation of purchase consideration to assets and liabilities remains in process as the Company continues to evaluate certain balances, estimates, and assumptions during the measurement period (up to one year from the acquisition date). Any changes in the fair value of the assets acquired and liabilities assumed during the measurement period may result in adjustments to goodwill.

The total consideration transferred in the acquisition was $96.8 million, consisting of the following (in thousands):

Cash	$	30,830
Cash payable		1,005
Previously-held interest on acquisition date		20,000
Class A common stock of the Company		44,995
Total purchase consideration	$	96,830

Included in the purchase consideration are $6.0 million in cash and 119,991 shares of the Company's Class A common stock that are subject to an indemnity holdback. The cash and shares subject to the indemnity holdback will be released 18 months after the closing date of the transaction.

The results of operations and the provisional fair values of the assets acquired and liabilities assumed have been included in the consolidated financial statements as of the date of acquisition. The following table summarizes the preliminary fair values of assets acquired and liabilities assumed as of the date of acquisition (in thousands):

Goodwill	$	65,764
Intangible assets, net		21,100
Other assets and liabilities, net		9,966
Net assets acquired	$	96,830

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The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands, except for years data):

	Fair Value	Useful Life at Acquisition (in years)
Licenses	$ 1,100	Indefinite
Customer relationships	17,100	6
In-process research and development ("IPR&D")	2,900	N/A

Customer relationships will be amortized on a straight-line basis over their respective useful lives to general and administrative expense. The licenses have an indefinite useful life and will not be amortized. Management applied significant judgment in determining the fair value of intangible assets, which involved the use of estimates and assumptions with respect to forecasted revenues and expenses, and costs to recreate the IPR&D and obtain the licenses.

Total acquisition costs of $2.6 million were incurred related to the acquisition, which were recognized as an expense and included in general and administrative expenses in the consolidated statements of operations.

2022 acquisitions

Unbound Security, Inc.

On January 4, 2022, the Company completed the acquisition of Unbound Security, Inc. ("Unbound") by acquiring all issued and outstanding shares of capital stock and stock options of Unbound. Unbound is a pioneer in a number of cryptographic security technologies, which the Company believes will play a key role in the Company's product and security roadmap.

In accordance with ASC Topic 805, *Business Combinations*, the acquisition was accounted for as a business combination under the acquisition method. The purchase consideration was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date with the excess recorded as goodwill, none of which is expected to be deductible for tax purposes. The goodwill balance is primarily attributed to the assembled workforce, synergies, and the use of purchased technology to develop future products and technologies. During the year ended December 31, 2022, a measurement period adjustment associated with deferred tax assets was recorded, resulting in an increase in other non-current assets of $4.1 million and a corresponding reduction in goodwill.

The total consideration transferred in the acquisition was $258.0 million, consisting of the following (in thousands):

Cash	$ 151,424
Cash payable	126
Class A common stock of the Company	103,977
RSUs for shares of the Company's Class A common stock	2,457
Total purchase consideration	$ 257,984

Included in the purchase consideration are $21.7 million in cash and 85,324 shares of the Company's Class A common stock that were subject to an indemnity holdback. The cash and shares subject to the indemnity holdback were released within 18 months from the closing date of the transaction.

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The results of operations and the fair values of the assets acquired and liabilities assumed have been included in the consolidated financial statements from the date of acquisition. The following table summarizes the preliminary fair values of assets acquired and liabilities assumed as of the date of acquisition (in thousands):

Goodwill	$	222,732
Intangible assets		28,500
Other assets and liabilities, net		6,752
Net assets acquired	$	257,984

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands, except for years data):

		Fair Value	Useful Life at Acquisition (in Years)
Developed technology	$	15,700	1 - 5
IPR&D		2,500	N/A
Customer relationships		10,300	2

The intangible assets will be amortized on a straight-line basis over their respective useful lives to technology and development expenses for developed technology and general and administrative expenses for customer relationships. Amortization of the IPR&D will be recognized in technology and development expenses once the research and development is placed into service as internally developed software. Management applied significant judgment in determining the fair value of intangible assets, which involved the use of estimates and assumptions with respect to development costs and profit, costs to recreate customer relationships, market participation profit, and opportunity cost.

Total acquisition costs of $3.0 million were incurred in relation to the acquisition, which were recognized as an expense and included in general and administrative expenses in the consolidated statements of operations.

FairXchange, Inc.

On February 1, 2022, the Company completed the acquisition of FairXchange, Inc. (“FairX”) by acquiring all issued and outstanding shares of capital stock, stock options and warrants of FairX. FairX is a derivatives exchange which is registered with the U.S. Commodity Futures Trading Commission as a designated contract market (“DCM”) and the Company believes it has been a key stepping stone on the Company’s path to offer crypto derivatives to consumers and institutional customers in the United States.

In accordance with ASC Topic 805, *Business Combinations*, the acquisition was accounted for as a business combination under the acquisition method. The purchase consideration was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date with the excess recorded as goodwill, none of which is expected to be deductible for tax purposes. The goodwill balance is primarily attributed to the assembled workforce, market presence, synergies, and the use of purchased technology to develop future products and technologies. During the year ended December 31, 2022, a measurement period adjustment associated with deferred tax assets was recorded, resulting in an increase in other non-current assets of $0.3 million and a corresponding reduction in goodwill.

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The total consideration transferred in the acquisition was $275.1 million, consisting of the following (in thousands):

Cash	$	56,726
Cash payable		10,442
Class A common stock of the Company - issued		174,229
Class A common stock of the Company - to be issued		33,693
Total purchase consideration	$	275,090

The aggregate purchase consideration includes 170,397 shares of the Company's Class A common stock to be issued after the acquisition date. The fair value of these shares on the acquisition date is included in additional paid-in capital. Additionally, included in the purchase consideration are $4.7 million in cash and 83,035 shares of the Company's Class A common stock that are subject to an indemnity holdback. The cash and shares remain subject to an indemnity holdback.

The results of operations and the fair values of the assets acquired and liabilities assumed have been included in the consolidated financial statements from the date of acquisition. The following table summarizes the preliminary fair values of assets acquired and liabilities assumed as of the date of acquisition (in thousands):

Goodwill	$	231,685
Intangible assets		41,000
Other assets and liabilities, net		2,405
Net assets acquired	$	275,090

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands, except for years data):

		Fair Value	Useful Life at Acquisition (in Years)
DCM License	$	26,900	Indefinite
Developed technology		10,700	5
Trading relationships		3,400	3

The developed technology and trading relationships will be amortized on a straight-line basis over their respective useful lives to technology and development expenses for developed technology and general and administrative for trading relationships. The DCM license has an indefinite useful life and will not be amortized. Management applied significant judgment in determining the fair value of intangible assets, which involved the use of estimates and assumptions with respect to forecasted revenues and expenses, development costs and profit, costs to recreate trading relationships, market participation profit, and opportunity cost.

Total acquisition costs of $1.1 million were incurred related to the acquisition, which were recognized as an expense and included in general and administrative expenses in the consolidated statements of operations.

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2021 acquisitions

Bison Trails

On February 8, 2021, the Company completed the acquisition of Bison Trails Co. ("Bison Trails") by acquiring all issued and outstanding common stock and stock options of Bison Trails. Bison Trails is a platform-as-a-service company that provides a suite of easy-to-use blockchain infrastructure products and services on multiple networks to custodians, exchanges and funds.

Prior to the acquisition, the Company held a minority ownership stake in Bison Trails, which was accounted for as a cost method investment. In accordance with ASC Topic 805, *Business Combinations*, the acquisition was accounted for as a business combination achieved in stages under the acquisition method. Accordingly, the cost method investment was remeasured to fair value as of the acquisition date. The Company considered multiple factors in determining the fair value of the previously held cost method investment, including the price negotiated with the selling shareholders and current trading multiples for comparable companies. Based on this analysis, the Company recognized an $8.8 million gain on remeasurement, which was recorded in other expense (income), net in the consolidated statements of operations on the acquisition date.

The purchase consideration was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition date with the excess recorded as goodwill, none of which is expected to be deductible for tax purposes. The goodwill balance is primarily attributed to the assembled workforce, market presence, synergies, and the use of purchased technology to develop future products and technologies.

The total consideration transferred in the acquisition was $457.3 million, consisting of the following (in thousands):

Class A common stock of the Company	$	389,314
Previously held interest on acquisition date		10,863
Cash		28,726
Replacement of Bison Trails options		28,365
Total purchase consideration	$	457,268

Included in the purchase consideration are 496,434 shares of the Company's Class A common stock that are subject to an indemnity holdback. The shares subject to the indemnity holdback were released 18 months after the closing date of the transaction.

The results of operations and the fair values of the assets acquired and liabilities assumed have been included in the consolidated financial statements from the date of acquisition. The following table summarizes the estimated fair values of assets acquired and liabilities assumed using a cost-based approach (in thousands):

Goodwill	$	404,167
Intangible assets		39,100
Other assets and liabilities, net		14,001
Net assets acquired	$	457,268

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The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the date of acquisition (in thousands, except for years data):

	Fair Value	Useful Life at Acquisition (in Years)
Developed technology	$ 36,000	3
IPR&D	1,200	N/A
User base	1,900	3

The intangible assets will be amortized on a straight-line basis over their respective useful lives to technology and development expenses for developed technology and general and administrative expenses for user base. Amortization of the IPR&D will be recognized in technology and development expenses once the research and development is placed into service as internally developed software. Management applied significant judgement in determining the fair value of intangible assets, which involved the use of estimates and assumptions with respect to development costs and profit, costs to recreate customer relationships, market participation profit, and opportunity cost.

Total acquisition costs of $3.7 million were incurred related to the acquisition, which were recognized as an expense and included in general and administrative expenses in the consolidated statements of operations.

Other acquisitions

During the year ended December 31, 2021, the Company also completed five other acquisitions that were not material individually, but were material when aggregated. In each of these acquisitions the Company acquired all issued and outstanding common stock and stock options of the acquiree.

The total purchase consideration in each acquisition was allocated to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values as of the acquisition dates, with the excess recorded as goodwill. During the year ended December 31, 2022, measurement period adjustments associated with deferred tax assets were recorded, resulting in an increase in other non-current assets of $1.9 million and a corresponding reduction in goodwill.

The total consideration transferred in these acquisitions was $211.0 million, consisting of the following (in thousands):

Class A common stock of the Company - issued	$ 65,717
Class A common stock of the Company - to be issued	58,173
RSUs	3,019
Cash	62,425
Cash payable	5,918
Contingent consideration arrangement	15,752
Total purchase consideration	$ 211,004

The aggregate purchase consideration included 160,840 shares of the Company’s Class A common stock which was issued six months after the respective acquisition dates. The fair value of these shares on the respective acquisition dates was included in additional paid-in capital. Additionally, 51,619 shares of the Company’s Class A common stock included in the aggregate purchase consideration that are to be issued, are subject to an indemnity holdback. The shares subject to the indemnity holdback were released between 15 and 18 months after the closing date of each transaction.

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Also included in the aggregate purchase consideration was the original estimated fair value of the contingent consideration arrangement agreed to in one of the acquisitions. The contingent consideration consists of two separate tranches. The first tranche will be settled one year after the closing date of the transaction and may result in delivery of up to 75,534 shares of the Company's Class A common stock if specified revenue targets are met during the first year after the closing date. The second tranche will be settled two years after the closing date of the transaction and may result in delivery of up to another 75,534 shares of the Company's Class A common stock, if specified revenue targets are met during the second year after the closing date. For each tranche, the revenue targets are adjusted for changes in the combined Bitcoin and Ethereum market capitalization since the closing date. The total number of the Company's Class A common stock issued to settle the contingent consideration arrangement will be adjusted downward in proportion to recognized revenues that do not meet the specified revenue targets.

In September 2022 and October 2023, upon resolution of the contingencies and determination of the number of shares of the Company's Class A common stock to be issued under the first and second tranche of the contingent consideration arrangement, respectively, the Company reclassified the value of the first and second tranches from other non-current liabilities into additional paid-in capital on the consolidated balance sheets.

The results of operations and the fair values of the assets acquired and liabilities assumed have been included in the consolidated financial statements from the respective dates of acquisition. The following table summarizes the aggregate estimated fair values of assets acquired and liabilities assumed using a cost-based approach (in thousands):

Goodwill	$	144,379
Intangible assets		62,100
Other assets and liabilities, net		4,525
Net assets acquired	$	211,004

The excess of aggregate purchase consideration over the fair value of net tangible and identifiable intangible assets acquired was recorded as goodwill of $144.4 million, of which $77.1 million is expected to be deductible for U.S. tax purposes. The goodwill balance is primarily attributed to the assembled workforce, market presence, synergies, and the use of purchased technology to develop future products and technologies.

The following table sets forth the components of identifiable intangible assets acquired and their estimated useful lives as of the dates of acquisition (in thousands, except for years data):

		Fair Value	Useful Life at Acquisition (in Years)
Developed technology	$	45,900	2.5
User base		1,000	2.5
IPR&D		2,300	N/A
Customer relationships		12,900	4.3

The intangible assets will be amortized on a straight-line basis over their respective useful lives to technology and development expenses for developed technology and general and administrative expenses for customer relationships and user base. Amortization of the IPR&D will be recognized in technology and development expenses once the research and development is placed into service as internally developed software. Management applied significant judgement in determining the fair value of intangible assets, which involved the use of estimates and assumptions with respect to development costs and profit, costs to recreate customer relationships, market participation profit, and opportunity cost. These valuations incorporate significant unobservable inputs classified as Level 3.

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Total acquisition costs of $4.3 million were incurred related to these other acquisitions, which were recognized as expenses and included in general and administrative expenses in the consolidated statements of operations. The Company also entered into employment agreements with key employees of the acquirees, which included stock-based compensation arrangements. In conjunction with these agreements, the Company recognized $5.5 million of compensation expenses on the acquisition dates included in technology and development expenses. Stock-based compensation arrangements offered to these key employees with vesting conditions will be recognized as compensation expense in future periods. See *Note 18. Stock-Based Compensation*, for additional details regarding stock-based compensation issued to employees.

5. REVENUE

The following table presents revenue of the Company disaggregated by revenue source (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Net revenue			
Transaction revenue			
Consumer, net	$ 1,429,490	$ 2,236,900	$ 6,490,992
Institutional, net	90,164	119,344	346,274
Total transaction revenue	1,519,654	2,356,244	6,837,266
Subscription and services revenue			
Stablecoin revenue	694,247	245,710	9,882
Blockchain rewards	330,885	275,507	223,055
Interest income	173,914	81,246	15,953
Custodial fee revenue	69,501	79,847	136,293
Other subscription and services revenue	138,339	110,261	132,304
Total subscription and services revenue	1,406,886	792,571	517,487
Total net revenue	2,926,540	3,148,815	7,354,753
Other revenue			
Corporate interest and other income	181,827	44,768	2,141
Crypto asset sales revenue	16	625	482,550
Total other revenue	181,843	45,393	484,691
Total revenue	$ 3,108,383	$ 3,194,208	$ 7,839,444

Revenue by geographic location

In the table below are the revenues disaggregated by geography, based on domicile of the customers, as applicable (in thousands):

	Year Ended December 31,		
	2023	2022	2021
United States	$ 2,725,620	$ 2,684,425	$ 6,339,270
Rest of the World[1]	382,763	509,783	1,500,174
Total revenue	$ 3,108,383	$ 3,194,208	$ 7,839,444

(1) No other individual country accounted for more than 10% of total revenue.

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6. ACCOUNTS AND LOANS RECEIVABLE, NET OF ALLOWANCE

Accounts and loans receivable, net of allowance consisted of the following (in thousands):

	December 31, 2023	December 31, 2022
Accounts receivable		
Stablecoin revenue receivable	$ 57,885	$ 179,996
Customer fee revenue receivable(1)	23,603	23,014
Other accounts receivable(1)	109,361	28,837
Gross accounts receivable	190,849	231,847
Allowance for doubtful accounts receivable	(22,559)	(11,500)
Net accounts receivable	168,290	220,347
Loans receivable(2)		
Fiat loans receivable(3)	171,196	98,203
Crypto asset loans receivable	22,229	85,826
Total loans receivable	193,425	184,029
Total accounts and loans receivable, net of allowance	$ 361,715	$ 404,376

(1) Includes accounts receivable denominated in crypto assets. See *Note 15. Derivatives* for additional details.
(2) As of December 31, 2023 and 2022, loans receivable did not include $205.6 million and $2.8 million of USDC loaned, respectively, as these loaned assets did not meet the criteria for derecognition.
(3) As of December 31, 2023, the entire balance comprised institutional fiat loans, while as of December 31, 2022, the entire balance comprised consumer fiat loans. Consumer fiat loans were discontinued in November 2023.

As of December 31, 2023 and 2022, there were no loans receivable past due.

7. LEASES

The Company has operating leases for corporate offices. The leases have remaining lease terms of less than one year to three years. The leases generally contain options to extend or terminate the lease. However, these were not included in determining the lease terms as the Company is not reasonably certain to exercise those options.

The components of lease cost were as follows (in thousands):

	Year Ended December 31, 2023	2022	2021
Operating lease cost	$ 40,429	$ 36,724	$ 34,074
Short-term lease cost	4,304	707	374
Total lease cost	$ 44,733	$ 37,431	$ 34,448

Other information related to leases was as follows as of:

	December 31, 2023	2022
Weighted-average remaining lease term (in years)	1.5	1.2
Weighted-average discount rate	4.05 %	3.01 %

The interest rate used to determine the present value of the future lease payments is the Company's incremental borrowing rate because the interest rate implicit in the leases is not readily determinable. The Company's incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located.

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Maturities of lease liabilities were as follows (in thousands):

2024	$ 11,235
2025	3,124
2026	792
Total lease payments	15,151
Less imputed interest	(428)
Total	$ 14,723

430 California office space

In February 2023, the Company entered into an early termination agreement for its remaining office space lease in San Francisco, California, which terminated on March 31, 2023. The Company paid a termination fee of $25.0 million and committed to spend $2.0 million at the lessor's other properties by March 31, 2025. These expenses were recognized within the general and administration expenses in the consolidated statements of operations during the year ended December 31, 2023.

8. PROPERTY AND EQUIPMENT, NET

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

	December 31, 2023	December 31, 2022
Capitalized software	$ 293,467	$ 198,537
Leasehold improvements	17,131	45,262
Furniture and fixtures	125	7,217
Computers and equipment	2,554	5,852
Total property and equipment, gross	313,277	256,868
Accumulated depreciation and amortization	(120,727)	(85,015)
Total property and equipment, net	$ 192,550	$ 171,853

Depreciation and amortization expense was $70.0 million, $48.0 million, and $18.4 million for the years ended December 31, 2023, 2022 and 2021, respectively. Total additions to capitalized software were $112.0 million, $178.6 million and $22.2 million for the years ended December 31, 2023, 2022 and 2021, respectively. During the years ended December 31, 2023, 2022 and 2021, the Company recorded impairment charges of $18.3 million, $21.8 million, and $0, respectively, related to its property and equipment. Impairment expense is included in other operating expense, net in the consolidated statements of operations.

Long-lived assets, which consisted of property and equipment, net and operating lease ROU assets, by geography were as follows (in thousands):

	December 31, 2023	December 31, 2022
United States	$ 198,810	$ 229,737
Rest of the World[(1)]	6,477	11,473
Total long-lived assets	$ 205,287	$ 241,210

(1) No other individual country accounted for more than 10% of total long-lived assets.

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9. GOODWILL, INTANGIBLE ASSETS, NET, AND CRYPTO ASSETS HELD

Goodwill

The following table reflects the changes in the carrying amount of goodwill (in thousands):

	Year Ended December 31,	
	2023	2022
Balance, beginning of period	$ 1,073,906	$ 625,758
Additions due to business combinations	65,764	454,417
Measurement period adjustments(1)	—	(6,269)
Balance, end of period	$ 1,139,670	$ 1,073,906

(1) The measurement period adjustments during the year ended December 31, 2022 consisted of $4.1 million, $0.3 million and $1.9 million related to the Unbound acquisition, the FairX acquisition, and certain other acquisitions that were material when aggregated, respectively, and which were associated with the changes in deferred tax assets as a result of changes in estimates. There were no measurement period adjustments during the year ended December 31, 2023.

There was no impairment recognized against goodwill at the beginning or end of the periods presented.

Intangible assets, net

Intangible assets, net and their associated weighted average remaining useful lives ("Life") consisted of the following (in thousands, except years data):

	December 31, 2023				December 31, 2022			
	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net	Life	Gross Carrying Amount	Accumulated Amortization	Intangible Assets, Net	Life
Amortizing intangible assets								
Acquired developed technology	$ 124,291	$ (105,139)	$ 19,152	2.5	$ 126,692	$ (81,172)	$ 45,520	2.3
Customer relationships	103,791	(66,279)	37,512	3.1	86,691	(45,717)	40,974	2.6
Assembled workforce	60,800	(60,800)	—	0	60,800	(44,857)	15,943	0.4
Other	5,802	(4,294)	1,508	1.0	10,676	(4,834)	5,842	1.7
Indefinite-lived intangible assets								
Licenses	28,000	—	28,000	N/A	26,900	—	26,900	N/A
Other	250	—	250	N/A	250	—	250	N/A
Total	$ 322,934	$ (236,512)	$ 86,422		$ 312,009	$ (176,580)	$ 135,429	

Amortization expense of intangible assets was $69.6 million, $106.1 million and $45.3 million for the years ended December 31, 2023, 2022 and 2021, respectively. The Company estimates that there is no significant residual value related to its amortizing intangible assets.

The Company recorded no material intangible asset impairment charges during the years ended December 31, 2023, 2022 and 2021. Impairment expense is included in technology and development expense in the consolidated statements of operations.

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The expected future amortization expense for amortizing intangible assets as of December 31, 2023 is as follows (in thousands):

2024	25,649
2025	17,400
2026	8,782
2027	3,026
2028	2,855
Thereafter	460
Total expected future amortization expense	$ 58,172

Crypto assets held

Crypto assets held consisted of the following (in thousands):

	December 31, 2023	December 31, 2022
Recorded at impaired cost		
Crypto assets held as investments	$ 330,610	$ 155,251
Crypto assets held for operating purposes	74,103	67,577
Total crypto assets held recorded at impaired cost	404,713	222,828
Recorded at fair value(1)		
Crypto assets held as investments	—	133,416
Crypto assets borrowed	45,212	68,149
Total crypto assets held recorded at fair value	45,212	201,565
Total crypto assets held	$ 449,925	$ 424,393

(1) Recorded at fair value as these crypto assets are held as the hedged item in qualifying fair value hedges.

Crypto asset impairment, net comprised the following (in thousands):

	Year Ended December 31, 2023	2022	2021
Gross crypto asset impairment expense	$ 96,783	$ 757,257	$ 329,152
Recoveries	(131,458)	(35,046)	(175,992)
Crypto asset impairment, net	$ (34,675)	$ 722,211	$ 153,160

The Company records gross impairment charges when the observed market price of crypto assets held decreases below the carrying value. The Company may later recover impairments through subsequent crypto asset sales and disposals. Collectively, these activities are shown as crypto asset impairment, net in the consolidated statements of operations.

See *Note 15. Derivatives*, for additional details regarding crypto assets held designated as hedged items in fair value hedges. See *Note 16. Fair Value Measurements*, for additional details regarding the carrying value of the Company's crypto assets held that are recorded at fair value.

When the Company borrows crypto assets, it may be required to pledge collateral to maintain a required collateral percentage. See *Note 13. Collateral,* for additional details regarding assets pledged as collateral.

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10. CUSTOMER ASSETS AND LIABILITIES

The following table presents customers' cash and safeguarded crypto positions (in thousands):

	December 31, 2023	December 31, 2022
Customer custodial funds	$ 4,570,845	$ 5,041,119
Safeguarding customer crypto assets	192,583,060	75,413,188
Total customer assets	$ 197,153,905	$ 80,454,307
Customer custodial cash liabilities	$ 4,570,845	$ 4,829,587
Safeguarding customer crypto liabilities	192,583,060	75,413,188
Total customer liabilities	$ 197,153,905	$ 80,242,775

During the years ended December 31, 2023 and 2022, no losses were incurred in connection with safeguarding customer crypto assets.

The following table sets forth the fair values of safeguarding customer crypto assets that were greater than 5% of the total safeguarding customer crypto assets recorded, as shown on the consolidated balance sheets (in thousands, except percentages):

	December 31, 2023		December 31, 2022	
	Fair Value	Percentage of Total(1)	Fair Value	Percentage of Total(1)
Bitcoin	$ 89,864,637	47 %	$ 32,468,926	43 %
Ethereum(2)	40,200,059	21 %	20,858,121	28 %
Solana	12,906,278	6 %	1,233,451	1 %
Other crypto assets	49,612,086	26 %	20,852,690	28 %
Total safeguarding customer crypto assets	$ 192,583,060	100 %	$ 75,413,188	100 %

(1) As of December 31, 2023 and 2022, no assets other than Bitcoin, Ethereum, and Solana individually represented more than 5% of total safeguarding customer crypto assets.
(2) As of December 31, 2023 and 2022, Ethereum included $10.1 billion and $3.0 billion, respectively, of staked Ethereum.

See *Note 16. Fair Value Measurements*, for additional details regarding the safeguarding customer crypto assets and safeguarding customer crypto liabilities.

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11. PREPAID EXPENSES AND OTHER CURRENT AND NON-CURRENT ASSETS

Prepaid expenses and other current assets and other non-current assets consisted of the following (in thousands):

	December 31, 2023	December 31, 2022
Prepaid expenses and other current assets		
Prepaid expenses	$ 79,552	$ 98,204
Assets pledged as collateral[(1)]	53,071	100,007
Other	16,191	18,837
Total prepaid expenses and other current assets	$ 148,814	$ 217,048
Other non-current assets		
Strategic investments[(2)]	$ 343,045	$ 326,683
Deposits	16,250	10,989
Other	3,590	17,257
Total other non-current assets	$ 362,885	$ 354,929

(1) Includes $51.9 million and $58.4 million as of December 31, 2023 and 2022, respectively, of the right to receive a fixed amount of USDC and BTC pledged as collateral. See *Note 13. Collateral,* for additional details on assets pledged as collateral.
(2) Includes $12.7 million and $11.4 million as of December 31, 2023 and 2022, respectively, of strategic investments in tokens and debt securities that are recorded at their impaired cost basis.

The Company acquired a 50% interest in Centre Consortium LLC ("Centre") during August 2019. The Company had significant influence over the entity, but did not have power or control. The investment was included in Other under other non-current assets in the table above. On August 18, 2023, the Company entered into a share transfer agreement to exchange its 50% interest in Centre to its joint venture partner, Circle US Holdings, Inc., for 3.5% of the fully diluted equity of Circle Internet Financial Limited at an estimated fair value of $51.1 million, which is included in strategic investments in the tables within this Note and is accounted for under the measurement alternative. In connection with this transaction, the Centre joint venture was terminated, and the Company recorded a gain of $49.9 million, which is included in other (income) expense, net in the consolidated statement of operations during the year ended December 31, 2023.

Measurement alternative investments

The changes in the carrying value of strategic investments accounted for under the measurement alternative are presented below (in thousands):

	Year Ended December 31, 2023	Year Ended December 31, 2022
Carrying amount, beginning of period	$ 315,285	$ 352,431
Net additions[(1)]	60,979	62,975
Upward adjustments	62	900
Previously held interest in ORDAM (see Note 4)	(20,000)	—
Impairments and downward adjustments	(25,980)	(101,021)
Carrying amount, end of period	$ 330,346	$ 315,285

(1) Net additions include additions from purchases and reductions due to exits of securities and reclassifications due to changes to capital structure.

Upward adjustments, impairments, and downward adjustments from remeasurement of investments are included in other (income) expense, net in the consolidated statements of operations. As of December

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31, 2023, cumulative upward adjustments for investments held as of that date were $4.9 million and cumulative impairments and downward adjustments were $127.0 million. As of December 31, 2022, cumulative upward adjustments for investments held as of that date were $4.9 million and cumulative impairments and downward adjustments were $102.0 million.

12. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	December 31, 2023	December 31, 2022
Accrued payroll and payroll related	$ 224,237	$ 90,257
Other accrued expenses	89,254	75,532
Income taxes payable	17,366	5,534
Obligation to return collateral[1]	1,063	26,874
Short-term borrowings	—	20,519
Other payables[2]	115,130	112,520
Total accrued expenses and other current liabilities	$ 447,050	$ 331,236

(1) See *Note 13. Collateral* for additional details on obligation to return collateral.
(2) Includes other payables denominated in crypto assets. See *Note 15. Derivatives* for additional details.

Short-term borrowings include borrowings with open terms or amounts payable within the next 12 months or sooner at the option of the Company or the lender. The weighted average interest rate on these borrowings was 4.49% per annum as of December 31, 2022.

13. COLLATERAL

Company assets pledged as collateral

The Company's assets pledged as collateral and recognized within prepaid expenses and other current assets in the consolidated balance sheets, consisted of the following (in thousands, except units):

	December 31, 2023		December 31, 2022	
	Units	Fair Value	Units	Fair Value
USDC[1]	51,879,705	$ 51,880	47,633,897	$ 47,634
Bitcoin[2]	—	—	650	10,743
Fiat	N/A	1,191	N/A	41,630
Total		$ 53,071		$ 100,007

(1) As of December 31, 2023 and 2022, the Company had pledged USDC that served exclusively as collateral for certain crypto asset borrowings with a fair value of at least 100% of the loan amount outstanding.
(2) As of December 31, 2022, the Company had pledged Bitcoin that served exclusively as collateral for fiat loans with a fair value of at least 110% of the loan amount outstanding. No Bitcoin was pledged as collateral as of December 31, 2023.

The Company had $29.6 million and $0 of USDC collateral pledged as of December 31, 2023 and 2022, respectively, not included in the table above nor recognized as assets pledged as collateral in the consolidated balance sheets as they did not meet the derecognition criteria.

See the consolidated balance sheets, *Note 2. Summary of Significant Accounting Policies,* and *Note 15. Derivatives* for information on the borrowings associated with this collateral. The aggregate carrying value of these borrowings and related derivatives was $63.0 million and $151.5 million, as of December 31, 2023 and 2022, respectively.

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Borrower assets pledged as collateral

The Company's obligation to return borrower collateral, which is included within accrued expenses and other current liabilities in the consolidated balance sheets, by type of asset pledged as collateral, consisted of the following (in thousands, except units):

	December 31, 2023		December 31, 2022	
	Units	Fair Value	Units	Fair Value
USDC	—	$ —	26,873,830	$ 26,874
Fiat	N/A	1,063	N/A	—
Total		$ 1,063		$ 26,874

The Company did not rehypothecate the collateral above at either date, though it had the right to do so.

The Company had $712.6 million and $136.0 million of collateral assets pledged by borrowers as of December 31, 2023 and 2022, respectively, denominated in USDC, fiat, or crypto assets where the Company did not have a right to use the collateral or the collateral did not meet the recognition criteria. These amounts are not included in the table above nor in the consolidated balance sheets as the collateral did not meet the recognition criteria.

See *Note 6. Accounts and loans receivable, net of allowance* for information on the loans associated with this collateral.

14. INDEBTEDNESS

The components of indebtedness were as follows as of December 31, 2023 (in thousands, except percentages):

Indebtedness	Effective Interest Rate	Principal Amount	Unamortized Debt Discount and Issuance Costs	Net Carrying Amount
0.50% 2026 Convertible Notes due on June 1, 2026	0.98 %	$ 1,273,013	$ (15,378)	$ 1,257,635
3.38% 2028 Senior Notes due on October 1, 2028	3.57 %	1,000,000	(8,218)	991,782
3.63% 2031 Senior Notes due on October 1, 2031	3.77 %	737,457	(6,917)	730,540
Total		$ 3,010,470	$ (30,513)	$ 2,979,957

The components of indebtedness were as follows as of December 31, 2022 (in thousands, except percentages):

Indebtedness	Effective Interest Rate	Principal Amount	Unamortized Debt Discount and Issuance Costs	Net Carrying Amount
0.50% 2026 Convertible Notes due on June 1, 2026	0.98 %	$ 1,437,500	$ (23,339)	$ 1,414,161
3.38% 2028 Senior Notes due on October 1, 2028	3.57 %	1,000,000	(10,022)	989,978
3.63% 2031 Senior Notes due on October 1, 2031	3.77 %	1,000,000	(10,691)	989,309
Total		$ 3,437,500	$ (44,052)	$ 3,393,448

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Convertible senior notes

In May 2021, the Company issued an aggregate principal amount of $1.4 billion of convertible senior notes due in 2026 (the “2026 Convertible Notes”) pursuant to an indenture, dated May 18, 2021 (the “Convertible Notes Indenture”), between the Company and U.S. Bank National Association, as trustee. The 2026 Convertible Notes were offered and sold in a private offering to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”).

The 2026 Convertible Notes are senior unsecured obligations of the Company and bear interest at a rate of 0.50% per year payable semi-annually in arrears on June 1 and December 1 of each year, beginning on December 1, 2021. The 2026 Convertible Notes mature on June 1, 2026, unless earlier converted, redeemed or repurchased. The proceeds received of $1.4 billion were net of a 1% original issue discount. In June 2023, the Company paid $45.5 million to repurchase $64.5 million of aggregate principal amount of the 2026 Convertible Notes with a carrying value of $63.6 million, net of unamortized issuance costs and original issue discount of $0.9 million and legal fees of $0.3 million. In November 2023, the Company paid $80.9 million to repurchase $100.0 million of aggregate principal amount of the 2026 Convertible Notes with a carrying value of $98.8 million, net of unamortized issuance costs and original issue discount of $1.2 million. The Company recorded a corresponding net gain on extinguishment of long-term debt during the year ended December 31, 2023 of $35.8 million in other (income) expense, net within the consolidated statements of operations.

The initial conversion rate and conversion rate for the 2026 Convertible Notes is 2.6994 shares of the Company's Class A common stock per $1,000 principal amount of 2026 Convertible Notes, which is equivalent to an initial conversion price of approximately $370.45 per share of the Class A common stock. The conversion rate and conversion price are subject to customary adjustments under certain circumstances in accordance with the terms of the Convertible Notes Indenture.

The 2026 Convertible Notes will be convertible at the option of the holders before December 1, 2025 only upon the occurrence of certain events, and from and after December 1, 2025, at any time at their election until the close of business on the second scheduled trading day immediately preceding June 1, 2026, only under certain circumstances. Upon conversion, the Company may satisfy its conversion obligation by paying or delivering, as applicable, cash, shares of the Company’s Class A common stock or a combination of cash and shares of the Company’s Class A common stock, at the Company’s election, based on the applicable conversion rate. In addition, if certain corporate events that constitute a make-whole fundamental change (as defined in the Convertible Notes Indenture) occur, then the conversion rate will, in certain circumstances, be increased for a specified period of time. Additionally, in the event of a corporate event constituting a fundamental change (as defined in the Convertible Notes Indenture), holders of the 2026 Convertible Notes may require the Company to repurchase all or a portion of their 2026 Convertible Notes at a repurchase price equal to 100% of the principal amount of the 2026 Convertible Notes being repurchased, plus accrued and unpaid special interest or additional interest, if any, to, but excluding, the date of the fundamental change repurchase.

Discounts on the 2026 Convertible Notes reflect a 1% original issue discount of $14.4 million and debt issuance costs related to the 2026 Convertible Notes of $19.4 million, which include commissions payable to the initial purchasers and third-party offering costs.

Capped calls

On May 18, 2021, in connection with the pricing of the 2026 Convertible Notes, the Company entered into privately negotiated capped call transactions (the “Capped Calls”) with certain financial institutions (the “option counterparties”) at a cost of $90.1 million. The Capped Calls cover, subject to customary adjustments, the number of shares of the Company’s Class A common stock initially underlying the 2026 Convertible Notes. By entering into the Capped Calls, the Company expects to reduce the potential dilution to its Class A common stock (or, in the event a conversion of the 2026 Convertible Notes is settled in cash, to reduce its cash payment obligation) in the event that at the time of conversion of the 2026

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Convertible Notes its Class A common stock price exceeds the conversion price of the 2026 Convertible Notes. The Capped Calls have an initial strike price of approximately $370.45 per share of Class A common stock and an initial cap price of approximately $478.00 per share of Class A common stock.

Senior notes

In September 2021, the Company completed the issuance of an aggregate principal amount of $1.0 billion of senior notes due on October 1, 2028 (the "2028 Senior Notes") and an aggregate principal amount of $1.0 billion of senior notes due on October 1, 2031 (the "2031 Senior Notes" and together with the 2028 Senior Notes, the "Senior Notes"). The Senior Notes were issued within the United States only to persons reasonably believed to be qualified institutional buyers pursuant to Rule 144A under the Securities Act, and outside the United States to non-U.S. persons pursuant to Regulation S under the Securities Act.

In August and September 2023, the Company paid $177.2 million to repurchase $262.5 million of aggregate principal amount of the 2031 Senior Notes with a carrying value of $259.9 million, net of unamortized issuance costs of $2.6 million and legal fees of $1.1 million. The Company recorded a corresponding net gain on extinguishment of long-term debt during the year of $81.6 million in other (income) expense, net within the consolidated statements of operations.

The Company issued the Senior Notes at par and paid approximately $24.0 million in total debt issuance costs, which includes commissions payable to the initial purchasers and third-party offering costs. Interest on the Senior Notes is payable semi-annually in arrears on April 1 and October 1 of each year, beginning on April 2022 at 3.375% per annum for the 2028 Senior Notes and 3.625% per annum for the 2031 Notes. The entire principal amount of the Senior Notes is due at the time of maturity, unless repurchased or redeemed at an earlier date. The Senior Notes were issued pursuant to an indenture, dated September 17, 2021 (the "Senior Notes Indenture"), among the Company, the Guarantor (as defined below) and U.S. Bank National Association, as trustee.

The Senior Notes are redeemable at the Company's discretion, in whole or in part, at any time. If redeemed prior to October 1, 2024 for the 2028 Senior Notes and October 1, 2026 for the 2031 Senior Notes, the redemption price is subject to a make-whole premium calculated by reference to then-current U.S. Treasury rates plus a fixed spread, plus any accrued and unpaid interest. If redeemed on or after those respective dates, the make-whole premium does not apply.

In addition, prior to October 1, 2024, the Company may redeem up to 40% of the aggregate principal amount of the Senior Notes with net cash proceeds from certain equity offerings at a redemption price equal to 103.375% of the principal amount of the 2028 Senior Notes to be redeemed and 103.625% of the principal amount of the 2031 Senior Notes to be redeemed, in each case, plus any accrued and unpaid interest. Upon the occurrence of a change of control triggering event (as defined in the Senior Notes Indenture), the Company must offer to repurchase each series of Senior Notes at a repurchase price equal to 101% of the principal amount of the Senior Notes to be repurchased, plus any accrued and unpaid interest, to, but excluding, the applicable repurchase date.

The Senior Notes are guaranteed by one of the Company's domestic subsidiaries, Coinbase, Inc. (the "Guarantor").

The indenture governing the Senior Notes contains customary covenants that restrict the ability of the Company and certain of its subsidiaries to incur debt and liens. The Company is not aware of any instances of non-compliance with the covenants as of December 31, 2023.

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Interest

The following table summarizes the interest expense for the 2026 Convertible Notes and the Senior Notes (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Coupon interest	$ 73,861	$ 77,235	$ 24,129
Amortization of debt discount and issuance costs	8,830	8,653	5,031
Total	$ 82,691	$ 85,888	$ 29,160

15. DERIVATIVES

The following outlines the Company's derivatives:

Type of Derivative	Description of Derivative	Location of Host Contract and Derivative on Balance Sheets
Crypto asset futures	The Company entered into short positions on futures contracts to minimize the exposure on the change in the fair value price of crypto assets held.	Accounts and loans receivable, net of allowance
Accounts and loans receivable denominated in crypto assets	Accounts receivable denominated in crypto assets: The Company provided services for which, under the contract, the customer pays in crypto assets. The amount of crypto assets are fixed at the time of invoicing. The right to receive fixed amounts of crypto assets consists of a receivable host contract and an embedded forward contract to purchase crypto assets. Crypto asset loans receivable: The Company lends crypto assets to institutions. The amount of crypto assets are fixed at the time of loan origination.	Accounts and loans receivable, net of allowance
Crypto assets pledged as collateral	The Company enters into certain borrowing arrangements that require the Company to post collateral in the form of crypto assets. If the lender has the right to use the crypto asset collateral, the Company presents the collateral pledged as a right to receive a fixed amount of crypto assets.	Prepaid expenses and other current assets
Foreign currency forward contracts	The Company entered into foreign currency forward contracts, with maturities of 12 months or less, to offset the foreign currency exchange risk of its assets and liabilities denominated in foreign currencies. These contracts are not designated as hedging instruments and reduce, but do not entirely eliminate, the impact of foreign currency exchange rate movements on the Company's assets and liabilities.	Prepaid expenses and other current assets/ Accrued expenses and other current liabilities
Other payables denominated in crypto assets	The Company entered into arrangements that result in the obligation to deliver a fixed amount of crypto assets in the future.	Accrued expenses and other current liabilities
Crypto asset borrowings	The Company borrowed crypto assets that resulted in the obligation to deliver a fixed amount of crypto assets in the future.	Crypto asset borrowings

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Impact of derivatives on the consolidated balance sheets

The following table summarizes the notional amounts of derivative instruments outstanding, measured in U.S. dollar equivalents (in thousands):

	December 31, 2023	December 31, 2022
Designated as hedging instrument[(1)]		
Crypto asset futures[(2)]	$ —	$ 136,230
Crypto asset borrowings	31,666	80,999
Not designated as hedging instrument		
Crypto asset futures[(2)]	—	12,462
Accounts and loans receivable denominated in crypto assets	16,335	101,598
Crypto assets pledged as collateral	—	13,103
Other payables denominated in crypto assets	20,092	4,267
Crypto asset borrowings	12,503	70,462

(1) For risk management purposes, the Company applies hedge accounting using these derivative instruments in qualifying fair value hedges to primarily hedge the fair value exposure of crypto asset prices.
(2) Derivative notional amounts are reference amounts from which contractual payments or settlement are derived and do not represent a complete measure of the risk profile of the Company's exposure to derivative instruments.

The following tables summarize information on derivative assets and liabilities that are reflected on the consolidated balance sheets, by accounting designation (in thousands):

	Gross Derivative Assets			Gross Derivative Liabilities		
	Not Designated as Hedges	Designated as Hedges	Total Derivative Assets	Not Designated as Hedges	Designated as Hedges	Total Derivative Liabilities
December 31, 2023						
Accounts and loans receivable denominated in crypto assets	$ 28,065	$ —	$ 28,065	$ —	$ —	$ —
Other payables denominated in crypto assets	2,511	—	2,511	3,101	—	3,101
Crypto asset borrowings[(1)]	26	(25)	1	5,290	13,522	18,812
Total fair value of derivative assets and liabilities	$ 30,602	$ (25)	$ 30,577	$ 8,391	$ 13,522	$ 21,913
December 31, 2022						
Accounts and loans receivable denominated in crypto assets	$ 302	$ —	$ 302	$ 9,146	$ —	$ 9,146
Crypto assets pledged as collateral	—	—	—	2,360	—	2,360
Other payables denominated in crypto assets	1,270	—	1,270	5,767	—	5,767
Crypto asset borrowings[(1)]	2,266	—	2,266	657	1,653	2,310
Total fair value of derivative assets and liabilities	$ 3,838	$ —	$ 3,838	$ 17,930	$ 1,653	$ 19,583

(1) During the year ended December 31, 2023, the fees on these borrowings ranged from 1.5% to 10.3%. During the year ended December 31, 2022, the fees on these borrowings ranged from 0.0% to 9.0%. During the years ended December 31, 2023 and 2022, the Company incurred $4.8 million and $6.7 million of borrowing fees in crypto assets, respectively. Borrowing fees are included in other operating expense, net in the consolidated statements of operations.

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Impact of derivatives on the consolidated statements of operations

Gains (losses) on derivative instruments recognized in the consolidated statements of operations were as follows (in thousands):

	Year Ended December 31, 2023			Year Ended December 31, 2022		
	Derivatives	Hedged Items	Income Statement Impact	Derivatives	Hedged Items	Income Statement Impact
Designated as fair value hedging instruments						
Crypto asset futures[1]	$ (40,191)	$ 46,453	$ 6,262	$ 13,571	$ (12,994)	$ 577
Crypto asset borrowings[1]	(75,249)	117,393	42,144	359,240	(359,528)	(288)
Not designated as hedging instruments						
Crypto asset futures[1]	(1,424)	—	(1,424)	1,735	—	1,735
Accounts and loans receivable denominated in crypto assets[2]	28,602	—	28,602	(24,969)	—	(24,969)
Crypto assets pledged as collateral[1]	—	—	—	(2,360)	—	(2,360)
Foreign currency forward contracts[2]	—	—	—	(59,063)	—	(59,063)
Other payables denominated in crypto assets[1]	5,014	—	5,014	5,271	—	5,271
Crypto asset borrowings[1]	(47,160)	—	(47,160)	11,242	—	11,242
Other[1]	4,839	—	4,839	—	—	—
Total	$ (125,569)	$ 163,846	$ 38,277	$ 304,667	$ (372,522)	$ (67,855)

(1) Changes in fair value are recognized in other operating expense, net in the consolidated statements of operations.
(2) Changes in fair value are recognized in other (income) expense, net. Foreign currency forward contracts partially offset gains and losses due to the remeasurement of certain foreign currency denominated assets and liabilities which are also recognized in other (income) expense, net in the consolidated statements of operations.

The following amounts were recorded on the consolidated balance sheets related to certain cumulative fair value hedge basis adjustments that are expected to reverse through the consolidated statements of operations in future periods as an adjustment to other operating expense, net (in thousands):

		Cumulative Amount of Fair Value Hedging Adjustments Included in the Carrying Amount of Hedged Items		
	Carrying Amount of the Hedged Items	Active Hedging Relationships	Discontinued Hedging Relationships	Total
December 31, 2023				
Crypto assets held	$ 45,212	$ (3,946)	$ —	$ (3,946)
December 31, 2022				
Crypto assets held	$ 201,565	$ (562)	$ 670	$ 108

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16. FAIR VALUE MEASUREMENTS

The following table sets forth by level, within the fair value hierarchy, the Company's assets and liabilities measured and recorded at fair value on a recurring basis (in thousands):

	December 31, 2023			December 31, 2022		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets						
Cash equivalents[(1)]	$ 3,682,917	$ —	$ —	$ 2,250,065	$ —	$ —
Customer custodial funds[(2)]	3,301,029	—	—	2,088,132	—	—
Crypto assets held[(3)]	45,212	—	—	201,565	—	—
Derivative assets[(4)]	—	30,577	—	—	3,838	—
Crypto asset loans receivable	—	22,229	—	—	85,826	—
Safeguarding customer crypto assets	—	192,583,060	—	—	75,413,188	—
Total assets	$ 7,029,158	$ 192,635,866	$ —	$ 4,539,762	$ 75,502,852	$ —
Liabilities						
Derivative liabilities[(4)]	$ —	$ 21,913	$ —	$ —	$ 19,583	$ —
Safeguarding customer crypto liabilities	—	192,583,060	—	—	75,413,188	—
Contingent consideration arrangement	—	—	—	—	—	1,855
Total liabilities	$ —	$ 192,604,973	$ —	$ —	$ 75,432,771	$ 1,855

(1) Represents money market funds. Excludes $1.4 billion of corporate cash held in deposit at banks and $88.8 million held at venues, which were not measured and recorded at fair value as of December 31, 2023. Excludes $2.0 billion of corporate cash held in deposit at banks and $143.2 million held at venues, which were not measured and recorded at fair value as of December 31, 2022.
(2) Represents money market funds. Excludes customer custodial funds of $1.3 billion and $3.0 billion held in deposit at financial institutions and not measured and recorded at fair value as of December 31, 2023 and 2022, respectively.
(3) Includes crypto assets held that have been designated as hedged items in fair value hedges and excludes crypto assets of $404.7 million and $222.8 million held at cost as of December 31, 2023 and 2022, respectively.
(4) See Note 15. Derivatives for additional details.

The Company did not make any transfers into or out of Level 3 of the fair value hierarchy during the years ended December 31, 2023 and 2022.

Safeguarding customer crypto assets and liabilities represent the Company's obligation to safeguard customer crypto assets. Accordingly, the Company has valued the assets and liabilities using quoted market prices for the underlying crypto assets which is based on Level 2 inputs.

Level 3 contingent consideration arrangement liability

The following table presents a reconciliation of the contingent consideration arrangement measured at fair value on a recurring basis using significant unobservable inputs (in thousands):

	Year Ended December 31,	
	2023	2022
Balance, beginning of period	$ 1,855	$ 14,828
Change in fair value	436	(8,312)
Settlement	(2,291)	(4,661)
Balance, end of period	$ —	$ 1,855

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In connection with the contingent consideration arrangement, the Company issued 57,640 and 28,422 shares of its Class A common stock in 2022 and 2023, respectively, pursuant to the terms of the arrangement. As of December 31, 2023, all contingencies related to this arrangement were resolved. Contingent consideration arrangements are included in other non-current liabilities and changes in fair value are recognized through other (income) expense, net in the consolidated statements of operations.

Assets and liabilities measured and recorded at fair value on a non-recurring basis

The Company's non-financial assets, such as goodwill, intangible assets, property and equipment, and crypto assets held but not designated in hedging relationships are adjusted to fair value when an impairment charge is recognized. The Company's strategic investments are also measured at fair value on a non-recurring basis. Such fair value measurements are based predominantly on Level 3 inputs. The carrying value of the Company's strategic investments is predominantly adjusted based on an Option-Pricing Model that uses publicly available market data of comparable companies and other unobservable inputs including expected volatility, expected time to liquidity, adjustments for other company-specific developments, and the rights and obligations of the securities the Company holds. Fair value of crypto assets held are predominantly based on Level 1 inputs.

Assets and liabilities not measured and recorded at fair value

The Company's financial instruments, including certain cash and cash equivalents, restricted cash, certain customer custodial funds, USDC, accounts receivable, fiat loans receivable, customer custodial cash liabilities, and short-term borrowings are not measured at fair value. The carrying values of these instruments approximate their fair values due to their liquid or short term nature. If these financial instruments were recorded at fair value, they would be based on Level 1 inputs, except for short-term borrowings and loans receivable which would be based on Level 2 and Level 3 inputs, respectively.

The Company estimates the fair value of its 2026 Convertible Notes and Senior Notes based on quoted prices in markets that are not active, which is considered a Level 2 valuation input. As of December 31, 2023, the estimated fair value of the 2026 Convertible Notes and Senior Notes were $1.2 billion and $1.4 billion, respectively.

17. CAPITAL STOCK

Preferred stock

In connection with the Direct Listing, the Company's amended and restated certificate of incorporation (the "Restated Certificate of Incorporation") became effective, which authorized the issuance of 500,000,000 shares of undesignated preferred stock with a par value of $0.00001 per share with rights and preferences, including voting rights, designated from time to time by the Company's board of directors (the "Board").

Common stock

Pursuant to the Restated Certificate of Incorporation, the Board is authorized to issue 10,000,000,000 shares of Class A common stock, 500,000,000 shares of Class B common stock, and 500,000,000 shares of undesignated common stock.

Dividend rights

Shares of Class A common stock and Class B common stock will be treated equally, identically and ratably, on a per share basis, with respect to dividends that may be declared by the Board.

Voting rights

Holders of Class A common stock are entitled to one vote per share, and holders of Class B common stock are entitled to 20 votes per share. Holders of Class A common stock and Class B common stock generally vote together as a single class on all matters (including the election of directors) submitted to a vote of the stockholders of the Company.

Right to receive liquidation distributions

Upon a liquidation, dissolution or winding-up of the Company, the assets legally available for distribution to stockholders would be distributed ratably among the holders of Class A common stock and Class B common stock and any participating preferred stock or new series of common stock outstanding at that time, subject to prior satisfaction of all outstanding debt and liabilities and the preferential rights of and the payment of liquidation preferences, if any, on any outstanding shares of preferred stock or new series of common stock.

Conversion

Shares of Class B common stock are convertible at any time at the option of the holder into shares of Class A common stock on a one-to-one basis. In addition, each share of Class B common stock will automatically convert into a share of Class A common stock upon a sale or transfer (other than with respect to certain estate planning and other transfers). Further, upon certain events specified in the Restated Certificate of Incorporation, all outstanding shares of Class B common stock will convert automatically into shares of Class A common stock. Once converted into Class A common stock, the Class B common stock will not be reissued.

18. STOCK-BASED COMPENSATION

Stock plans

The Company maintains four equity incentive plans: the 2013 Plan, the 2019 Plan, and the 2021 Plan (together, the “Plans”), and the ESPP. Following the Direct Listing, the Company has only issued awards under the 2021 Plan and the ESPP, and no additional awards will be granted under the 2013 Plan and 2019 Plan. In addition, certain of the Company’s existing options assumed in connection with acquisitions are governed by the terms of the acquired company’s equity awards plan.

In February 2021, the Board approved and adopted the 2021 Plan. The 2021 Plan became effective on March 31, 2021, the date immediately prior to the effective date of the Company’s registration statement for the Direct Listing. The 2021 Plan serves as the successor to the 2019 Plan. Outstanding awards under the 2013 Plan and 2019 Plan continue to be subject to their original terms and conditions. The 2021 Plan provides for the granting of incentive stock options, RSUs, restricted stock, stock appreciation rights and performance and stock bonus awards to assist in attracting, retaining and motivating employees. The number of shares available for grant and issuance under the 2021 Plan will be automatically increased on January 1st of each of the first ten fiscal years during the term of the 2021 Plan by the lesser of (a) five percent of the total number of shares of all classes of the Company’s common stock issued and outstanding on an as converted to common stock basis on each December 31st immediately prior to the date of increase or (b) such number of shares determined by the Board.

As of December 31, 2023, there were 28,948,240 shares of Class A common stock subject to issued and outstanding options, RSUs and PRSUs, and 3,568,760 shares of Class B common stock subject to issued and outstanding options under the Plans. Under the 2021 Plan, there were 49,433,488 shares of Class A common stock available for future issuance.

Stock options

Options granted under the Plans may be either incentive stock options (“ISOs”) or nonqualified stock options (“NSOs”). ISOs may be granted only to Company employees (including officers and directors who are also employees). NSOs may be granted to Company employees and non-employees.

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Options under the Plans may be granted for contractual periods of up to ten years and at prices determined by the Board, provided, however, that the exercise price of an ISO and NSO shall not be less than 100% of the estimated fair value of the underlying shares on the date of the grant (110% if granted to a stockholder who owns more than ten percent of the total combined voting power of all classes of stock of the Company or any parent or subsidiary).

Under the 2013 Plan and 2019 Plan, options granted to new employees of the Company generally vest over four years and vest at a rate of 25% upon the first anniversary of the issuance date and 1/48 per month thereafter. Refresher options granted to existing employees of the Company generally vest in equal monthly installments over four years. No additional awards have been or will be granted under the 2013 Plan and 2019 Plan following the Company's Direct Listing.

Under the 2021 Plan, options are granted to executives and eligible non-executive employees which vest in equal quarterly installments over a period of three years.

The 2013 Plan and 2019 Plan allow for a 7 year exercise window post-termination for employees of the Company who have provided at least two years of continuous service to the Company as of their termination date.

A summary of options activity for the year ended December 31, 2023 is as follows (in thousands, except per share and years data):

	Options Outstanding	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Balance at January 1, 2023	31,795	$ 23.31	7.0	$ 504,222
Granted	843	73.07		
Exercised	(3,039)	15.84		
Forfeited and cancelled	(902)	40.90		
Balance at December 31, 2023	28,697	$ 25.01	6.1	4,295,055
Exercisable at December 31, 2023	22,560	$ 25.43	6.0	3,371,636
Vested and expected to vest at December 31, 2023	22,593	$ 25.42	6.0	3,376,658

During the year ended December 31, 2023, the Company granted stock options for the purchase of 842,617 shares of Class A common stock with a weighted-average grant date fair value of $40.85 per share to certain employees of the Company. The stock options vest over three years at a rate of 1/12 per quarter.

As of December 31, 2023, there was total unrecognized compensation cost of $70.1 million related to unvested stock options. These costs are expected to be recognized over a weighted-average period of approximately 2.3 years.

The intrinsic value is calculated as the difference between the exercise price of the underlying stock option award and the estimated fair value of the Company's common stock. The aggregate intrinsic value of stock options exercised during the years ended December 31, 2023, 2022 and 2021 was $226.5 million, $336.3 million and $5.9 billion, respectively.

During the years ended December 31, 2023, 2022 and 2021, 4,567,625, 7,592,673, and 14,966,504 stock options vested with a weighted-average grant date fair value of $15.93, $12.46, and $8.74 per share, respectively.

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The assumptions used under the Black-Scholes-Merton Option-Pricing Model to calculate the fair value of the options granted to employees were as follows:

	Year Ended December 31,		
	2023	2022	2021
Dividend yield	0.0 %	0.0 %	0.0 %
Expected volatility	90.5 %	59.3 %	44.0 %
Expected term (in years)	5.8	5.8	4.8
Risk-free interest rate	3.9 %	2.1 %	0.5 %

Early exercise of stock options

As of December 31, 2023 and 2022, there were 29,430 and 166,481 shares, respectively, subject to repurchase related to stock options early exercised and not yet vested, but that are expected to vest. Class A common stock purchased pursuant to an early exercise of stock options is not deemed to be outstanding for accounting purposes until those shares vest. The Company excludes unvested shares subject to repurchase in the number of shares outstanding in the consolidated balance sheets and consolidated statements of changes in preferred stock and stockholders' equity. As of December 31, 2023 and 2022, the Company recorded a liability related to these shares subject to repurchase in the amount of $0.6 million and $3.3 million, respectively, which is included within accrued expenses and other current liabilities on the accompanying consolidated balance sheets.

Chief Executive Officer performance stock options

On August 11, 2020, the Company granted its Chief Executive Officer an option award to purchase up to 9,293,911 shares of Class A common stock, at an exercise price of $23.46 per share. Vesting of the award is dependent on both performance-based and market-based conditions being met. The total grant date fair value of this award was $56.7 million.

The performance condition was contingent on the Company's registration statement being declared effective by the SEC under the Securities Act. The occurrence of this event was considered to not be probable until such time that it occurred. During April 2021, as a result of the Company's registration statement being declared effective by the SEC, the performance condition of the option award granted to the Chief Executive Officer was met. No awards vested at that time as none of the accompanying market-based conditions had been met.

The market conditions are contingent on the Company's Class A common stock price achieving certain stock price target milestones. On July 8, 2021, the first price target of the award was met, resulting in the vesting of 3,159,930 shares of Class A common stock subject to the option award. During the years ended December 31, 2023, 2022 and 2021, compensation expense of $3.9 million, $3.9 million and $29.5 million was recognized related to this award, respectively.

Restricted stock units

The Company grants RSUs that vest upon the satisfaction of a service-based condition. In general, the RSUs vest over a service period ranging from one to four years. Once vested, the RSUs are settled by delivery of Class A common stock.

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A summary of RSU activity for the year ended December 31, 2023 is as follows (in thousands, except per share data):

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Balance at January 1, 2023	5,329	$ 127.85
Granted	9,408	58.04
Vested	(10,278)	71.40
Forfeited and cancelled	(1,443)	116.14
Balance at December 31, 2023	3,016	$ 108.07

During the years ended December 31, 2022 and 2021, the weighted-average grant date fair value per share granted was $112.35 and $233.24, respectively. During the years ended December 31, 2023, 2022, and 2021, the aggregate fair value as of the vest date of RSUs that vested was $753.9 million, $947.9 million, and $644.2 million, respectively.

In December 2022, the Company modified certain RSU awards held by 1,198 employees to accelerate vesting of the remaining unvested awards on December 21, 2022 instead of the original vest date of February 20, 2023. The modification of awards did not result in any incremental compensation cost, however $36.1 million of stock-based compensation expense was accelerated and recognized upon modification.

As of December 31, 2023, there was total unrecognized compensation cost of $284.2 million related to unvested RSUs. These costs are expected to be recognized over a weighted-average period of approximately 1.3 years.

President & Chief Operating Officer performance award

On April 20, 2023, the Company’s Compensation Committee granted the President & Chief Operating Officer an award of PRSUs covering a target of 401,983 shares of Class A common stock and up to a maximum of 803,966 shares of Class A common stock (the “2023 COO Performance Award”).

Up to 40% of the 2023 COO Performance Award is subject to vesting based upon achievement of certain cumulative revenue and cumulative adjusted EBITDA target values which are separately evaluated for the period commencing January 1, 2023 and ending on December 31, 2025, subject to her continued employment until February 20, 2026 (the “Financial Performance Tranches”). Up to 60% of the 2023 COO Performance Award is subject to vesting in increments based upon a relative shareholder return target value for the three annual periods between January 1, 2023 and December 31, 2025, and the three year period between January 1, 2023 and December 31, 2025, subject to her continued employment through the applicable year end dates (the “Market Tranches”). The total grant date fair value of the Market Tranches of this award was $25.1 million, while the grant date fair value of the Financial Performance Tranches was $19.5 million assuming maximum achievement.

During the year ended December 31, 2023, stock-based compensation expense of $9.8 million was recognized related to this award.

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A summary of PRSU activity for the year ended December 31, 2023 is as follows (in thousands, except per share data):

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Balance at January 1, 2023	—	$ —
Granted	804	55.42
Balance at December 31, 2023	804	$ 55.42

As of December 31, 2023, there was total unrecognized compensation cost of $15.3 million related to the unvested Market Tranches of these PRSUs, which are currently expensing. These costs are expected to be recognized over a weighted-average period of approximately 1.9 years. The Company is not yet recognizing expense with respect to the Financial Performance Tranches; the full grant date fair value of these tranches is unrecognized.

Restricted common stock

In connection with the Company's acquisitions, the Company has issued shares of restricted Class A common stock. Vesting of this restricted Class A common stock is dependent on a service-based vesting condition that is generally satisfied over three years. The Company has the right to repurchase shares at par value when the vesting condition is not satisfied. Activity of restricted Class A common stock is as follows (in thousands, except per share data):

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Balance at January 1, 2023	1,275	$ 139.72
Granted	263	64.51
Vested	(966)	132.53
Forfeited and cancelled	(29)	171.85
Balance at December 31, 2023	543	$ 114.22

During the years ended December 31, 2022 and 2021, the weighted-average grant date fair value per share granted was $137.05 and $180.33, respectively. During the years ended December 31, 2023, 2022, and 2021, the aggregate fair value as of the vest date of restricted common stock that vested was $56.0 million, $148.6 million, and $65.0 million, respectively.

As of December 31, 2023, there was total unrecognized compensation cost of $33.2 million related to unvested restricted Class A common stock. These costs are expected to be recognized over a weighted-average period of approximately 1.4 years.

Employee Stock Purchase Plan

In February 2021, the Board approved and adopted the ESPP. The ESPP became effective on April 1, 2021, the effective date of the Company's registration statement for the Direct Listing. The ESPP allows eligible employees the option to purchase shares of the Company's Class A common stock at a 15% discount, over a series of offering periods through accumulated payroll deductions over the period. The ESPP also includes a look-back provision for the purchase price if the stock price on the purchase date is lower than the stock price on the offering date.

The number of shares available for grant and issuance under the ESPP will be automatically increased on January 1st of each of the first ten fiscal years during the term of the ESPP by the lesser of (a) one percent of the total number of shares of all classes of the Company's common stock outstanding

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on an as converted to common stock basis on each December 31st immediately prior to the date of increase or (b) such number of shares determined by the Board or the compensation committee of the Board.

The grant date of the initial offering period was May 3, 2021, and that offering period ended on April 30, 2023. Subsequent offering periods commence each May and November after the start of the initial offering period. For the years ended December 31, 2023, 2022 and 2021, total compensation expense of $17.3 million, $28.4 million and $9.4 million, respectively, was recognized related to the ESPP. As of December 31, 2023 and 2022, the Company recorded a liability of $4.1 million and $6.7 million, respectively related to the accumulated payroll deductions, which are refundable to employees who withdraw from the ESPP. This amount is included within accrued expenses and other current liabilities on the accompanying consolidated balance sheets. As of December 31, 2023, there were 9.0 million shares of Class A common stock available for issuance under the ESPP.

Stock-based compensation expense

Stock-based compensation is included in the following components of expenses on the accompanying consolidated statements of operations (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Technology and development	$ 476,478	$ 1,093,983	$ 571,861
Sales and marketing	59,000	76,153	32,944
General and administrative	245,190	395,687	215,880
Restructuring	84,042	—	—
Total	$ 864,710	$ 1,565,823	$ 820,685

During the years ended December 31, 2023, 2022 and 2021, $53.6 million, $118.0 million and $3.5 million of stock-based compensation expense was included in capitalized software, respectively. During the years ended December 31, 2023, 2022, and 2021, the Company recognized an income tax benefit of $205.6 million, $246.6 million, and $1.4 billion, respectively, related to stock-based compensation expense. The income tax benefit related to stock-based compensation expense in 2021 reflects excess tax benefits primarily related to deductible stock option exercises in connection with the Direct Listing.

19. OTHER (INCOME) EXPENSE, NET

Other (income) expense, net consisted of the following (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Foreign exchange losses, net	$ 10,609	$ 161,749	$ 40,989
(Gains) losses on strategic investments	(24,368)	101,219	(19,602)
Gain on extinguishment of long-term debt	(117,383)	—	—
Other	(36,441)	2,505	(924)
Total other (income) expense, net	$ (167,583)	$ 265,473	$ 20,463

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20. INCOME TAXES

The components of income (loss) before income taxes were attributable to the following regions (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Domestic	$ (113,067)	$ (3,071,951)	$ 2,977,406
Foreign	36,222	7,369	49,541
Total income (loss) before provision for income taxes	$ (76,845)	$ (3,064,582)	$ 3,026,947

Benefit from income taxes consisted of the following (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Current			
Federal	$ 8,761	$ 1,654	$ (51,942)
State	24,236	3,985	4,456
Foreign	11,621	22,763	8,642
Total current	44,618	28,402	(38,844)
Deferred			
Federal	(218,165)	(361,056)	(438,810)
State	416	(126,713)	(93,959)
Foreign	1,415	19,734	(25,560)
Total deferred	(216,334)	(468,035)	(558,329)
Total benefit from income taxes	$ (171,716)	$ (439,633)	$ (597,173)

The effective income tax rate differs from the statutory federal income tax rate as follows:

	Year Ended December 31,		
	2023	2022	2021
U.S. statutory rate	21.00 %	21.00 %	21.00 %
State income taxes, net of federal benefit	6.08	5.04	(4.67)
Foreign rate differential	(0.14)	(0.02)	(1.09)
Non-deductible compensation	(48.93)	(1.34)	0.83
Equity compensation	43.51	(3.43)	(31.95)
Adjustment to prior year provision	24.85	(0.23)	0.14
Research and development (“R&D”) credits	62.20	1.40	(9.60)
Change in valuation allowance	195.59	(6.37)	1.65
Foreign tax credit	6.31	—	—
Foreign Derived Intangible Income (“FDII”)	0.65	—	—
Global Intangible Low Taxed Income (“GILTI”)	(18.55)	(0.94)	—
Uncertain tax positions	(56.06)	(0.60)	3.07
Other	(13.05)	(0.16)	0.89
Effective income tax rate	223.46 %	14.35 %	(19.73)%

The Company’s effective tax rate of 223.46% for the year ended December 31, 2023 is due primarily to a reduction of a valuation allowance related to impairment charges on crypto assets held and strategic investments and tax benefits related to Federal R&D credits, reduced by certain nondeductible

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compensation, tax on non-U.S. earnings, and other nondeductible expenses related to political contributions.

The Company's effective tax rate of 14.35% for the year ended December 31, 2022 reflects a tax benefit on pretax loss reduced by certain nondeductible compensation and a valuation allowance recorded on impairment charges related to crypto assets held and strategic investments.

The Company's effective tax rate of (19.73)% for the year ended December 31, 2021 reflects a tax benefit on pretax income due primarily to deductible stock option exercises as a result of the Direct Listing, and R&D credits.

The Company's effective tax rate can be volatile based on the amount of pretax income or loss in the reporting period. For example, when pretax income is lower, the effect of reconciling items to the U.S. statutory rate, such as nondeductible expenses, will have a greater impact on the effective tax rate.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's deferred tax assets and liabilities consisted of the following (in thousands):

	December 31,	
	2023	2022
Deferred tax assets		
Safeguarded crypto liabilities	$ 46,437,843	$ 19,086,117
Accruals and reserves	13,847	6,248
Net operating loss carryforward	55,563	396,613
Lease liability	4,494	19,967
Tax credit carryforward	351,003	301,862
Stock-based compensation	21,284	24,527
Intangibles	49,255	27,022
Capitalized expenses	759,789	415,981
Capital losses - realized / unrealized	207,563	225,211
Gross deferred tax assets	47,900,641	20,503,548
Less valuation allowance	(102,250)	(252,258)
Total deferred tax assets	47,798,391	20,251,290
Deferred tax liabilities		
Safeguarded crypto assets	(46,437,843)	(19,086,117)
State taxes	(13,169)	(23,212)
Depreciation and amortization	(32,246)	(35,893)
Prepaid expenses	(10,870)	(5,938)
Right of use asset	(3,894)	(18,246)
Installment gain	(10,918)	(13,443)
Other	(17,218)	(21,650)
Total deferred tax liabilities	(46,526,158)	(19,204,499)
Total net deferred tax assets	$ 1,272,233	$ 1,046,791

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As of December 31, 2023, the Company had $1.3 billion in net deferred tax assets. At each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets. On the basis of this evaluation, only the portion of the deferred tax asset that is more likely than not to be realized was recognized. However, if the Company is not able to generate sufficient taxable income from its operations in the future, then a valuation allowance to reduce the Company's U.S. deferred tax assets may be required, which would increase the Company's expenses in the period the allowance is recognized.

Activity related to the Company's valuation allowance consisted of the following (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Balance, beginning of period	$ 252,258	$ 54,383	$ 5,174
Charged (credited) to expenses	(150,008)	197,875	49,209
Balance, end of period	$ 102,250	$ 252,258	$ 54,383

The Company's valuation allowance as of December 31, 2023 was lower compared to 2022 driven by the increase in the fair value of crypto assets held during the reporting period. The valuation allowance as of December 31, 2023 includes allowances primarily related to California R&D credits, and realized and unrealized capital losses on crypto assets and Coinbase Ventures investments.

In accordance with the Company's adoption of SAB 121, the Company recognized a deferred tax liability on the safeguarded asset and an offsetting deferred tax asset on the safeguarded liability. In the unlikely event of loss or theft to the safeguarded asset, the Company may be obligated to indemnify the customer for the loss, and could result in a change to the net deferred tax asset. As of December 31, 2023, the Company has not recognized any potential loss event and the SAB 121 deferred tax asset and liability are equal and offsetting.

As of December 31, 2023, the Company also had R&D credits of $260.6 million and $97.5 million for federal and state income tax purposes, respectively. If not utilized, the federal research and development credits will expire in various amounts beginning in 2042. However, the state of California research and development credits can be carried forward indefinitely. The Company also had U.S. federal net operating loss carryforwards of $105.0 million as of December 31, 2023, and an estimated $1.3 billion as of December 31, 2022. On the Company's 2022 tax return, the Company elected to capitalize expenses which replaced the estimated 2022 net operating loss carryforwards. The U.S. federal net operating losses carry forward indefinitely. Additionally, the Company had U.S. state net operating losses of approximately $331.7 million as of December 31, 2023. Generally, California and other significant U.S. states have a twenty-year carryforward for net operating losses.

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Activity related to the Company's unrecognized tax benefits consisted of the following (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Balance, beginning of period	$ 124,106	$ 111,019	$ 12,807
Settlements	—	(6,128)	—
Increase related to tax positions taken during a prior year	30,685	13,940	—
Decrease related to tax positions taken during a prior year	—	(9,187)	—
Increase related to tax positions taken during the current year	16,902	14,462	98,212
Balance, end of period	$ 171,693	$ 124,106	$ 111,019

As of December 31, 2023 and 2022, the Company had $171.7 million and $124.1 million, respectively, of unrecognized tax benefits, of which $126.8 million and $114.4 million, respectively, would reduce income tax expense and affect the effective tax rate, if recognized. It is reasonably possible that the balance of unrecognized tax benefits could decrease within the next twelve months as a result of audit closures. The potential reduction in unrecognized tax benefits is $71.8 million, of which $67.4 million would favorably impact the Company's effective tax rate. The Company accounts for interest and penalties related to exposures as a component of income tax expense. The Company recorded $1.6 million and $0.5 million of accrued interest and penalties, respectively, as of December 31, 2023 and $0.5 million and $0.3 million of accrued interest and penalties, respectively, as of December 31, 2022.

The Company files U.S. federal, state, and foreign income tax returns in jurisdictions with varying statutes of limitations. Currently these statutes of limitations are open from 2020 forward for the United States, 2018 forward for California, 2021 forward for the United Kingdom, and 2019 forward for Ireland. The Company is currently under audit by the IRS with respect to its federal income tax returns for 2020 and 2021, and California with respect to its state income tax returns for 2018 and 2019. The Company is also under audit in the United Kingdom, Germany and India for 2021.

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21. NET INCOME (LOSS) PER SHARE

The computation of net income (loss) per share is as follows (in thousands, except per share amounts):

	Year Ended December 31,		
	2023	2022	2021
Basic net income (loss) per share:			
Numerator			
Net income (loss)	$ 94,871	$ (2,624,949)	$ 3,624,120
Less: Income allocated to participating securities	(119)	—	(527,162)
Net income (loss) attributable to common stockholders, basic	$ 94,752	$ (2,624,949)	$ 3,096,958
Denominator			
Weighted-average shares of common stock used to compute net income (loss) per share attributable to common stockholders, basic	235,796	222,314	177,319
Net income (loss) per share attributable to common stockholders, basic	$ 0.40	$ (11.81)	$ 17.47
Diluted net income (loss) per share:			
Numerator			
Net income (loss)	$ 94,871	$ (2,624,949)	$ 3,624,120
Less: Income allocated to participating securities	(120)	—	(439,229)
Add: Interest on convertible notes, net of tax	—	—	6,208
Less: Fair value gain on contingent consideration arrangement, net of tax	—	(6,230)	(695)
Net income (loss) attributable to common stockholders, diluted	$ 94,751	$ (2,631,179)	$ 3,190,404
Denominator			
Weighted-average shares of common stock used to compute net income (loss) per share attributable to common stockholders, basic	235,796	222,314	177,319
Weighted-average effect of potentially dilutive securities:			
Stock options	16,845	—	36,396
RSUs	1,605	—	3,773
Restricted common stock	145	—	9
Warrants	—	—	72
Convertible notes	—	—	2,388
Contingent consideration	—	24	8
Weighted-average shares of common stock used to compute net income (loss) per share attributable to common stockholders, diluted	254,391	222,338	219,965
Net income (loss) per share attributable to common stockholders, diluted	$ 0.37	$ (11.83)	$ 14.50

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Certain shares of the Company's restricted Class A common stock granted as consideration in acquisitions and the Company's preferred stock outstanding during 2021 are participating securities. These participating securities do not contractually require the holders of such shares to participate in the Company's losses.

The rights, including the liquidation and dividend rights, of the holders of Class A common stock and Class B common stock are identical, except with respect to voting. As a result, the undistributed earnings are allocated on a proportionate basis and the resulting income (loss) per share will, therefore, be the same for both Class A common stock and Class B common stock on an individual or combined basis.

The following potentially dilutive shares were not included in the calculation of diluted shares outstanding as the effect would have been anti-dilutive (in thousands):

	December 31,		
	2023	2022	2021
Stock options	6,743	31,795	6,134
RSUs	929	5,329	151
Convertible notes	3,437	3,880	—
ESPP	918	1,945	295
Restricted common stock	263	1,602	5
PRSUs	322	—	—
Total	12,612	44,551	6,585

22. COMMITMENTS AND CONTINGENCIES

Indemnifications

In the event any registrable securities are included in a registration statement, the Company's Amended and Restated Investors' Rights Agreement (the "IRA") entered into with certain of the Company's stockholders provides indemnity to each stockholder, their partners, members, officers, directors, and stockholders, legal counsel, and accountants; each underwriter, if any; and each person who controls each stockholder or underwriter, against any damages incurred in connection with investigating or defending any claim or proceeding arising as a result of such registration from which damages may result. The Company will reimburse each such party for any legal and any other expenses reasonably incurred, provided that the Company will not be liable in any such case to the extent the damages arise out of or are based upon any actions or omissions made in reliance upon and in conformity with written information furnished by or on behalf of such stockholder or underwriter and stated to be specifically for use therein.

The Company also has indemnity agreements with certain officers and directors of the Company pursuant to which the Company must indemnify the officer or director against all expenses, judgments, fines, and amounts paid in settlement reasonably incurred in connection with a third party proceeding, if the indemnitee acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the Company, and in the case of a criminal proceeding, had no reasonable cause to believe the indemnitee's conduct was unlawful.

It is not possible to determine the maximum potential exposure under these indemnification agreements: (i) because the facts and circumstances involved in each claim are unique and the Company cannot predict the number or nature of claims that may be made; (ii) due to the unique facts and circumstances involved in each particular agreement; and (iii) due to the requirement for a registration of the Company's securities before any of the indemnification obligations contemplated in the IRA become effective.

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The Company has also provided indemnities or similar commitments on standard commercial terms in the ordinary course of business.

Legal and regulatory proceedings

The Company is subject to various litigation, regulatory investigations, and other legal proceedings that arise in the ordinary course of its business. The Company is also subject to regulatory oversight by numerous regulatory and other governmental agencies. The Company reviews its lawsuits, regulatory investigations, and other legal proceedings on an ongoing basis and provides disclosure and records loss contingencies in accordance with the loss contingencies accounting guidance. In accordance with such guidance, the Company establishes accruals for such matters when potential losses become probable and can be reasonably estimated. If the Company determines that a loss is reasonably possible and the loss or range of loss can be estimated, the Company discloses the possible loss in the consolidated financial statements.

In July and August 2021, three purported securities class actions were filed in the U.S. District Court for the Northern District of California against the Company, its directors, certain of its officers and employees, and certain venture capital and investment firms. The complaints alleged violations of Sections 11, 12(a)(2) and 15 of the Securities Act, in connection with the registration statement and prospectus filed in connection with the Direct Listing. In November 2021, these actions were consolidated and recaptioned as *In re Coinbase Global Securities Litigation*, and an amended complaint was filed. The plaintiff seeks, among other relief, unspecified compensatory damages, attorneys' fees, and costs. The Company disputes the claims in these cases and is vigorously defending against them. Based on the preliminary nature of the proceedings in these cases, the outcome of these matters remain uncertain and the Company cannot estimate the potential impact, if any, on its business or financial statements at this time. The Company has subsequently received, and expects to receive in the future, similar shareholder claims.

In October 2021, a purported class action captioned *Underwood et al. v. Coinbase Global, Inc.*, was filed in the U.S. District Court for the Southern District of New York against the Company alleging claims under Sections 5, 15(a)(1) and 29(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and violations of certain California and Florida state statutes. On March 11, 2022, plaintiffs filed an amended complaint adding Coinbase, Inc. and Brian Armstrong as defendants and adding causes of action. Among other relief requested, the plaintiffs sought injunctive relief, unspecified damages, attorneys' fees and costs. On February 1, 2023, the court dismissed all federal claims (with prejudice) and state law claims (without prejudice) against Coinbase Global, Inc., Coinbase, Inc. and Brian Armstrong. Subsequently, on February 9, 2023, the plaintiffs appealed that ruling to the U.S. Court of Appeals for the Second Circuit, and the parties completed briefing the appeal on September 13, 2023. Oral argument took place on February 1, 2024. The defendants continue to dispute the claims in this case and intend to vigorously defend against them. Based on the nature of the proceedings in this case, the outcome of this matter remains uncertain and the Company cannot estimate the potential impact, if any, on its business or financial statements at this time.

In December 2021, a shareholder derivative suit captioned *Shin v. Coinbase Global, Inc.*, was filed in New York state court against the Company and its directors, alleging breach of fiduciary duties, unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets, and seeking unspecified damages and injunctive relief. The Company has subsequently received, and expects to receive in the future, similar derivative claims. The Company disputes the claims in these cases and intends to vigorously defend against them. Based on the preliminary nature of the proceedings in these cases, the outcome of these matters remain uncertain and the Company cannot estimate the potential impact, if any, on its business or financial statements at this time.

During 2022, the Company's subsidiary, Coinbase, Inc., which holds a BitLicense from the New York Department of Financial Services ("NYDFS") and is therefore subject to examinations and investigations by the NYDFS, was subject to an investigation by the NYDFS relating to its compliance program including

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compliance with the Bank Secrecy Act and sanctions laws, cybersecurity, and customer support. In January 2023, the NYDFS announced a consent order focused on historical shortcomings in Coinbase, Inc.'s compliance program. Pursuant to the consent order, Coinbase, Inc. paid a $50.0 million penalty in January 2023 and agreed to invest an additional $50.0 million in its compliance function by the end of 2024.

In April 2022, a dissenting stockholder to the Company's acquisition of FairXchange, Inc. ("FairX") filed a Verified Petition for Appraisal of Stock in the Court of Chancery of the State of Delaware seeking, among other relief, an appraisal of the fair value of their common and preferred shares of FairX stock. Petitioners contend that the valuation of FairX was higher than the valuation ascribed by the parties at the time of the transaction. The case is captioned *Hyde Park Venture Partners Fund III, L.P. et al. v. FairXchange, LLC, et al*. Trial took place in November 2023 and post-trial briefing and argument is scheduled to be completed in March 2024. A settlement offer was made and rejected in November 2023. Based on the nature of the proceedings in this case, the outcome of this matter remains uncertain and the Company cannot reasonably estimate the potential impact, if any, on its business or financial statements at this time.

In June 2023, the SEC filed a complaint in the U.S. District Court for the Southern District of New York against the Company and Coinbase, Inc. alleging that Coinbase, Inc. has acted as an unregistered securities exchange, broker, and clearing agency in violation of Sections 5, 15(a) and 17A(b) of the Exchange Act and that, through its staking program, Coinbase, Inc. has offered and sold securities without registering its offers and sales in violation of Sections 5(a) and 5(c) of the Securities Act. The SEC has also alleged that the Company is liable for the alleged violations as an alleged control person of Coinbase, Inc. The case is captioned *SEC v. Coinbase, Inc. et al*. The SEC seeks, among other relief, injunctive relief, disgorgement and civil money penalties. The Company and Coinbase, Inc. filed an answer to the SEC complaint in June 2023, dispute the claims in this case, and intend to vigorously defend against them. On August 4, 2023, the Company and Coinbase, Inc. filed a motion for judgment on the pleadings. The SEC filed its response on October 3, 2023 and the Company and Coinbase, Inc. filed their reply on October 24, 2023. Oral argument took place on January 17, 2024. Based on the preliminary nature of the proceedings in this case, the outcome of this matter remains uncertain and the Company cannot estimate the potential impact, if any, on its business or financial statements at this time. An adverse resolution of the SEC's lawsuit could have a material impact on the Company's business and financial statements.

In June 2023, the Company and Coinbase, Inc. were issued notices, show-cause orders, and cease-and-desist letters, and became the subject of various legal actions initiated by U.S. state securities regulators in the states of Alabama, California, Illinois, Kentucky, Maryland, New Jersey, South Carolina, Vermont, Washington and Wisconsin alleging violations of state securities laws with respect to staking services provided by Coinbase, Inc. In July 2023, the Company and Coinbase, Inc. entered into agreements with state securities regulators in California, New Jersey, South Carolina and Wisconsin, pursuant to which customers in those states will no longer be able to stake new funds, in each case pending final adjudication of the matters. In October 2023, the Company and Coinbase, Inc. entered into a similar agreement with the Maryland state securities regulator. The Company and Coinbase, Inc. dispute the claims of the state securities regulators and intend to vigorously defend against them. Based on the preliminary nature of these actions, the final outcome of these matters remains uncertain and the Company cannot estimate the potential impact on its business or financial statements at this time. An adverse resolution could have a material impact on the Company's business and financial statements.

The Company has, from time to time, received investigative subpoenas and requests from regulators for documents and information about certain customer programs, operations, and existing and intended future products, including the Company's processes for listing assets, the classification of certain listed assets, its staking programs, and its stablecoin and yield-generating products.

Except as otherwise disclosed, the Company believes the ultimate resolution of existing legal and regulatory investigation matters will not have a material adverse effect on the financial condition, results of

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operations, or cash flows of the Company. However, in light of the uncertainties inherent in these matters, it is possible that the ultimate resolution of one or more of these matters may have a material adverse effect on the Company's results of operations for a particular period, and future changes in circumstances or additional information could result in additional accruals or resolution in excess of established accruals, which could adversely affect the Company's results of operations, potentially materially.

Tax regulation

Current promulgated tax rules related to crypto assets are unclear and require significant judgments to be made in interpretation of the law, including but not limited to the areas of income tax, information reporting, transaction level taxes and the withholding of tax at source. Additional legislation or guidance may be issued by U.S. and non-U.S. governing bodies that may differ significantly from the Company's practices or interpretation of the law, which could have unforeseen effects on the Company's financial condition and results of operations, and accordingly, the related impact on the Company's financial condition and results of operations is not estimable.

23. RELATED PARTY TRANSACTIONS

Revenue and accounts receivable

Certain of the Company's directors, executive officers, and principal owners, including immediate family members, are users of the Company's platform. The Company recognized revenue from related party customers of $17.9 million, $12.9 million and $29.1 million for the years ended December 31, 2023, 2022 and 2021, respectively. As of December 31, 2023 and 2022, amounts receivable from related party customers were $3.4 million and $1.3 million, respectively.

Customer assets and liabilities

As of December 31, 2023 and 2022, safeguarding customer crypto assets and safeguarding customer crypto liabilities for related parties were $8.8 billion and $3.5 billion, respectively. As of December 31, 2023 and 2022, customer custodial funds and customer custodial cash liabilities due to related party customers were $348.0 million and $14.2 million, respectively.

Prepaid and other assets

During the years ended December 31, 2023 and 2022, the Company invested an aggregate of $4.0 million and $13.8 million, respectively, in investees in which certain related parties of the Company held an interest over 10%.

Expenses

During the year ended December 31, 2023, the Company incurred $2.5 million for professional and consulting services provided by entities affiliated with related parties. There were no professional and consulting services provided by entities affiliated with related parties to note during the years ended December 31, 2022 and 2021.

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24. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Changes in operating assets and liabilities affecting cash were as follows (in thousands):

	Year Ended December 31,		
	2023	2022	2021
USDC	$ 254,571	$ (848,138)	$ (77,471)
Accounts and loans receivable	80,375	(141,023)	28,511
Deposits in transit	(115,391)	28,952	(36,527)
Income taxes, net	8,547	1,906	(62,145)
Other current and non-current assets	28,033	19,237	(20,060)
Accounts payable	954	18,612	27,330
Lease liabilities	(39,733)	(10,223)	(20,596)
Other current and non-current liabilities	108,850	(100,771)	302,396
Net changes in operating assets and liabilities	$ 326,206	$ (1,031,448)	$ 141,438

Reconciliation of cash, cash equivalents, and restricted cash (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Cash and cash equivalents	$ 5,139,351	$ 4,425,021	$ 7,123,478
Restricted cash	22,992	25,873	30,951
Customer custodial cash	4,393,086	4,978,752	10,526,233
Total cash, cash equivalents, and restricted cash	$ 9,555,429	$ 9,429,646	$ 17,680,662

Supplemental schedule of non-cash investing and financing activities were as follows (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Crypto assets borrowed	$ 450,663	$ 920,379	$ 1,134,876
Crypto assets borrowed repaid with crypto assets	559,191	1,432,688	609,600
Crypto loans originated	396,981	—	—
Crypto loans repaid	469,763	—	—
Non-cash assets received as collateral	255,383	26,874	—
Non-cash assets received as collateral returned	282,257	—	—
Non-cash assets pledged as collateral	156,963	58,377	—
Non-cash assets pledged as collateral returned	163,460	—	—
Non-cash consideration paid for business combinations	51,494	324,925	571,196
Purchase of crypto assets and investments with non-cash consideration	27,977	19,967	13,511
Realized gain on crypto assets held as investments	48,491	—	—
Disposal of crypto assets and investments for non-cash consideration	42,551	617	—
Changes in right-of-use assets and operating lease obligations	17,530	3,059	27,286

For the purpose of this section only, unless the context requires otherwise, references to the "Company" are to Coinbase, and references to "we", "us" and "our" shall be construed accordingly.

The following management discussion and analysis of the results of Coinbase is extracted from the annual reports of Coinbase for the years ended 31 December 2021, 2022 and 2023. It should be read in conjunction with the financial information of Coinbase for the years ended 31 December 2021, 2022 and 2023 set forth in Appendix II to this circular. The management discussion and analysis of the results of Coinbase was issued in English and the Chinese translated version is provided for information purposes only. In case of discrepancies between the two versions, the English version shall prevail.

The Directors wish to emphasise that the extracts reproduced below are not prepared for incorporation into this circular and the Group has not participated in their preparation. As such, the Directors do not express any view as to their truth, accuracy or completeness, and the Shareholders and investors should exercise caution and should not place undue reliance on such information.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the accompanying notes thereto included elsewhere in this Annual Report on Form 10-K. The following discussion and analysis contain forward looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those identified below and those discussed in the section titled "Risk Factors" in Part I, Item 1A of this Annual Report on Form 10-K. Unless otherwise expressly stated or the context otherwise requires, references to "we," "our," "us," "the Company," and "Coinbase" refer to Coinbase Global, Inc. and its consolidated subsidiaries. The information contained on, or that can be accessed through, our website is not incorporated by reference into, and is not a part of, this Annual Report on Form 10-K.

Discussions of 2019 items and year-to-year comparisons between 2020 and 2019 are not included in this Annual Report on Form 10-K, and can be found in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our final prospectus dated April 1, 2021 and filed with the SEC pursuant to Rule 424(b)(4) on April 14, 2021.

Executive Overview

This executive overview highlights selected information and does not contain all of the information that is important to readers of this Annual Report on Form 10-K.

2021 was a year of tremendous growth and development in the cryptoeconomy, as well as for Coinbase. The total crypto market capitalization at the end of Q4 was $2.3 trillion — up nearly three-fold from approximately $800.0 billion at the end of 2020 — and hit a peak of $3.1 trillion in November 2021. Bitcoin and Ethereum prices reached new highs that were 247% and 457% higher, respectively, than prior peaks seen in 2017, with Bitcoin itself nearly reaching $1.3 trillion in market capitalization in Q4.

For the year ended December 31, 2021, we generated $7.4 billion of net revenue, $3.6 billion of net income, $4.1 billion of Adjusted EBITDA, and 11.4 million MTUs. For the year ended December 31, 2020, we generated $1.1 billion of net revenue, $322.3 million of net income, $527.4 million of Adjusted EBITDA, and 2.8 million MTUs. In 2021, we saw an increase in all of our key business metrics compared to 2020, became the first publicly traded crypto asset trading platform, and made substantial progress in building a best-in-class infrastructure to enable easy, safe, and secure on-ramps and access into the global cryptoeconomy.

Key Business Metrics

In addition to the measures presented in our consolidated financial statements, we use the following key business metrics to evaluate our business, measure our performance, identify trends affecting our business, and make strategic decisions:

	December 31,			% Change	
	2021	2020	2019	2021	2020
Verified Users *(in millions)*	89	43	32	107 %	34 %
MTUs[(1)] *(in millions)*	11.4	2.8	1.0	307 %	180 %
Assets on Platform *(in billions)*	$ 278	$ 90	$ 17	209 %	432 %
Trading Volume *(in billions)*	$ 1,671	$ 193	$ 80	766 %	141 %
Net income (loss) *(in millions)*	$ 3,624	$ 322	$ (30)	1,025 %	1,173 %
Adjusted EBITDA[(2)] *(in millions)*	$ 4,090	$ 527	$ 24	676 %	2,096 %

(1) MTUs presented above for the years ended December 31 are the average of each month's MTUs in the fourth quarter. The annual average of MTUs for the years ended December 31, 2021, December 31, 2020, and December 31, 2019 were 8.4 million, 1.9 million, and 1.1 million.

(2) Please see the section titled "*Non-GAAP Financial Measure*" below for a reconciliation of net income to Adjusted EBITDA and an explanation for why we consider Adjusted EBITDA to be a helpful metric for investors.

Verified Users

We define "Verified Users" as all retail users, institutions, and ecosystem partners that have registered an account on our platform and confirmed either their email address or phone number, or that have established an account with a username on our non-custodial wallet application, as of the date of measurement. Verified Users are an indication of our scale and represent a potential revenue opportunity for us. These customers have demonstrated an interest in our platform or direct intent to transact with crypto assets. Verified Users represent the top level of our customer acquisition funnel. We believe we have an opportunity to engage Verified Users and convert them to MTUs by marketing our growing suite of products and services. Verified Users may overstate the number of unique customers who have registered an account on our platform as one customer may register for, and use, multiple accounts with different email addresses, phone numbers, or usernames.

Monthly Transacting Users

We define an MTU as a retail user who actively or passively transacts in one or more products on our platform at least once during the rolling 28-day period ending on the date of measurement. MTUs presented as of the end of a quarter are the average of each month's MTUs in each respective quarter. MTUs presented as of the end of a year represent the MTUs for the last quarter of that year. The annual average MTUs for the years ended December 31, 2021, December 31, 2020, and December 31, 2019 were 8.4 million, 1.9 million, and 1.1 million, respectively. MTUs represent our transacting base of retail users who drive potential revenue generating transactions on our platform. MTUs engage in transactions that generate both transaction revenue and subscription and services revenue. Revenue generating transactions include active transactions such as buying or selling crypto assets through our Invest product or passive transactions such as earning a staking reward. MTUs also engage in transactions that are non-revenue generating such as send and receive. MTUs may overstate the number of unique retail users due to differences in product architecture.

Assets on Platform

We define "Assets on Platform" as the total U.S. dollar equivalent value of both fiat currency and crypto assets held or managed in digital wallets on our platform, including our custody services, calculated based on the market price on the date of measurement. Assets on Platform demonstrates the scale of balances held across our suite of products and services, the trust customers place in us to securely store their assets, and the underlying growth of the cryptoeconomy. Assets on Platform also represent our monetization opportunity for subscription products and services, including current products such as Custody, Stake, Borrow, and Lend. Assets on Platform generate fees that are recorded as subscription and services revenue when customers engage with these products.

The value of Assets on Platform is driven by three factors: the price, quantity, and type of crypto assets held by customers on our platform. Changes in the price and quantity, particularly for Bitcoin and Ethereum, or type of crypto asset held on our platform, can result in the growth or decline in Assets on Platform in a particular period. Our Assets on Platform by asset are as follows:

	As of December 31,		
	2021	2020	2019
Assets on Platform:			
Bitcoin	40 %	70 %	70 %
Ethereum	25	13	9
Other crypto assets	31	13	15
Fiat	4	4	6
Total	100 %	100 %	100 %

During the years ended December 31, 2021 and December 31, 2020, no asset other than Bitcoin and Ethereum individually represented more than 10% of our Assets on Platform.

Trading Volume

We define “Trading Volume” as the total U.S. dollar equivalent value of matched trades transacted between a buyer and seller through our platform during the period of measurement. Trading Volume represents the product of the quantity of asset transacted and the trade price at the time the transaction was executed. As trading activity directly impacts transaction revenue, we believe this measure is a reflection of liquidity on our order books, trading health, and the underlying growth of the cryptoeconomy. Trading Volume on our platform is influenced by the price of crypto assets and Crypto Asset Volatility[1]. In periods of high crypto asset prices and Crypto Asset Volatility, we have experienced correspondingly high levels of Trading Volume on our platform. Our trading volume in future periods will depend on the relative availability and adoption of Bitcoin, Ethereum, and Other crypto assets.

	Year Ended December 31, 2021	2020	2019
Trading Volume (in billions):			
Retail	$ 535	$ 73	$ 35
Institutional	1,136	120	45
Total	$ 1,671	$ 193	$ 80
Trading Volume by crypto asset:			
Bitcoin	24 %	41 %	58 %
Ethereum	21 %	15 %	14 %
Litecoin	3 %	4 %	10 %
Other crypto assets	52 %	40 %	18 %
Total	100 %	100 %	100 %
Transaction revenue by crypto asset:			
Bitcoin	25 %	44 %	60 %
Ethereum	21 %	12 %	11 %
Other crypto assets	54 %	44 %	29 %
Total	100 %	100 %	100 %

Crypto assets other than Bitcoin and Ethereum, or Other crypto assets, continued to contribute a greater share of Trading Volume during the year ended December 31, 2021. Approximately 55% of our total Trading Volume came from Other crypto assets, up from 44% in 2020. This trend is consistent with the overall crypto market where crypto assets other than Bitcoin and Ethereum comprised a larger percent of spot market trading volumes during the year ended December 31, 2021 compared to the year ended December 31, 2020. Additionally, we continue to add trading support for new crypto assets, which contributes to the increased trading concentration in Other crypto assets. In 2021 and 2020, we added trading support for 95 and 21 Other crypto assets, respectively.

During the years ended December 31, 2021 and December 31, 2020, no asset other than Bitcoin and Ethereum individually represented more than 10% of our Trading Volume or transaction revenue.

[1] “Crypto Asset Volatility” represents our internal measure of crypto volatility in the market relative to prior periods. The volatility of crypto assets is measured on an hourly basis (using 10 minute price intervals within each hour) for each crypto asset supported for trading on Coinbase, averaged over the applicable time period (quarterly), then weighted by each crypto asset’s share of total trading volume during the same time period across a select set of trading platforms, in addition to the Coinbase platform, that operate in similar markets including itBit, Bitfinex, Bitstamp, bitFlyer, Binance.US, Binance, Kraken, Gemini, Bittrex, and Poloniex.

Components of Results of Operations

Net revenue

Transaction revenue

We generate substantially all of our net revenue from transaction fees from trades that occur on our platform. The transaction fee earned is based on the price and quantity of the crypto asset that is bought, sold, or withdrawn. Transaction revenue is recognized at the time the transaction is processed and is directly correlated with Trading Volume on our platform.

Subscription and services revenue

Subscription and services revenue primarily consists of:

- Blockchain rewards: We derive Blockchain rewards through various blockchain protocols where we control the staking validator address. These blockchain protocols, or the participants that form the protocol networks, reward users for performing various activities on the blockchain, such as participating in proof-of-stake networks. We earn Blockchain rewards in crypto assets.

  Our Staking revenue is included within Blockchain rewards, except for delegation services that are offered as part of Coinbase Cloud and included in Other subscription and services revenue. We believe Blockchain rewards better represents the various monetization opportunities available to us through blockchains and protocols.

- Custodial fee revenue: We derive custodial fee revenue based on a percentage of the daily value of customer crypto assets that we hold under custody in our dedicated cold storage solution. The value of crypto assets held under custody is driven by the same factors as Assets on Platform - the quantity, price, and type of crypto asset.

- Earn campaign revenue: We provide asset issuers with a platform to engage with our users through education videos and tasks where users can earn crypto assets that they learned about. We earn a commission based on the amount of crypto assets distributed to our users.

- Interest income: We earn interest income on fiat funds under a revenue sharing arrangement and on customer custodial fiat funds held at certain third-party banks, which is calculated using the interest method. Our interest income is dependent on the balance of such fiat funds and the prevailing interest rate environment. We also earn interest income on loans granted to our retail and institutional users.

- Other: Other subscription and services revenue primarily includes revenue from Coinbase Cloud, which includes staking application, delegation, and infrastructure services, as well as revenue from subscription licenses.

Other revenue

Other revenue includes the sale of crypto assets when we are the principal in the transaction. Periodically, as an accommodation to customers, we may fulfill customer transactions using our own crypto assets. We fulfill customer accommodation transactions using our own assets for orders that do not meet the minimum trade size for execution on our platform or to maintain customers' trade execution and processing times during unanticipated system disruptions. We have custody and control of these crypto assets prior to the sale to the customer and record revenue at the point in time when the sale is processed. Accordingly, we record the total value of the sale as revenue and the cost of the crypto asset in other operating expense, net. Transactions involving our sale of crypto assets represented 6.2% of our total revenue for the year ended December 31, 2021.

Other revenue also includes interest income earned primarily on our corporate cash and cash equivalents. Interest income is calculated using the interest method and depends on the balance of cash and cash equivalents as well as the prevailing interest rate environment.

Operating expenses

Operating expenses consist of transaction, technology and development, sales and marketing, general and administrative, restructuring expenses, and other operating expense.

Transaction expense

Transaction expense includes costs incurred to operate our platform, process crypto asset trades, and perform wallet services. These costs include account verification fees, miner fees to process transactions on blockchain networks, fees paid to payment processors and other financial institutions for customer transaction activity, and crypto asset losses due to transaction reversals. Transaction expense also includes rewards paid to users for blockchain activities conducted by us, such as staking. Fixed-fee costs are expensed over the term of the contract and transaction-level costs are expensed as incurred.

Technology and development

Technology and development expenses include personnel-related expenses incurred in operating, maintaining, and enhancing our platform. These costs also include website hosting, infrastructure expenses, costs incurred in developing new products and services and the amortization of acquired developed technology.

Sales and marketing

Sales and marketing expenses primarily include costs related to customer acquisition, advertising and marketing programs, and personnel-related expenses. Sales and marketing costs are expensed as incurred.

General and administrative

General and administrative expenses include personnel-related expenses incurred to support our business, including legal, finance, compliance, human resources, customer support, executive, and other support operations. These costs also include software subscriptions for support services, facilities and equipment costs, depreciation, amortization of acquired customer relationship intangible assets, gains and losses on disposal of fixed assets, legal reserves and settlements, and other general overhead. General and administrative costs are expensed as incurred.

Other operating expense, net

Other operating expense, net includes cost of our crypto assets used to fulfill customer accommodation transactions. Periodically, as an accommodation to customers, we may fulfill customer transactions using our own crypto assets. We have custody and control of the crypto assets prior to the sale to the customer. Accordingly, we record the total value of the sale in other revenue and the cost of the crypto asset in other operating expense.

Other operating expense, net also includes impairment and realized gains on the sale of crypto assets, realized gains and losses resulting from the settlement of derivative instruments, and fair value gains and losses related to derivatives and derivatives designated in qualifying fair value hedge accounting relationships.

Other expense (income), net

Other expense (income), net includes the following items:

- gains and losses on investments, net, which consists primarily of realized and unrealized gains and losses from fair value adjustments on investments;
- realized impacts on foreign exchange resulting from the settlement of our foreign currency assets and liabilities as well unrealized impacts on foreign exchange resulting from remeasurement of transactions and monetary assets and liabilities denominated in non-functional currencies; and
- interest expense on our Convertible Notes and Senior Notes.

(Benefit from) provision for income taxes

(Benefit from) provision for income taxes includes income taxes related to foreign jurisdictions and U.S. federal and state income taxes.

Results of Operations

The following table summarizes the historical consolidated statements of operations data:

	Year Ended December 31,		
	2021	2020	2019
		(in thousands)	
Revenue:			
Net revenue	$ 7,354,753	$ 1,141,167	$ 482,949
Other revenue	484,691	136,314	50,786
Total revenue	7,839,444	1,277,481	533,735
Operating expenses:			
Transaction expense	1,267,924	135,514	82,055
Technology and development	1,291,561	271,732	185,044
Sales and marketing	663,689	56,782	24,150
General and administrative	909,392	279,880	231,929
Restructuring	—	—	10,140
Other operating expense, net	630,308	124,622	46,200
Total operating expenses	4,762,874	868,530	579,518
Operating income (loss)	3,076,570	408,951	(45,783)
Other expense (income), net	49,623	(248)	(367)
Income (loss) before income taxes	3,026,947	409,199	(45,416)
(Benefit from) provision for income taxes	(597,173)	86,882	(15,029)
Net income (loss)	$ 3,624,120	$ 322,317	$ (30,387)

The following table presents the components of the consolidated statements of operations as a percentage of total revenue:

	Year Ended December 31,		
	2021	2020	2019
Total revenue	100 %	100 %	100 %
Operating expenses:			
Transaction expense	16	11	15
Technology and development	16	21	35
Sales and marketing	9	4	5
General and administrative	12	22	43
Restructuring	—	—	2
Other operating expense, net	8	10	9
Total operating expenses	61	68	109
Operating income (loss)	39	32	(9)
Other expense (income), net	—	—	—
Income (loss) before income taxes	39	32	(9)
(Benefit from) provision for income taxes	(7)	7	(3)
Net income (loss)	46 %	25 %	(6)%

Comparison of the years ended December 31, 2021 and 2020

Revenue

	Year Ended December 31,			% Change	
	2021	2020	2019	2021	2020
		(in thousands)			
Transaction revenue	$ 6,837,266	$ 1,096,174	$ 463,005	524 %	137 %
Subscription and services revenue	517,487	44,993	19,944	1,050	126
Other revenue	484,691	136,314	50,786	256	168
Total revenue	$ 7,839,444	$ 1,277,481	$ 533,735	514	139

Transaction revenue for the year ended December 31, 2021 increased by $5.7 billion, or 524%, compared to the year ended December 31, 2020, due to the following:

- Crypto Asset Volatility of 11.0 for the year ended December 31, 2021 increased 49% over the year ended December 31, 2020. Trading Volume on our platform is correlated with higher Crypto Asset Volatility;
- an increase in retail Trading Volume of 633% for the year ended December 31, 2021, due to an increase in both MTUs and the average price of Bitcoin, Ethereum, and Other crypto assets; and
- an increase in the number of crypto assets supported on our platform, from 45 as of December 31, 2020 to 139 as of December 31, 2021. Our ability to expand our support of more crypto assets drove significant Trading Volume.

There are a number of factors that contribute to changes in crypto asset prices and Crypto Asset Volatility, including, but not limited to, changes in the supply and demand for a particular crypto asset, crypto market sentiment, macroeconomic factors, utility of a particular crypto asset, and idiosyncratic events.

Subscription and services revenue for the year ended December 31, 2021 increased by $472.5 million, or 1,050%, compared to the year ended December 31, 2020, predominantly due to the following:

- an increase in Blockchain rewards of $212.6 million for the year ended December 31, 2021, mainly as a result of increased user participation in reward generating activities, predominantly Staking activities including ETH 2.0 Staking which was launched in 2021;
- an increase in custodial fee revenue of $117.7 million for the year ended December 31, 2021, due to an increase in the average assets under custody of $99.0 billion over the same period. The growth in assets under custody was driven by new and existing customers, an increase of 72 assets supported by custody during the year ended December 31, 2021, and an increase in average crypto asset prices; and
- an increase in Earn campaign revenue of $55.4 million for the year ended December 31, 2021, driven by both an increase in MTUs that engaged with Earn campaigns and an increase in amounts earmarked by asset issuers for distribution over the same period. Our first Earn campaign was launched in June 2020.

Other revenue for the year ended December 31, 2021 increased by $348.4 million, or 256%, compared to the year ended December 31, 2020, driven by an increase in crypto assets sales revenue over the same period. We generated revenue from crypto asset sales where the transactions were fulfilled with our crypto assets to accommodate customers, primarily as a result of unanticipated system disruptions.

For the year ended December 31, 2021, we experienced 16 unanticipated system disruptions, including an exchange disruption, which resulted in $305.6 million of other revenue, or 63% of revenue from crypto asset sales to customers, compared to 12 unanticipated system disruptions which resulted in $94.8 million of other revenue, or 71% of revenue from crypto asset sales to customers for the year ended December 31, 2020. While the number of unanticipated system disruptions increased year-over-year, during the year ended December 31, 2021, the number of disruptions generally declined quarter-over-quarter, with the majority of disruptions taking place in the first half of the year. A system disruption which occurred on May 19, 2021 as a result of unprecedented short term spike in Trading Volume as well as the exchange disruption on September 7, 2021 were primarily responsible for the increase in crypto assets sales revenue during the year ended December 31, 2021.

We continue to make significant investments in database and network infrastructure to support heightened trading volumes on our platform in order to reduce unanticipated system disruptions.

Operating expenses

	Year Ended December 31,			% Change	
	2021	2020	2019	2021	2020
		(in thousands)			
Transaction expense	$ 1,267,924	$ 135,514	$ 82,055	836 %	65 %
Technology and development	1,291,561	271,732	185,044	375	47
Sales and marketing	663,689	56,782	24,150	1,069	135
General and administrative	909,392	279,880	231,929	225	21
Restructuring	—	—	10,140	—	(100)
Other operating expense, net	630,308	124,622	46,200	406	170
Total operating expenses	$ 4,762,874	$ 868,530	$ 579,518	448	50

Transaction expense for the year ended December 31, 2021 increased by $1.1 billion, or 836%, compared to the year ended December 31, 2020. Transaction expense is correlated with our net revenue. Transaction expense as a percentage of net revenue was 17% and 12% for the years ended December 31, 2021 and December 31, 2020, respectively.

The increase in transaction expense for the year ended December 31, 2021, compared to the year ended December 31, 2020, was predominantly due to the following:

- an increase of $519.3 million related to miner fees for the year ended December 31, 2021. This increase was driven by an increase in crypto assets required to pay blockchain network fees such as Ethereum gas prices and an increase in crypto asset prices. Ethereum gas prices rose substantially due to congestion on the network as we saw a surge in DeFi volume throughout the year. We expect this congestion to stabilize and improve as the Ethereum network implements solutions to help reduce transaction congestion;
- an increase of $206.3 million in transaction reversal losses for the year ended December 31, 2021, due to higher payment volume;
- an increase of $138.8 million related to rewards paid or payable to users from blockchain activities such as staking for the year ended December 31, 2021;
- an increase of $101.5 million in account verification fees for the year ended December 31, 2021, due to an increase in new user sign-ups; and
- an increase of $96.4 million in payment processing fees for the year ended December 31, 2021, due to higher settled Retail Trading Volume.

Technology and development expenses for the year ended December 31, 2021 increased by $1.0 billion, or 375%, compared to the year ended December 31, 2020 predominantly due to the following:

- an increase of $788.8 million for the year ended December 31, 2021 in personnel-related expenses due to a 129% increase in headcount growth, issuance of equity instruments in conjunction with business combinations, and higher payroll taxes as a result of increased exercises of stock options in conjunction with our direct listing of our Class A common stock on the Nasdaq Global Select Market on April 14, 2021, or the "Direct Listing. In December 2020, we began granting RSUs to employees which increased our stock-based compensation expense compared to our option grants; and
- an increase of $181.1 million in software and service costs for the year ended December 31, 2021, driven by continued investment in our products and platform. We expect that these costs will continue to increase in the future as we scale our teams and deliver new products and services for the cryptoeconomy.

Sales and marketing expenses for the year ended December 31, 2021 increased by $606.9 million, or 1,069%, compared to the year ended December 31, 2020. Sales and marketing as a percentage of net revenue was 9.0% and 5.0% during the years ended December 31, 2021 and December 31, 2020, respectively.

The increase in sales and marketing expenses for the year ended December 31, 2021, compared to the year ended December 31, 2020, was predominantly driven by the following:

- an increase of $397.3 million in digital advertising spend for the year ended December 31, 2021;
- an increase of $105.7 million for the year ended December 31, 2021 in personnel-related expenses due to a 164% increase in headcount growth and higher payroll taxes as a result of increased exercises of stock options in conjunction with our Direct Listing. In December 2020, we began granting RSUs to employees which increased our stock-based compensation expense compared to our option grants; and
- an increase of $60.7 million in customer referral and promotion fees for the year ended December 31, 2021, largely due to new user incentive bonuses.

General and administrative expenses for the year ended December 31, 2021, increased by $629.5 million, or 225%, compared to the year ended December 31, 2020, predominantly driven by the following:

- an increase of $341.3 million for the year ended December 31, 2021 in personnel-related expenses due to a 130% increase in headcount growth and higher payroll taxes as a result of increased exercises of stock options in conjunction with our Direct Listing. In December 2020, we began granting RSUs to employees which increased our stock-based compensation expense compared to our option grants;
- an increase of $78.0 million in customer support costs for the year ended December 31, 2021, in order to respond to the increased customer inquiries during periods of high Trading Volume;
- an increase of $64.0 million in corporate business taxes largely due to an increase in net income; and
- $39.2 million of direct listing costs during the first half of 2021 associated with our Direct Listing.

Other operating expense, net for the year ended December 31, 2021, increased by $505.7 million, or 406%, compared to the year ended December 31, 2020, respectively, due to the following:

- an increase of $304.0 million for the year ended December 31, 2021, attributed to crypto assets sold in order to fulfill customer accommodation transactions as a result of unanticipated system disruptions; and
- $119.9 million net impairment on crypto assets decreasing below the carrying value of our crypto assets held during the year.

Other expense (income), net

	Year Ended December 31,			% Change	
	2021	2020	2019	2021	2020
	(in thousands)				
Other expense (income), net	$ 49,623	$ (248)	$ (367)	(20,109)%	(32)%

During the year ended December 31, 2021, we had other expense (income), net of $49.6 million loss compared to a $0.2 million gain for the year ended December 31, 2020. The change of $49.9 million in losses is largely driven by realized losses from foreign exchange of $61.4 million and interest expense on our Convertible Notes and Senior Notes of $29.2 million, offset by realized gains on investments of $19.1 million and unrealized gains from foreign exchange of $19.9 million.

(Benefit from) provision for income taxes

	Year Ended December 31,			% Change	
	2021	2020	2019	2021	2020
	(in thousands)				
(Benefit from) provision for income taxes	$ (597,173)	$ 86,882	$ (15,029)	(787)%	(678)%

The (benefit from) provision for income tax decreased by $684.1 million for the year ended December 31, 2021 compared to the year ended December 31, 2020. The reduction was primarily driven by the tax effect of higher compensation expenses on deductible stock option exercises at a fair market value as a result of our Direct Listing, net of limitations associated with the related tax deduction. We are entitled to a tax deduction for certain stock-based compensation equal to the difference between the fair market value of our common stock and the strike price, if any, at the date of inclusion in the grantee's taxable income. Therefore, as our common stock price increases, the amount of allowable deductions will also increase, which could result in a lower effective tax rate. These deductions were higher in 2021 than in prior periods as a result of an elevated amount of exercises and sales post our Direct Listing.

Non-GAAP Financial Measure

In addition to our results determined in accordance with GAAP, we believe Adjusted EBITDA, a non-GAAP measure, is useful in evaluating our operating performance. We use Adjusted EBITDA to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that Adjusted EBITDA may be helpful to investors because it provides consistency and comparability with past financial performance. However, Adjusted EBITDA is presented for supplemental informational purposes only, has limitations as an analytical tool, and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. Among other non-cash and non-recurring items, Adjusted EBITDA excludes stock-based compensation expense, which has recently been, and will continue to be for the foreseeable future, a significant recurring expense for our business and an important part of our compensation strategy. In addition, other companies, including companies in our industry, may calculate similarly titled non-GAAP measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison. A reconciliation is provided below for each non-GAAP financial measure to the most directly comparable financial measure stated in accordance with GAAP. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures, and not to rely on any single financial measure to evaluate our business.

We calculate Adjusted EBITDA as net income, adjusted to exclude provision for or benefit from income taxes, depreciation and amortization, interest expense, crypto asset borrowing costs, stock-based compensation expense, impairment, net, non-recurring Direct Listing expenses, restructuring expenses, non-recurring acquisition-related compensation expenses, unrealized gain or loss on foreign exchange, fair value gain or loss on derivatives, non-recurring legal reserves and related costs, and other loss, net.

The following table provides a reconciliation of net income to Adjusted EBITDA:

	Year Ended December 31,		
	2021	2020	2019
		(in thousands)	
Net Income (loss)	$ 3,624,120	$ 322,317	$ (30,387)
Adjusted to exclude the following:			
(Benefit from) provision for income taxes	(597,173)	86,882	(15,029)
Depreciation and amortization	63,651	30,962	16,878
Interest expense	29,160	—	—
Crypto asset borrowing costs	11,847	2,634	—
Stock-based compensation	820,685	69,889	31,147
Impairment, net[(1)]	119,921	8,355	2,252
Non-recurring Direct Listing expenses	39,160	—	—
Restructuring	—	—	10,140
Non-recurring acquisition-related compensation expenses	—	—	7,370
Unrealized (gain) loss on foreign exchange	(14,944)	1,057	(3,106)
Fair value (gain) loss on derivatives	(32,056)	5,254	—
Legal reserves and related costs	1,500	—	5,000
Other loss, net[(2)]	24,200	—	—
Adjusted EBITDA	$ 4,090,071	$ 527,350	$ 24,265

(1) Impairment, net includes impairment on crypto assets still held and intangible assets.

(2) Other loss, net includes $25.1 million loss associated with an incident which did not breach our security infrastructure or broader systems, but for which impacted customers were reimbursed, offset by an unrealized gain of $0.9 million related to a contingent consideration arrangement.

Liquidity and Capital Resources

Since our inception, we have financed our operations primarily with cash from operating activities, and net proceeds from the issuances of convertible preferred stock and notes payable. In September 2021, we issued $2.0 billion in Senior Notes consisting of $1.0 billion of 2028 Senior Notes due on October 1, 2028 and $1.0 billion of 2031 Senior Notes due on October 1, 2031. Interest on the Senior Notes is payable semi-annually in arrears on April 1 and October 1 of each year at 3.375% and 3.625% per annum for the 2028 Senior Notes and 2031 Senior Notes, respectively. The entire principal amount of the Senior Notes is due at the time of maturity, unless repurchased or redeemed on an earlier date. In May 2021, we issued an aggregate of $1.44 billion of 2026 Convertible Notes. The 2026 Convertible Notes are senior unsecured obligations and bear interest at a rate of 0.50% per year payable semi-annually in arrears on June 1 and December 1 of each year, beginning on December 1, 2021. The initial conversion rate and conversion rate as of December 31, 2021 for the 2026 Convertible Notes is 2.6994 shares of our Class A common stock per $1,000 principal amount of 2026 Convertible Notes, which is equivalent to an initial conversion price of approximately $370.45 per share of the Class A common stock. The 2026 Convertible Notes mature on June 1, 2026, unless converted, redeemed or repurchased on an earlier date. See *Note 11. Indebtedness*, of the notes to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for more details on the Senior Notes and 2026 Convertible Notes transactions.

As of December 31, 2021, we had cash and cash equivalents of $7.1 billion, exclusive of restricted cash and customer custodial funds. Cash equivalents consisted primarily of cash deposits and money market funds denominated in U.S. dollars. As of December 31, 2021, we had restricted cash of $31.0 million which consisted primarily of amounts held in restricted bank accounts at certain third-party banks as security deposits or pledged as collateral to secure letters of credit. As of December 31, 2021, we had customer custodial funds of $10.5 billion which consisted of amounts held at certain third-party banks for the exclusive benefit of customers. Crypto asset trading on our platform occurs 24 hours a day. We restrict the use of the assets underlying the customer custodial funds to meet regulatory requirements based on their purpose and availability to fulfill our direct obligation under custodial funds due to customers.

Certain jurisdictions where we operate require us to hold eligible liquid assets, as defined by applicable regulatory requirements and commercial law in these jurisdictions, equal to at least 100% of the aggregate amount of all custodial funds due to customers. Depending on the jurisdiction, eligible liquid assets can include cash and cash equivalents, customer custodial funds, and in-transit funds receivable. As of December 31, 2021 and December 31, 2020, our eligible liquid assets were greater than the aggregate amount of custodial funds due to customers.

As of December 31, 2021, we had $100.1 million of USDC, a stablecoin which can be redeemed one USDC for one U.S. dollar on demand. While not accounted for as cash or cash equivalent, we believe our USDC holdings to be an important liquidity resource.

In August 2021, we announced our plans to invest over $500 million as well as 10% of our quarterly net income into a diversified portfolio of crypto assets. Our investments will be deployed over a multi-quarter window. We continue to execute all trades away from our crypto asset trading platform to avoid any conflict of interest with our customers. We may increase or decrease our allocation over time as the cryptoeconomy matures.

As of December 31, 2021, we held $566.5 million of crypto assets for investment and operational purposes at cost, excluding crypto assets borrowed. Our future earnings and cash flows will be impacted when we choose to monetize our crypto assets and the variability of our earnings will be dependent on the future fair value of such crypto assets. We have limited ability to predict whether the sale of crypto assets received from airdrops or forks will be material to our future earnings, which is dependent on the future market viability and fair value of such crypto assets. Our current policy is not to monetize unsupported forks or airdrops held on our platform. Crypto assets received through airdrops and forks, at the time of the airdrop or fork and at the end of the periods presented, are not material to our financial statements.

As of December 31, 2021 and December 31, 2020 the cost basis and fair value of our crypto assets held, excluding crypto asset borrowings, was as follows:

	December 31,			
	2021		2020	
	Cost(1)	Fair value(2)	Cost(1)	Fair value(2)
	(in millions)			
Crypto assets held as investments:				
Bitcoin	$ 87.9	$ 265.8	$ 13.3	$ 100.7
Ethereum	46.1	167.1	3.5	22.1
Other crypto assets	75.4	263.1	7.6	24.9
Total crypto assets held as investments	209.4	696.0	24.4	147.7
Crypto assets held for operating purposes:				
Bitcoin	95.5	97.9	26.1	29.4
Ethereum	58.2	75.4	1.7	1.7
Other crypto assets	203.4	267.5	10.1	9.1
Total crypto assets held for operating purposes	357.1	440.8	37.9	40.2
Total crypto assets held, excluding crypto asset borrowings	$ 566.5	$ 1,136.8	$ 62.3	$ 187.9
Crypto assets held, excluding crypto asset borrowings:				
Bitcoin	$ 183.4	$ 363.7	$ 39.4	$ 130.1
Ethereum	104.3	242.5	5.2	23.8
Other crypto assets	278.8	530.6	17.7	34.0
Total crypto assets held, excluding crypto asset borrowings	$ 566.5	$ 1,136.8	$ 62.3	$ 187.9

(1) Cost amounts shown are net of impairment recognized.
(2) The fair value of crypto assets held is based on quoted market prices for one unit of each crypto asset reported on our platform at 11:59 pm Coordinated Universal Time (UTC) on the last day of the respective period multiplied by the quantity of each crypto asset held.

We view our crypto asset investments as long term holdings and we do not plan to engage in regular trading of crypto assets. During times of instability in the market of crypto assets, we may not be able to sell our crypto assets at reasonable prices or at all. As a result, our crypto assets are less liquid than our existing cash and cash equivalents and may not be able to serve as a source of liquidity for us to the same extent as cash and cash equivalents. Customer accommodations are fulfilled with crypto assets held for operational purposes. We recognized $43.1 million and $0.4 million of impairment expense on our crypto asset investment portfolio for the years ended December 31, 2021 and December 31, 2020, respectively.

Our cash flow from operating activities may materially fluctuate from period-to-period based on movement within our custodial funds due to customer liability. Since our customer custodial funds are included in cash and cash equivalents, any large fluctuations in the related liability will directly impact our cash flow from operating activities. In the short term, we believe our existing cash and cash equivalents will be sufficient for at least the next 12 months to meet our requirements and plans for cash, including meeting our working capital and capital expenditure requirements. In the long term, our ability to meet our requirements and plans for cash, including meeting our working capital and capital expenditure requirements, will depend on many factors, including market acceptance of crypto assets and blockchain technology, our growth, our ability to attract and retain customers on our platform, the continuing market acceptance of our products and services, the introduction of new subscription products and services on our platform, expansion of sales and marketing activities, and overall economic conditions. We anticipate satisfying our short-term cash requirements with our existing cash and cash equivalents and may satisfy our long-term cash requirements with cash and cash equivalents on hand or with proceeds from a future equity or debt financing.

To the extent that current and anticipated future sources of liquidity are insufficient to fund our future business activities and cash and other requirements, we may be required to seek additional equity or debt financing. The sale of additional equity would result in additional dilution to our stockholders. The incurrence of additional debt financing would result in debt service obligations and the instruments governing such debt could provide for operating and financing covenants that would restrict our operations. In the event that additional financing is required from outside sources, there is a possibility we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results, and financial condition could be adversely affected.

Our material cash requirements and contractual obligations arising in the normal course of business primarily consist of operating lease commitments, non-cancelable purchase obligations, long-term debt and related interest payments, and income taxes. With respect to operating lease commitments, which consists of operating leases for corporate offices, the total amount of lease payments due is $114.0 million, with $36.3 million due prior to December 31, 2022. With respect to non-cancelable purchase obligations, which consists of committed spend relating to advertising and technology infrastructure, the total amount due is $269.2 million, with $133.6 million due prior to December 31, 2022. See *Notes 6. Leases*, *11. Indebtedness* and *17. Income Taxes* to the consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K for further information pertaining to leases, debt, and income taxes as of December 31, 2021.

Cash flows

The following table shows a summary of our cash flows for the periods presented:

	Year Ended December 31,		
	2021	2020	2019
		(in thousands)	
Net cash provided by (used in) operating activities	$ 10,730,031	$ 3,004,070	$ (80,594)
Net cash (used in) provided by investing activities	(1,124,740)	50,822	(105,353)
Net cash provided by (used in) financing activities	3,284,225	18,801	(16,605)
Net increase in cash, cash equivalents, and restricted cash	$ 12,889,516	$ 3,073,693	$ (202,552)
Effect of exchange rates on cash	$ (64,883)	$ (2,081)	$ (170)
Change in customer custodial funds	$ 6,762,841	$ 2,562,042	$ (94,795)

Operating activities

We assess our cash flow from operating activities by adjusting for the change in customer custodial funds. We use this as a more accurate indicator of our cash growth and our ability to invest in our infrastructure and people to achieve our strategic objectives.

Net cash provided by operating activities was $10.7 billion for the year ended December 31, 2021, of which $6.7 billion related to cash from the change in custodial funds due to customers. Our net cash provided by operating activities, other than from custodial funds due to customers, reflected net income of $3.6 billion and non-cash adjustments of $272.6 million, which was driven by benefits from deferred income taxes and realized gains on crypto assets driven by net crypto assets received from operating activities. This was partially offset by stock-based compensation expense, impairment expense and depreciation and amortization expense. In addition to these changes were changes in operating assets and liabilities of $141.4 million.

Net cash provided by operating activities was $3.0 billion for the year ended December 31, 2020, of which $2.7 billion related to cash from the change in custodial funds due to customers. Our net cash provided by operating activities, other than from custodial funds due to customers, reflected net income of $322.3 million, non-cash adjustments of $64.8 million, which primarily consisted of $70.5 million in stock-based compensation, $31.0 million in depreciation and amortization, $25.0 million in non-cash lease expense, and $5.3 million in fair value derivative adjustments. These were partially offset by $54.0 million of net crypto assets received from operating activities and $23.7 million in realized gains on crypto assets which is excluded from operating activities and included in investing activities. In addition to these changes were changes in operating assets and liabilities, other than custodial funds due to customers, of $93.6 million.

Investing activities

Net cash used in investing activities of $1.1 billion for the year ended December 31, 2021 was due to $435.1 million in net outflow for the purchase and sale of crypto assets, $326.5 million for investments in companies and technologies, $211.7 million in net outflow for retail user loans originated and repaid, $70.9 million in net cash paid for acquisitions, $60.8 million related to the asset acquisition of assembled workforce and $22.1 million in capitalized internal-use software development costs.

Net cash provided by investing activities of $50.8 million for the year ended December 31, 2020 primarily related to $46.0 million in net proceeds from the purchase and sale of crypto assets and $33.6 million in net cash and customer custodial funds acquired in the acquisition of Tagomi Holdings, Inc. This was partially offset by investments in companies and technologies of $10.3 million, leasehold and real estate expenditures to support our increased headcount of $9.9 million and capitalized internal-use software development costs of $8.9 million.

Financing activities

Net cash provided by financing activities of $3.3 billion for the year ended December 31, 2021, was due to $2.0 billion of proceeds from the issuance of our Senior Notes, net of issuance costs and $1.4 billion of proceeds from the issuance of our Convertible Senior Notes, net of issuances costs, $217.1 million of proceeds from the issuance of common stock from stock option exercises, net of repurchases, $20.0 million of proceeds from the issuance of a short-term borrowing, and $19.9 million of proceeds received under the employee stock purchase plan. This was partially offset by $262.8 million of taxes paid related to net share settlement of equity awards and the purchase of $90.1 million of capped calls in connection with our Convertible Senior Notes.

Net cash provided by financing activities of $18.8 million for the year ended December 31, 2020 was due to $20.7 million in proceeds from the issuance of common stock, which was partially offset by a $1.9 million cash outflow to repurchase equity awards.

Critical Accounting Policies and Estimates

Our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K are prepared in accordance with GAAP. The preparation of consolidated financial statements also 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, operating results, and cash flows will be affected.

See *Note 2. Significant Accounting Policies*, of the notes to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for a summary of significant accounting policies and the effect on our financial statements.

Revenue recognition

We primarily generate revenue through transaction fees charged on our platform. We charge a fee at the transaction level. The transaction price, represented by the trading fee, is calculated based on volume and may vary depending on payment type and the value of the transaction. The transaction fee is collected from the customer at the time the transaction is executed. In certain instances, the transaction fee can be collected in crypto assets, with revenue measured based on the amount of crypto assets received and the fair value of the crypto assets at the time of the transaction. For the year ended December 31, 2021, we collected approximately 13% of total revenue in crypto assets. We currently do not have any formal policies requiring conversion of these crypto assets received into fiat currency.

The transaction price includes estimates for reductions in revenue from transaction fee reversals that may not be recovered from customers. Such reversals occur when the customer disputes a transaction processed on their credit card or their bank account for a variety of reasons and seeks to have the charge reversed after we have processed the transaction. These amounts are estimated based upon the most likely amount of consideration to which we will be entitled. All estimates are based on historical experience and our best judgment at the time to the extent it is probable that a significant reversal of revenue previously recognized will not occur. All estimates of variable consideration are reassessed periodically. The total transaction price is allocated to the single performance obligation. While we recognize transaction fee reversals due to transaction reversals as a reduction of net revenue, crypto asset losses due to transaction reversals are included in transaction expense.

Business combinations

We account for our business combinations using the acquisition method of accounting, which requires, among other things, allocation of the fair value of purchase consideration to the tangible and intangible assets acquired and liabilities assumed at their estimated fair values on the acquisition date. When determining the fair value of assets acquired and liabilities assumed, we make significant estimates and assumptions, especially with respect to non-crypto intangible assets. These intangible assets do not have observable prices. We have generally applied a cost approach in estimating the fair values of acquired intangible assets, with the number of working hours required to recreate the intangible asset being a significant input to the estimate. Our estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and, as a result, actual results may differ from estimates.

Stock-based compensation

We estimate the fair value of stock options with only service-based conditions and purchase rights granted under our 2021 Employee Stock Purchase Plan, or the ESPP, on the date of grant using the Black-Scholes-Merton option-pricing model. The model requires management to make a number of estimates and assumptions, including the fair value of our underlying common stock (prior to listing our Class A common stock on the Nasdaq Global Select Market), expected volatility of our underlying common stock, expected term of the stock option, and expected dividend yield. The expected term of the stock option is based on the average period the stock option is expected to remain outstanding based on the stock option's vesting and contractual terms. The expected stock price volatility assumption for our common stock is determined by using a weighted average of the historical stock price volatilities of comparable companies from a representative peer group, as sufficient trading history for our common stock is not available.

Common stock valuations

Prior to the Direct Listing of our Class A common stock on the Nasdaq Global Select Market, the fair value of our common stock was determined by our board of directors, with input from management, taking into account our most recent valuations from an independent third-party valuation specialist. Our board of directors intended all stock options granted to have an exercise price per share not less than the per share fair value of our common stock on the date of the grant and we believe that our board of directors had the relevant experience and expertise to determine the fair value of our common stock. The valuations of common stock were determined in accordance with the guidance provided by the *American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation*. If stock options were granted a short period of time prior to the date of a valuation report, we retrospectively assessed the fair value used for financial reporting purposes after considering the fair value reflected in the subsequent valuation report and other facts and circumstances on the date of grant as discussed below. The assumptions we used in the models were based on future expectations combined with management judgment and considered numerous and subjective factors to determine the fair value of our common stock as of the date of each option grant, including the following factors:

- the results of contemporaneous valuations performed at periodic intervals by an independent valuation firm;
- the prices, rights, preferences, and privileges of our convertible preferred stock relative to those of our common stock;
- the prices of our convertible preferred stock and common stock sold to investors in arms-length transactions or offered to investors through a tender offer;
- our actual operating and financial performance and estimated trends and prospects for our future performance;
- our stage of development;
- the likelihood of achieving a liquidity event, such as an initial public offering, direct listing, or sale of our company, given prevailing market conditions;
- the lack of marketability involving securities in a private company;
- the market performance of comparable publicly-traded companies; and
- U.S. and global capital market conditions.

In valuing our common stock, our board of directors determined the equity value of our business generally using a weighting of the income and market approach valuation methods with input from management. The income approach estimates value based on the expectation of future cash flows that a company will generate. These future cash flows are discounted to their present values using an appropriate discount rate based on a weighted-average cost of capital and are adjusted to reflect the risks inherent in us achieving these estimated cash flows. The market approach estimates value based on a comparison of the subject company to comparable public companies in a similar line of business. From the comparable companies, a representative market value multiple is determined and then applied to the subject company's financial forecasts to estimate the value of the subject company.

For valuations prior to June 30, 2020, the equity valuation was based on both the income and the market approach valuation methods. Then, the option pricing method, or OPM, was used to allocate equity value to each class of our stock. When we had completed or were expecting to complete a convertible preferred stock financing, the terms and pricing of the financing round were included in the analysis used to estimate our value and the value of our common stock. These methods were consistent with prior valuations.

For valuations as of and subsequent to June 30, 2020, we used a hybrid method utilizing a combination of the option pricing method, or OPM, and the probability-weighted expected return method, or PWERM, in estimating the value of our common stock. Using the PWERM, the value of our common stock was estimated based upon a probability-weighted analysis of varying values for our common stock assuming possible future events for our company, including a scenario of an initial public offering or a direct listing of our common stock on a stock exchange and a scenario assuming continued operation as a private entity. We also applied a discount for lack of marketability to account for a lack of access to an active public market.

Application of these approaches involved the use of estimates, judgment, and assumptions that were highly complex and subjective, such as those regarding our expected future revenue, expenses, and future cash flows, discount rates, market multiples, the selection of comparable companies, and the probability of possible future events. Changes in any or all of these estimates and assumptions or the relationships between those assumptions would have impacted our valuations as of each valuation date and may have had a material impact on the valuation of our common stock.

Our board of directors' assessments of the fair value of our common stock for grant dates between the dates of an available third-party valuation report were based in part on the current available financial and operational information and the fair market value provided in the most recent available third-party valuation report as compared to the timing of each grant.

Following our Direct Listing, we use the closing price of our Class A common stock as reported on The Nasdaq Global Select Market on the date of grant for the fair value of our common stock, which is used in valuing stock options and RSUs and purchase rights under our ESPP. Future expense amounts for any particular period could be affected by changes in assumptions or market conditions.

Income taxes

We utilize the asset and liability method for computing our income tax provision. Deferred tax assets and liabilities reflect the expected future consequences of temporary differences between the financial reporting and tax bases of assets and liabilities as well as operating loss, capital loss, and tax credit carryforwards, using enacted tax rates. Management makes estimates, assumptions, and judgments to determine our provision for income taxes, deferred tax assets and liabilities, and any valuation allowance recorded against deferred tax assets. We assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we establish a valuation allowance.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. Interest and penalties related to unrecognized tax benefits are recognized within provision for income taxes.

For U.S. federal tax purposes, crypto asset transactions are treated on the same tax principles as property transactions. We recognize a gain or loss when crypto assets are exchanged for other property, in the amount of the difference between the fair market value of the property received and the tax basis of the exchanged crypto assets. Receipts of crypto assets in exchange for goods or services are included in taxable income at the fair market value on the date of receipt.

Recent Accounting Pronouncements

See *Note 2. Significant Accounting Policies*, of the notes to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for a discussion about new accounting pronouncements adopted and not yet adopted as of the date of this report.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the accompanying notes thereto included elsewhere in this Annual Report on Form 10-K. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those identified below and those discussed in the section titled Risk Factors in Part I, Item 1A of this Annual Report on Form 10-K. Unless otherwise expressly stated or the context otherwise requires, references to "we," "our," "us," "the Company," and "Coinbase" refer to Coinbase Global, Inc. and its consolidated subsidiaries.

Discussions of year-to-year comparisons between 2021 and 2020 are not included in this Annual Report on Form 10-K, and can be found in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II - Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on February 25, 2022.

Executive Overview

This executive overview of Management's Discussion and Analysis of Financial Condition and Results of Operations highlights selected information and does not contain all of the information that is important to readers of this Annual Report on Form 10-K.

2022 was a challenging year for crypto markets and our transaction revenues. As macroeconomic indicators like inflation remained high and interest rates rose throughout the year, crypto market capitalization declined along with broader equity markets. These weakening market conditions became exacerbated by two idiosyncratic events. The first was the depegging of $LUNA in the second quarter of 2022, which contributed to an approximately 60% crypto market capitalization decline in that quarter and exposed poor risk management practices in crypto, and ultimately helped drive the credit related bankruptcies of Three Arrows Capital, Voyager, and Celsius. The second event was the collapse of FTX in the fourth quarter of 2022, which was the result of fraud, and helped drive additional credit related bankruptcies.

For the year ended December 31, 2022, our total net revenue was $3.1 billion, including $2.4 billion in transaction revenue. For the year ended December 31, 2021, we generated $7.4 billion of total net revenue, including $6.8 billion in transaction revenue.

Subscription and services revenue was $792.6 million for the year ended December 31, 2022 and $517.5 million for the year ended December 31, 2021.

For the year ended December 31, 2022, our net loss was $2.6 billion, and Adjusted EBITDA loss was $371.4 million. For the year ended December 31, 2021, our net income was $3.6 billion and Adjusted EBITDA was $4.1 billion.

Crypto remains volatile and we have limited ability to forecast our transaction revenues which remain correlated with crypto market capitalization and crypto asset volatility. In addition to our focus on cost reduction and efficiency, we are more rigorously assessing our product-market fit, and taking a scrappier approach to investments in new and unproven products by, for example, getting back to smaller team sizes. We are controlling what we can control and contingency planning for what we cannot. You can expect us to be nimble and adapt to the market if conditions evolve outside the range of scenarios we have currently planned for.

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Key Business Metrics

In addition to the measures presented in our consolidated financial statements, we have historically used the key business metrics below to evaluate our business, measure our performance, identify trends affecting our business, and make strategic decisions:

	Year Ended December 31,			% Change	
	2022	2021	2020	2022	2021
Verified Users *(in millions)*	110	89	43	24 %	107 %
MTUs[1] *(in millions)*	8.3	11.2	2.8	(26)	300
Assets on Platform *(in billions)*	$ 80	$ 278	$ 90	(71)	209
Trading Volume *(in billions)*	$ 830	$ 1,671	$ 193	(50)	766
Net (loss) income *(in millions)*	$ (2,625)	$ 3,624	$ 322	(172)	1,025
Adjusted EBITDA[2] *(in millions)*	$ (371)	$ 4,090	$ 527	(109)	676

(1) We previously identified an issue in the calculation of our Monthly Transacting Users metric related to the complexity in measuring users and activity in self-custodial products (notably Coinbase Wallet) that resulted in the overstatement of the MTU figures previously disclosed as of December 31, 2021. Accordingly, the MTU metric as of December 31, 2021 was revised from 11.4 million to 11.2 million to reflect our estimate of the overstatement.

(2) Please see the section titled *Non-GAAP Financial Measure* below for a reconciliation of net (loss) income to Adjusted EBITDA and an explanation for why we consider Adjusted EBITDA to be a helpful metric for investors.

As previewed in our prior periodic filing, following an evaluation of our key business metrics, we plan to update our key business metrics to better align with business performance and how management views the business. Accordingly, based on our evaluation of our Verified Users metric, we do not believe this metric, which is an indicator of the scale of our platform, provides meaningful information related to our business performance. Verified Users do not track user activities leading to revenue generation and, as a result, are not indicative of our overall performance, including with respect to our revenue and operating results and, therefore, we believe that this metric no longer provides valuable insight into our business performance. Accordingly, we do not plan to report the number of Verified Users in our future periodic filings, beginning with our Quarterly Report on Form 10-Q for the three months ending March 31, 2023. Additionally, we will no longer include our Assets on Platform metric as part of our key business metrics disclosure given that this information is available elsewhere in our periodic filings. As a result of the issuance of Staff Accounting Bulletin No. 121 (“SAB 121”) by the SEC staff, investors may calculate the Assets on Platform metric by aggregating our “customer crypto liabilities” and our “customer custodial cash liabilities,” which are provided on our consolidated balance sheets.

Lastly, given that crypto markets and our revenue sources continue to evolve, we believe there may be further opportunity to evolve our key business metrics disclosures to better align with business performance, which we will continue to evaluate as the cryptoeconomy further develops. Based on this evaluation, we may determine to change or eliminate our current key business metrics in future filings we make with the SEC.

Verified Users

We define “Verified Users” as all consumers, institutions, and developers that have registered an account on our platform and confirmed either their email address or phone number, or that have established an account with a username on our non-custodial wallet application, as of the date of measurement. Verified Users are an indication of our scale. These customers have demonstrated an interest in our platform or direct intent to transact with crypto assets. Verified Users represent the top level of our customer acquisition funnel. Verified Users may overstate the number of unique customers who have registered an account on our platform as one customer may register for, and use, multiple accounts with different email addresses, phone numbers, or usernames.

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Monthly Transacting Users

We define an "MTU" as a consumer who actively or passively transacts in one or more products on our platform at least once during the rolling 28-day period ending on the date of measurement. MTUs presented for the end of a quarter are the average of each month's MTUs in each respective quarter. MTUs presented as of the end of a year represent the MTUs for the last quarter of that year. The annual average MTUs for the years ended December 31, 2022, 2021, and 2020 were 8.8 million, 8.4 million, and 1.9 million, respectively. MTUs represent our transacting base of consumers who drive potential revenue generating transactions on our platform. MTUs engage in transactions that generate both transaction revenue and subscription and services revenue. Revenue-generating transactions include active transactions such as buying or selling crypto assets through our Invest product or passive transactions such as earning a staking reward. MTUs also engage in transactions that are non-revenue generating such as send and receive. MTUs may overstate the number of unique consumers due to differences in product architecture or user behavior.

Assets on Platform

We define "Assets on Platform" as the aggregate of "customer crypto liabilities" and "customer custodial cash liabilities," each as set forth on our consolidated balance sheets.

Assets on Platform demonstrates the scale of balances held across our suite of products and services, the trust customers place in us to securely store their assets, and the underlying growth of the cryptoeconomy. Assets on Platform also represent our monetization opportunity for subscription products and services, including current products such as Custody, Stake, Borrow, and Lend. Assets on Platform generate fees that are recorded as subscription and services revenue when customers engage with these products.

The value of Assets on Platform is driven by three factors – the price, quantity, and type of crypto assets held by customers on our platform. Changes in the price and quantity, particularly for Bitcoin and Ethereum, or type of crypto asset held on our platform, can result in the increase or decrease in Assets on Platform in a particular period. Our Assets on Platform by asset are as follows:

	As of December 31,			% Change	
	2022	2021	2020	2022	2021
Assets on Platform:					
Bitcoin	41 %	40 %	70 %	3 %	(43)%
Ethereum[1]	26	25	13	4	92
USDC	1	1	—	—	100
Other crypto assets	26	30	13	(13)	131
Fiat	6	4	4	50	—
Total	100 %	100 %	100 %		

(1) Ethereum included $3.0 billion and $5.8 billion of Ethereum 2 as of December 31, 2022 and 2021, respectively.

As of December 31, 2022 and 2021, no asset other than Bitcoin and Ethereum individually represented more than 10% of our Assets on Platform.

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Trading Volume

We define "Trading Volume" as the total U.S. dollar equivalent value of spot matched trades transacted between a buyer and seller through our platform during the period of measurement. Trading Volume represents the product of the quantity of asset transacted and the trade price at the time the transaction was executed. As trading activity directly impacts transaction revenue, we believe this measure is a reflection of liquidity on our order books, trading health, and the underlying growth of the cryptoeconomy. Generally, Trading Volume on our platform is primarily influenced by the price of crypto assets, Crypto Asset Volatility and macroeconomic conditions. In periods of high crypto asset prices and Crypto Asset Volatility, we have experienced correspondingly high levels of Trading Volume on our platform. Our Trading Volume in future periods will depend on the relative availability and adoption of Bitcoin, Ethereum, and other crypto assets.

	Year Ended December 31,			% Change	
	2022	2021	2020	2022	2021
Trading Volume (in billions):					
Consumer	$ 167	$ 535	$ 73	(69)%	633 %
Institutional	663	1,136	120	(42)	847
Total	$ 830	$ 1,671	$ 193	(50)	766
Trading Volume by crypto asset:					
Bitcoin	29 %	24 %	41 %	21	(41)
Ethereum	25	21	15	19	40
Other crypto assets	45	55	44	(18)	25
Total[(1)]	100 %	100 %	100 %		
Transaction revenue by crypto asset:					
Bitcoin	29 %	25 %	44 %	16	(43)
Ethereum	22	21	12	5	75
Other crypto assets	49	54	44	(9)	23
Total	100 %	100 %	100 %		

(1) Figures presented above may not sum precisely due to rounding.

Trading Volume decreased 50% for the year ended December 31, 2022 compared to the year ended December 31, 2021. The decrease in Trading Volume was driven by steep declines in both average crypto asset prices and total crypto spot market volumes associated with macroeconomic challenges during the year ended December 31, 2022. In addition, Crypto Asset Volatility decreased 32% for the year ended December 31, 2022 compared to the year ended December 31, 2021.

During the years ended December 31, 2022 and 2021, no asset other than Bitcoin and Ethereum individually represented more than 10% of our Trading Volume or transaction revenue, respectively.

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Components of Results of Operations

Net revenue

Transaction revenue

Net revenue consists of transaction revenue generated from transaction fees from trades that occur on our platform. The transaction fee earned is based on the price and quantity of the crypto asset that is bought, sold, or converted. Transaction revenue is recognized at the time the transaction is processed and is directly correlated with Trading Volume.

Subscription and services revenue

Subscription and services revenue primarily consists of:

- Blockchain rewards: We derive blockchain rewards through various blockchain protocols. These blockchain protocols, or the participants that form the protocol networks, reward users for performing various activities on the blockchain, such as participating in proof-of-stake networks. We earn blockchain rewards on crypto assets.

  Our staking revenue is included within blockchain rewards. Our blockchain services offered as part of Coinbase Cloud's blockchain infrastructure solutions are included in other subscription and services revenue.

- Custodial fee revenue: We derive custodial fee revenue based on a percentage of the daily value of customer crypto assets that we hold under custody in our dedicated cold storage solution. The value of crypto assets held under custody is driven by the quantity, price, and type of crypto asset.

- Interest income: We earn income on fiat funds under a revenue sharing arrangement with the issuer of USDC, pursuant to which we share any interest income generated from USDC reserves pro rata based on (i) the amount of USDC distributed by each respective party and (ii) the amount of USDC held on each respective party's platform. Our income is dependent on the balance of such fiat funds and the prevailing interest rate environment. We also earn interest income on loans issued to our consumers and institutional users. Additionally, we hold customer custodial funds and cash and cash equivalents at certain third-party banks which earn interest. Interest earned on revenue sharing, customer custodial funds, and loans is included in interest income within subscription and services revenue. Interest earned on cash and cash equivalents is included in corporate interest and other income, within other revenue.

- Other: Other subscription and services revenue primarily includes revenue from Coinbase Cloud, which includes staking application, delegation, and infrastructure services, subscription revenue from Coinbase One, Learning Rewards (formerly "Earn") campaign revenue, and revenue from other subscription licenses.

Other revenue

Other revenue includes the sale of crypto assets when we are the principal in the transaction. Periodically, as an accommodation to customers, we may fulfill customer transactions using our own crypto assets. We fulfill customer accommodation transactions using our own assets for orders that do not meet the minimum trade size for execution on our platform or to maintain customers' trade execution and processing times during unanticipated system disruptions. We have custody and control of these crypto assets prior to the sale to the customer and record revenue at the point in time when the sale is processed. Accordingly, we record the total value of the sale as revenue and the cost of the crypto asset in other operating expense, net. Transactions involving our sale of crypto assets represented less than 0.1% of our total revenue for the year ended December 31, 2022.

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Other revenue also includes interest income earned primarily on our corporate cash and cash equivalents. Interest income is calculated using the interest method and depends on the balance of cash and cash equivalents as well as the prevailing interest rate environment.

Operating expenses

Operating expenses consist of transaction expense, technology and development, sales and marketing, general and administrative, restructuring, and other operating expense, net.

Transaction expense

Transaction expense includes costs incurred to operate our platform, process crypto asset trades, and perform wallet services. These costs include account verification fees, miner fees to process transactions on blockchain networks, fees paid to payment processors and other financial institutions for customer transaction activity, and crypto asset losses due to transaction reversals. Transaction expense also includes rewards paid to users for staking activities conducted by us. Fixed-fee costs are expensed over the term of the contract and transaction-level costs are expensed as incurred.

Technology and development

Technology and development expenses include personnel-related expenses incurred in operating, maintaining, and enhancing our platform. These costs also include website hosting, infrastructure expenses, costs incurred in developing new products and services and the amortization of acquired developed technology.

Sales and marketing

Sales and marketing expenses primarily include costs related to customer acquisition, advertising and marketing programs, and personnel-related expenses. Sales and marketing costs are expensed as incurred.

General and administrative

General and administrative expenses include personnel-related expenses incurred to support our business, including executive, customer support, compliance, finance, human resources, legal, and other support operations. These costs also include software subscriptions for support services, facilities and equipment costs, depreciation, amortization of acquired customer relationship intangible assets, gains and losses on disposal of fixed assets, legal reserves and settlements, and other general overhead. General and administrative costs are expensed as incurred.

Restructuring

Restructuring expenses primarily consist of non-recurring costs and severance for employees related to reductions in our headcount during the year ended December 31, 2022. For more information, see *Note 3. Restructuring* of the Notes to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Other operating expense, net

Other operating expense, net includes impairment and realized gains on the sale of crypto assets, realized gains and losses resulting from the settlement of derivative instruments, and fair value gains and losses related to derivatives and derivatives designated in qualifying fair value hedge accounting relationships.

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Other operating expense, net also includes the cost of our crypto assets used to fulfill customer accommodation transactions. Periodically, as an accommodation to customers, we may fulfill customer transactions using our own crypto assets held for operating purposes. We have custody and control of the crypto assets prior to the sale to the customer. Accordingly, we record the total value of the sale in other revenue and the cost of the crypto asset in other operating expense, net.

Interest expense

Interest expense on debt includes coupon interest expense, as well as amortization of debt discounts and debt issuance costs.

Other expense (income), net

Other expense (income), net includes the following items:

- gains and losses on investments, net, which consists primarily of realized and unrealized gains and losses from fair value adjustments on investments;
- realized impacts on foreign exchange resulting from the settlement of our foreign currency assets, liabilities and foreign exchange forward contracts, as well as unrealized impacts on foreign exchange resulting from remeasurement of transactions and monetary assets and liabilities denominated in non-functional currencies; and
- impairment recognized on certain strategic equity investments in privately held companies without readily determinable fair values.

(Benefit from) provision for income taxes

(Benefit from) provision for income taxes includes income taxes related to foreign jurisdictions and U.S. federal and state income taxes.

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Results of Operations

The following table summarizes the historical consolidated statements of operations data:

	Year Ended December 31,		
	2022	2021	2020
		(in thousands)	
Revenue:			
Net revenue	$ 3,148,815	$ 7,354,753	$ 1,141,167
Other revenue	45,393	484,691	136,314
Total revenue	3,194,208	7,839,444	1,277,481
Operating expenses:			
Transaction expense	629,880	1,267,924	135,514
Technology and development	2,326,354	1,291,561	271,732
Sales and marketing	510,089	663,689	56,782
General and administrative	1,600,586	909,392	279,880
Restructuring	40,703	—	—
Other operating expense, net	796,804	630,308	124,622
Total operating expenses	5,904,416	4,762,874	868,530
Operating (loss) income	(2,710,208)	3,076,570	408,951
Interest expense	88,901	29,160	—
Other expense (income), net	265,473	20,463	(248)
(Loss) income before income taxes	(3,064,582)	3,026,947	409,199
(Benefit from) provision for income taxes	(439,633)	(597,173)	86,882
Net (loss) income	$ (2,624,949)	$ 3,624,120	$ 322,317

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The following table presents the components of the consolidated statements of operations data as a percentage of total revenue:

	Year Ended December 31,		
	2022	2021	2020
		(as a % of total revenue)[1]	
Total revenue	100 %	100 %	100 %
Operating expenses:			
Transaction expense	20	16	11
Technology and development	73	16	21
Sales and marketing	16	9	4
General and administrative	50	12	22
Restructuring	1	—	—
Other operating expense, net	25	8	10
Total operating expenses	185	61	68
Operating (loss) income	(85)	39	32
Interest expense	3	—	—
Other expense (income), net	8	—	—
(Loss) income before income taxes	(96)	39	32
(Benefit from) provision for income taxes	(14)	(7)	7
Net (loss) income	(82)%	46 %	25 %

(1) Figures presented above may not sum precisely due to rounding.

Comparison of the years ended December 31, 2022 and 2021

Revenue

	Year Ended December 31,			% Change	
	2022	2021	2020	2022	2021
		(in thousands)			
Transaction revenue	$ 2,356,244	$ 6,837,266	$ 1,096,174	(66)%	524 %
Subscription and services revenue	792,571	517,487	44,993	53	1,050
Other revenue	45,393	484,691	136,314	(91)	256
Total revenue	$ 3,194,208	$ 7,839,444	$ 1,277,481	(59)	514

Transaction revenue for the year ended December 31, 2022 decreased by $4.5 billion compared to the year ended December 31, 2021, primarily due to the following:

- a decrease in consumer Trading Volume of 69% due to a decrease in crypto market capitalization including the average crypto asset prices; and
- a decline in Crypto Asset Volatility by 32%. Trading Volume on our platform is generally correlated with Crypto Asset Volatility.

A number of factors contribute to changes in crypto asset prices and Crypto Asset Volatility, including, but not limited to, changes in the supply and demand for a particular crypto asset, crypto market sentiment, macroeconomic factors, utility of a particular crypto asset, and idiosyncratic events.

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Subscription and services revenue for the year ended December 31, 2022 increased by $275.1 million compared to the year ended December 31, 2021, due to the following:

- an increase in interest income of $301.1 million due to an increased return on our revenue sharing arrangement with the issuer of USDC and on interest-bearing customer custodial funds, driven by an increase in interest rates; and
- an increase in blockchain rewards of $52.5 million due to the addition of new assets available for staking such as Solana and Cardano in 2022 and increased staking activity primarily due to Ethereum 2 Staking which was launched in the second quarter of 2021; offset by
- a decrease in custodial fee revenue of $56.4 million due to a decrease in the average assets under custody of $48.3 billion over the same period. The decline in average assets under custody was primarily driven by a decrease in the price of crypto assets under custody; and
- a decrease in other subscription and services revenue of $22.0 million due to a decrease in Learning Rewards campaign revenue and a decrease in participation and delegation revenue, partially offset by an increase in subscription fees for Coinbase One which was launched in the fourth quarter of 2021.

Other revenue for the year ended December 31, 2022 decreased by $439.3 million compared to the year ended December 31, 2021 due to a decrease in crypto asset sales revenue over the same period. A system disruption which occurred on May 19, 2021 as a result of an unprecedented short term spike in Trading Volume as well as the exchange disruption on September 7, 2021 were primarily responsible for the increase in crypto asset sales during the year ended December 31, 2021.

We generate revenue from crypto asset sales where the transactions are fulfilled with our crypto assets to accommodate customers, primarily as a result of unanticipated system disruptions. For the year ended December 31, 2022, we did not experience any unanticipated system disruptions with material impact to our financial results compared to 16 unanticipated system disruptions for the year ended December 31, 2021. The number of unanticipated system disruptions declined during the year ended December 31, 2022 as we continued to make significant investments in infrastructure to support trading volumes on our platform.

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Operating expenses

	Year Ended December 31,			% Change	
	2022	2021	2020	2022	2021
		(in thousands)			
Transaction expense	$ 629,880	$ 1,267,924	$ 135,514	(50)%	836 %
Technology and development	2,326,354	1,291,561	271,732	80	375
Sales and marketing	510,089	663,689	56,782	(23)	1,069
General and administrative	1,600,586	909,392	279,880	76	225
Restructuring	40,703	—	—	100	—
Other operating expense, net	796,804	630,308	124,622	26	406
Total operating expenses	$ 5,904,416	$ 4,762,874	$ 868,530	24	448

Transaction expense for the year ended December 31, 2022 decreased by $638.0 million, compared to the year ended December 31, 2021. Transaction expense as a percentage of net revenue was 20.0% and 17.2% during the years ended December 31, 2022 and 2021, respectively. Our transaction expenses as a percentage of net revenue will vary depending on the composition of our revenue. For example, over the years ended December 31, 2022 and 2021, blockchain rewards revenues have grown, and these revenues have a higher transaction expense as a percentage of net revenue compared to transaction fees or interest income.

The decrease in transaction expense for the year ended December 31, 2022, compared to the year ended December 31, 2021, was driven by the following:

- a decrease of $411.2 million related to miner fees driven by a decrease in blockchain transmission volume, both related to customer withdrawals and corporate wallet movements, lower blockchain network fees such as Ethereum gas prices, and significant investments in batching and other optimizations in on-chain activity;
- a decrease of $147.0 million related to lower payment processing fees driven by lower settled trading volume; and
- a decrease of $139.9 million related to transaction reversal losses driven by lower transaction volumes; offset by
- an increase of $55.7 million related to an increase in blockchain activities associated with rewards paid or payable to users from blockchain activities such as staking.

Technology and development expenses for the year ended December 31, 2022 increased by $1.0 billion compared to the year ended December 31, 2021, predominantly due to the following:

- an increase of $680.3 million in personnel-related expenses, including a $518.9 million increase in stock-based compensation expense, primarily due to an 87% increase in average headcount and the full-year impact of equity instruments issued in conjunction with business combinations that occurred throughout 2021 and early in 2022;
- an increase of $198.1 million in software and service costs, driven by continued investment in our products and platform, along with an increase in headcount driven by software licenses; and
- an increase of $83.4 million in amortization expense, related to amortization on capitalized software and assembled workforce.

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Sales and marketing expenses for the year ended December 31, 2022 decreased by $153.6 million compared to the year ended December 31, 2021. Sales and marketing expenses as a percentage of net revenue were 16.2% and 9.0% during the years ended December 31, 2022 and 2021, respectively.

The decrease in sales and marketing expenses for the year ended December 31, 2022 compared to the year ended December 31, 2021, was due to the following:

- a decrease of $316.5 million in digital advertising spend due to lower investment in paid media in 2022; and
- a decrease of $32.4 million in referral and promotion fees related to marketing initiatives such as sweepstakes and incentivized campaigns; offset by
- an increase of $128.7 million related to higher offline and brand spend; and
- an increase of $59.6 million in personnel-related expenses, including a $41.2 million increase in stock-based compensation expense, due to a 109% increase in average headcount.

General and administrative expenses for the year ended December 31, 2022 increased by $691.2 million compared to the year ended December 31, 2021 predominantly driven by the following:

- an increase of $290.1 million in customer support costs due to an increase in managed services to support compliance operations and customer experience, as a result of increased capacity needs to address backlogs from 2021, and an increase in personnel-related expenses;
- an increase of $230.6 million in personnel-related expenses excluding customer support, including a $149.4 million increase in stock-based compensation expense, primarily due to a 92% increase in average headcount;
- an increase of $75.1 million in settlement costs largely due to a one-time settlement cost accrual of $50.0 million with NYDFS in 2022;
- an increase of $71.0 million in professional services due to higher legal fees related to litigation, regulatory, compliance and business consulting; and
- an increase of $22.1 million in software license costs to support business, security and risk applications; offset by
- a decrease of $39.2 million in direct listing costs associated with our Direct Listing in the second quarter of 2021.

Restructuring expenses were $40.7 million for the year ended December 31, 2022. The $40.7 million is driven by separation pay and other personnel costs related to the workforce reduction in June 2022. There were no restructuring expenses for the year ended December 31, 2021.

Other operating expense, net for the year ended December 31, 2022 increased by $166.5 million compared to the year ended December 31, 2021, predominantly driven by the following:

- an increase of $428.1 million related to gross impairment charges on crypto assets held;
- an increase of $19.2 million due to certain platform-related incidents losses; and
- a decrease of $137.3 million in crypto asset realized gains; offset by
- a decrease of $435.4 million attributed to the decrease in the crypto assets sold in order to fulfill customer accommodation transactions, primarily as a result of a decrease in unanticipated system disruptions.

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Interest expense

	Year Ended December 31,			% Change	
	2022	2021	2020	2022	2021
	(in thousands)				
Interest expense	$ 88,901	$ 29,160	$ —	205 %	100 %

During the year ended December 31, 2022, we had interest expense on debt of $88.9 million compared to $29.2 million for the year ended December 31, 2021. The increase in interest expense was predominantly due to a full-year impact of interest expense recognized on our Convertible Notes that were issued in May 2021 and our Senior Notes that were issued in September 2021.

Other expense (income), net

	Year Ended December 31,			% Change	
	2022	2021	2020	2022	2021
	(in thousands)				
Other expense (income), net	$ 265,473	$ 20,463	$ (248)	1,197 %	(8,351)%

Other expense (income), net for the year ended December 31, 2022 increased by $245.0 million compared to the year ended December 31, 2021 due to the following:

- an increase in net unrealized and realized losses related to foreign exchange of $61.7 million due to the timing of Euro denominated intercompany settlements and depreciation of the Euro and British Pound against the U.S. dollar;
- realized losses on foreign exchange forward derivative contracts of $59.1 million; and
- an increase in impairment expense recognized on certain strategic equity investments of $101.4 million; offset by
- a decrease in net realized and unrealized gains on investments of $19.4 million related to gains recorded during 2021 primarily due to the remeasurement gain of $8.8 million during the year ended December 31, 2021 related to our previously held investment in Bison Trails, as a result of the acquisition that occurred in February 2021 and other investment gains of $8.1 million.

(Benefit from) provision for income taxes

	Year Ended December 31,			% Change	
	2022	2021	2020	2022	2021
	(in thousands)				
(Benefit from) provision for income taxes	$ (439,633)	$ (597,173)	$ 86,882	(26)%	(787)%

The benefit from income taxes decreased by $157.5 million for the year ended December 31, 2022 compared to the year ended December 31, 2021 predominantly driven by a reduction in tax benefits relating to stock-based compensation and research and development credits, and a valuation allowance recorded on impairment charges, offset by an increase in tax benefit on pretax loss.

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Non-GAAP Financial Measure

In addition to our results determined in accordance with GAAP, we believe Adjusted EBITDA, a non-GAAP measure, is useful in evaluating our operating performance. We use Adjusted EBITDA to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that Adjusted EBITDA may be helpful to investors because it provides consistency and comparability with past financial performance. However, Adjusted EBITDA is presented for supplemental informational purposes only, has limitations as an analytical tool, and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. Among other non-cash and non-recurring items, Adjusted EBITDA excludes stock-based compensation expense, which has recently been, and will continue to be for the foreseeable future, a significant recurring expense for our business and an important part of our compensation strategy. In addition, other companies, including companies in our industry, may calculate similarly titled non-GAAP measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our non-GAAP financial measures as tools for comparison. A reconciliation is provided below for each non-GAAP financial measure to the most directly comparable financial measure stated in accordance with GAAP. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measures, and not to rely on any single financial measure to evaluate our business.

We calculate Adjusted EBITDA as net loss or income, adjusted to exclude provision for or benefit from income taxes, depreciation and amortization, interest expense, crypto asset borrowing costs, stock-based compensation expense, crypto asset impairment, net, impairment on investments, other impairment, non-recurring Direct Listing expenses, restructuring, change in unrealized foreign exchange, fair value gain or loss on derivatives, non-recurring legal reserves and related costs, and other adjustments, net.

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The following table provides a reconciliation of net (loss) income to Adjusted EBITDA:

	Year Ended December 31, 2022	2021	2020
		(in thousands)	
Net (loss) income	$ (2,624,949)	$ 3,624,120	$ 322,317
Adjusted to exclude the following:			
(Benefit from) provision for income taxes	(439,633)	(597,173)	86,882
Depreciation and amortization	154,069	63,651	30,962
Interest expense	88,901	29,160	—
Crypto asset borrowing costs	6,675	11,847	2,634
Stock-based compensation	1,565,823	820,685	69,889
Crypto asset impairment, net[(1)]	592,495	119,421	8,355
Impairment on investments	101,445	—	—
Other impairment[(2)]	26,518	500	—
Non-recurring Direct Listing expenses	—	39,160	—
Restructuring	40,703	—	—
Change in unrealized foreign exchange	28,516	(14,944)	1,057
Fair value loss (gain) on derivatives	7,410	(32,056)	5,254
Non-recurring legal reserves and related costs	64,250	1,500	—
Other adjustments, net	16,379	24,200	—
Adjusted EBITDA	$ (371,398)	$ 4,090,071	$ 527,350

(1) Crypto asset impairment, net represents impairment on crypto assets still held.
(2) Other impairment represents impairment on intangible assets of $4.7 million and $0.5 million for the years ended December 31, 2022 and 2021, respectively, and impairment on property and equipment of $21.8 million for the year ended December 31, 2022.

Liquidity and Capital Resources

Cash and cash equivalents, restricted cash and USDC

As of December 31, 2022, we had cash and cash equivalents of $4.4 billion, exclusive of restricted cash and customer custodial funds. As of December 31, 2022 and 2021, our cash and cash equivalents, restricted cash, USDC and cash collateral balance consisted of the following (in millions):

	Year Ended December 31, 2022	2021
Cash and cash equivalents:		
Cash equivalents[(1)]	$ 2,250.1	$ 4,813.6
Cash held at banks	2,031.7	2,141.0
Cash held at venues	143.2	168.9
Total cash and cash equivalents	$ 4,425.0	$ 7,123.5
Restricted cash[(2)]	$ 25.9	$ 31.0
USDC[(3)]	861.1	100.1

(1) Cash equivalents consists of money market funds primarily denominated in U.S. dollars.
(2) Restricted cash consists primarily of amounts held in restricted bank accounts at certain third-party banks as security deposits or pledged as collateral to secure letters of credit.
(3) USDC is a stablecoin which can be redeemed one USDC for one U.S. dollar on demand. While not accounted for as cash or cash equivalents, we treat our USDC holdings as a liquidity resource.

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Debt

In September 2021, we issued $2.0 billion in Senior Notes consisting of $1.0 billion of 2028 Senior Notes due on October 1, 2028 and $1.0 billion of 2031 Senior Notes due on October 1, 2031. In May 2021, we issued an aggregate of $1.4 billion of 2026 Convertible Notes that mature on June 1, 2026, unless converted, redeemed or repurchased on an earlier date. We periodically issue short-term debt to support certain business operations. See *Notes 12. Accrued Expenses and Other Current Liabilities* and *13. Indebtedness* of the Notes to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K for further information regarding our short and long-term borrowings, respectively.

In August 2022, S&P Global Ratings announced a downgrade of our issuer credit rating and senior unsecured debt from BB+ to BB. In January 2023, S&P Global Ratings announced an additional downgrade of our issuer credit rating and senior unsecured debt from BB to BB-.

In June 2022, Moody's Investors Service ("Moody's") announced a downgrade of our Corporate Family Rating ("CFR") to Ba3 from Ba2 and downgraded our guaranteed senior unsecured notes to Ba2 from Ba1. In January 2023, Moody's announced additional downgrades of our CFR to B2 from Ba3 and our guaranteed senior unsecured notes to B1 from Ba2.

Crypto assets

Our crypto asset investment policy allows us to invest up to 10% of our quarterly net income into a diversified portfolio of crypto assets. Our investments will be deployed over a multi-quarter window. We continue to execute these trades away from our crypto asset trading platform to avoid any conflict of interest with our customers. We may increase or decrease our allocation over time.

As of December 31, 2022, we held $356.2 million of crypto assets for investment and operating purposes at impaired cost. Our future earnings and cash flows will be impacted when we choose to monetize our crypto assets and the variability of our earnings will be dependent on the future fair value of such crypto assets. We have limited ability to predict whether the sale of crypto assets received from airdrops or forks will be material to our future earnings, which is dependent on the future market liquidity, viability and fair value of such crypto assets. Our current policy is not to monetize unsupported forks or airdrops held on our platform. Crypto assets received through airdrops and forks, at the time of the airdrop or fork and at the end of the periods presented, are not material to our financial statements.

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As of December 31, 2022 and 2021, the cost basis and fair value of our crypto assets held at impaired cost was as follows:

	Year Ended December 31,							
	2022				2021			
	Cost(1)		Fair Value(2)		Cost(1)		Fair Value(2)	
	(in millions)							
Crypto assets held as investments:								
Bitcoin(3)	$	111.6	$	151.8	$	87.9	$	265.8
Ethereum(3)		91.2		138.7		46.1		167.1
Other		85.9		135.8		75.4		263.1
Total crypto assets held as investments		288.7		426.3		209.4		696.0
Crypto assets held for operating purposes:								
Bitcoin		5.4		5.8		95.5		97.9
Ethereum		24.4		25.8		58.2		75.4
Other		37.7		59.1		203.4		267.5
Total crypto assets held for operating purposes		67.5		90.7		357.1		440.8
Total crypto assets held	$	356.2	$	517.0	$	566.5	$	1,136.8

(1) Cost amounts shown are net of impairment recognized.
(2) The fair value of crypto assets held is based on quoted market prices for one unit of each crypto asset reported on our platform at 11:59 pm Coordinated Universal Time (UTC) on the last day of the respective period multiplied by the quantity of each crypto asset held.
(3) During the fourth quarter of 2022, we entered into futures contracts to hedge our price exposure on crypto assets held as investments. As of December 31, 2022, the cost and fair value amounts for Bitcoin were $89.9 million and $85.8 million, respectively, and the cost and fair value amounts for Ethereum were $43.7 million and $50.8 million, respectively.

We view our crypto asset investments as long term holdings and we do not plan to engage in regular trading of crypto assets. During times of instability in the market of crypto assets, we may not be able to sell our crypto assets at reasonable prices or at all. As a result, our crypto assets are less liquid than our existing cash and cash equivalents and may not be able to serve as a source of liquidity for us to the same extent as cash and cash equivalents. Customer accommodations and corporate expenses denominated in crypto assets are fulfilled with crypto assets held for operational purposes. We recognized $501.0 million and $43.1 million of impairment expense on our crypto asset investment portfolio for the years ended December 31, 2022 and 2021, respectively.

We enter into fiat and crypto asset borrowing arrangements with certain unaffiliated institutional customers. These borrowings are generally open-term or have a term of less than one year. Certain borrowing arrangements require us to post collateral in the form of fiat or crypto assets, including stablecoins, and the lender may have the right to sell, repledge or rehypothecate such collateral without our consent. We only use our corporate crypto assets, stablecoins, and cash as collateral. We do not use cbETH as corporate collateral.

We are required to maintain a collateral to loan ratio per our borrowing agreements. Any significant change in crypto asset prices could impact the value of the crypto asset borrowed or the value of crypto asset collateral. Current downward trends in crypto asset prices have not had a material impact on the value of our corporate collateral. If crypto asset prices rise, we will post additional collateral to maintain required collateral to loan ratios. We were in compliance with all collateral requirements as of December 31, 2022. See *Risk Factors—We provide secured loans to our customers, which exposes us to credit risks and may cause us to incur financial or reputational harm* included in Part I, Item 1A of this Annual Report on Form 10-K for further information.

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As of December 31, 2022, the balance of our pledged collateral consisted of the following (in millions, except units):

	December 31, 2022	
	Units	Fair Value
Asset		
USDC	47,633,897	$ 47.6
Bitcoin	650	10.8
Fiat	N/A	41.6
Total		$ 100.0

As of December 31, 2021, we did not have any assets pledged as collateral recorded on the consolidated balance sheets.

Customer crypto assets and liabilities

We safeguard customer crypto assets and the associated keys and are obligated to safeguard them from loss, theft, or other misuse. In accordance with recently adopted guidance, SAB 121, we record customer crypto liabilities, as well as a corresponding customer crypto asset on the consolidated balance sheets, at fair value. See *Note 10. Customer Assets and Liabilities* of the Notes to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K, for further information as of December 31, 2022.

As of December 31, 2022, we have not experienced excessive redemptions or withdrawals, or prolonged suspended redemptions or withdrawals, of crypto assets to date. See *Risk Factors - Depositing and withdrawing crypto assets into and from our platform involves risks, which could result in loss of customer assets, customer disputes and other liabilities, which could adversely impact our business.* in Part I, Item 1A of this Annual Report on Form 10-K for further information. We do not use customer crypto assets as collateral for any loan, margin, rehypothecation, or other similar activities without their consent to which we or our affiliates are a party.

Cash requirements and contractual obligations

Certain jurisdictions where we operate require us to hold eligible liquid assets, as defined by applicable regulatory requirements and commercial law in these jurisdictions, equal to at least 100% of the aggregate amount of all customer custodial cash liabilities. Depending on the jurisdiction, eligible liquid assets can include cash and cash equivalents, customer custodial cash, and in-transit customer receivables. As of December 31, 2022 and 2021, our eligible liquid assets were greater than the aggregate amount of customer custodial cash liabilities. We are also required to hold corporate liquid assets at our subsidiaries to meet capital requirements established by our regulators based on the value of crypto assets held in custody. We are in compliance with these capital requirements.

We believe our existing cash and cash equivalents will be sufficient in both the short and long term to meet our requirements and plans for cash, including meeting our working capital and capital expenditure requirements. Our ability to meet our requirements and plans for cash, including meeting our working capital and capital expenditure requirements, will depend on many factors, including market acceptance of crypto assets and blockchain technology, our growth, our ability to attract and retain customers on our platform, the continuing market acceptance of our products and services, the introduction of new subscription products and services on our platform, expansion of sales and marketing activities, and overall economic conditions. We anticipate satisfying our short-term cash requirements with our existing cash and cash equivalents and may satisfy our long-term cash requirements with cash and cash equivalents on hand or with proceeds from a future equity or debt financing.

To the extent that current and anticipated future sources of liquidity are insufficient to fund our future business activities and cash and other requirements, we may be required to seek additional equity or debt financing. The sale of additional equity would result in additional dilution to our stockholders. The incurrence of additional debt financing would result in debt service obligations and the instruments governing such debt could provide for operating and financing covenants that would restrict our operations. As a result of our downgrade, our ability to raise additional financing from external sources in the future may be adversely affected and we may not be able to raise capital on terms acceptable to us or at all. In addition, even if debt financing is available, the cost of additional financing may be significantly higher than our current debt.

Our material cash requirements and contractual obligations arising in the normal course of business primarily consist of operating lease commitments, non-cancelable purchase obligations, debt and related interest payments, and income taxes.

As of December 31, 2022, our material cash requirements and contractual obligations due within the next 12 months and in total consisted of the following (in millions):

	Amounts due	
	Next 12 Months	Total
Operating leases[(1)]	$ 37.0	$ 79.5
Non-cancelable purchase obligations[(2)]	282.6	628.4
2026 Convertible Notes[(3)]		
Interest	7.2	24.6
Principal	—	1,437.5
2028 Senior Notes[(4)]		
Interest	33.8	202.5
Principal	—	1,000.0
2031 Senior Notes[(4)]		
Interest	36.3	326.3
Principal	—	1,000.0
Other[(5)]	50.0	100.0

(1) Lease payments due for corporate offices.
(2) Committed spend primarily relating to technology and advertising.
(3) Assumes the 2026 Convertible Notes are not converted into our Class A common stock, repurchased or redeemed prior maturity.
(4) Assumes the 2028 and 2031 Senior Notes are not repurchased or redeemed prior to maturity.
(5) In January 2023, the NYDFS announced a consent order focused on historical shortcomings in Coinbase, Inc.'s compliance program. Pursuant to the consent order, Coinbase, Inc. has paid a $50.0 million penalty in January 2023 and agreed to invest an additional $50.0 million in its compliance function by the end of 2024.

See *Notes 7. Leases*, *12. Accrued Expenses and Other Current Liabilities, 13. Indebtedness, 19. Income Taxes and 21. Commitments and Contingencies* of the Notes to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K, for further information relating to debt and income taxes as of December 31, 2022.

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Cash flows

	Year Ended December 31,		
	2022	2021	2020
		(in thousands)	
Net cash (used in) provided by operating activities[1]	$ (1,585,419)	$ 4,038,172	$ 293,548
Net cash (used in) provided by investing activities	(663,822)	(1,124,740)	50,822
Net cash (used in) provided by financing activities[1]	(5,838,518)	9,976,084	2,729,323
Net (decrease) increase in cash, cash equivalents, and restricted cash	$ (8,087,759)	$ 12,889,516	$ 3,073,693
Effect of exchange rates on cash, cash equivalents, and restricted cash	$ (163,257)	$ (64,883)	$ (2,081)
Change in customer custodial cash	$ (5,547,481)	$ 6,762,841	$ 2,562,042

(1) See *Note 2. Summary of Significant Accounting Policies - Reclassifications* of the Notes to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K, for further information relating to the change in customer custodial cash liabilities from operating activities to financing activities.

Operating activities

Net cash used in operating activities was $1.6 billion for the year ended December 31, 2022. Our net cash used in operating activities reflected a net loss of $2.6 billion, partially offset by non-cash adjustments of $2.1 billion, which was driven by stock-based compensation expense, crypto asset impairment expense, depreciation and amortization, impairment expense on ventures investments, non-cash lease expense, unrealized losses on foreign exchange, and other impairment expense. This was partially offset by deferred income taxes and realized gains on crypto assets driven by net crypto assets received from operating activities. In addition to these changes were changes in operating assets and liabilities of $1.0 billion.

Net cash provided by operating activities was $4.0 billion for the year ended December 31, 2021. Our net cash provided by operating activities reflected net income of $3.6 billion and non-cash adjustments of $272.6 million, which was driven by benefits from deferred income taxes and realized gains on crypto assets driven by net crypto assets received from operating activities. This was partially offset by stock-based compensation expense, crypto asset impairment expense and depreciation and amortization expense. In addition to these changes were changes in operating assets and liabilities of $141.4 million.

Investing activities

Net cash used in investing activities of $663.8 million for the year ended December 31, 2022 was due to $430.8 million in net outflow for the purchase and sale of crypto assets, $186.2 million in net cash paid in the Unbound Security and FairXchange acquisitions, $63.0 million in investments of companies and technologies and $61.0 million in capitalized internal-use software development costs. This was partially offset by $120.2 million in net inflow for consumer loans repaid and originated.

Net cash used in investing activities of $1.1 billion for the year ended December 31, 2021 was due to $435.1 million in net outflow for the purchase and sale of crypto assets, $326.5 million in investments of companies and technologies, $211.7 million in net outflow for consumer loans originated and repaid, $70.9 million in net cash paid for acquisitions, $60.8 million related to an asset acquisition of technical talent and $22.1 million in capitalized internal-use software development costs.

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Financing activities

Net cash used in financing activities of $5.8 billion for the year ended December 31, 2022 was due to changes in customer custodial cash liabilities of $5.6 billion, $351.9 million of taxes paid related to net share settlements of equity awards and $191.1 million in repayments of short-term borrowings. This was partially offset by $191.0 million of proceeds received from the issuance of short-term borrowings, net of issuance costs, $51.5 million of proceeds from the issuance of common stock from stock option exercises, net of repurchases, and $20.8 million of proceeds received under our employee stock purchase plan.

Net cash provided by financing activities of $10.0 billion for the year ended December 31, 2021, was due to changes in customer custodial cash liabilities of $6.7 billion, $2.0 billion of proceeds from the issuance of our Senior Notes, net of issuance costs and $1.4 billion of proceeds from the issuance of 2026 Convertible Notes, net of issuances costs, $217.1 million of proceeds from the issuance of common stock from stock option exercises, net of repurchases, $20.0 million of proceeds from the issuance of a short-term borrowing, and $19.9 million of proceeds received under our employee stock purchase plan. This was partially offset by $262.8 million of taxes paid related to net share settlement of equity awards and the purchase of $90.1 million of capped calls in connection with the 2026 Convertible Notes.

Critical Accounting Policies and Estimates

Our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K are prepared in accordance with GAAP. The preparation of consolidated financial statements also 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, operating results, and cash flows will be affected.

See *Note 2. Summary of Significant Accounting Policies*, of the Notes to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for a summary of significant accounting policies and the effect on our financial statements.

Revenue recognition

We primarily generate revenue through transaction fees charged on our platform. We charge a fee at the transaction level. The transaction price, represented by the trading fee, is calculated based on volume and may vary depending on payment type and the value of the transaction. The transaction fee is collected from the customer at the time the transaction is executed. In certain instances, the transaction fee can be collected in crypto assets, with revenue measured based on the amount of crypto assets received and the fair value of the crypto assets at the time of the transaction. For the year ended December 31, 2022, we collected approximately 15% of total revenue in crypto assets. We currently do not have any formal policies requiring conversion of these crypto assets received into fiat currency.

The transaction price includes estimates for reductions in revenue from transaction fee reversals that may not be recovered from customers. Such reversals occur when the customer disputes a transaction processed on their credit card or their bank account for a variety of reasons and seeks to have the charge reversed after we have processed the transaction. These amounts are estimated based upon the most likely amount of consideration to which we will be entitled. All estimates are based on historical experience and our best judgment at the time to the extent it is probable that a significant reversal of revenue previously recognized will not occur. All estimates of variable consideration are reassessed periodically. The total transaction price is allocated to the single performance obligation. While we recognize transaction fee reversals due to transaction reversals as a reduction of net revenue, crypto asset losses due to transaction reversals are included in transaction expense.

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Business combinations

We account for our business combinations using the acquisition method of accounting, which requires, among other things, allocation of the fair value of purchase consideration to the tangible and intangible assets acquired and liabilities assumed at their estimated fair values on the acquisition date. When determining the fair value of assets acquired and liabilities assumed, we make significant estimates and assumptions, especially with respect to non-crypto intangible assets. These intangible assets do not have observable prices. We have generally applied a cost approach in estimating the fair values of acquired intangible assets, with the number of working hours required to recreate the intangible asset being a significant input to the estimate. Our estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and, as a result, actual results may differ from estimates.

Income taxes

We utilize the asset and liability method for computing our income tax provision. Deferred tax assets and liabilities reflect the expected future consequences of temporary differences between the financial reporting and tax bases of assets and liabilities as well as operating loss, capital loss, and tax credit carryforwards, using enacted tax rates. Management makes estimates, assumptions, and judgments to determine our provision for income taxes, deferred tax assets and liabilities, and any valuation allowance recorded against deferred tax assets. We assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we establish a valuation allowance.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. Interest and penalties related to unrecognized tax benefits are recognized within provision for income taxes.

For U.S. federal tax purposes, crypto asset transactions are treated on the same tax principles as property transactions. We recognize a gain or loss when crypto assets are exchanged for other property, in the amount of the difference between the fair market value of the property received and the tax basis of the exchanged crypto assets. Receipts of crypto assets in exchange for goods or services are included in taxable income at the fair market value on the date of receipt.

Recent Accounting Pronouncements

See *Note 2. Summary of Significant Accounting Policies*, of the Notes to the consolidated financial statements in Part II, Item 8 of this Annual Report on Form 10-K for a discussion about new accounting pronouncements adopted and not yet adopted as of the date of this report.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the accompanying notes thereto included elsewhere in this Annual Report on Form 10-K. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those identified below and those discussed in the section titled Risk Factors in Part I, Item 1A of this Annual Report on Form 10-K. Unless otherwise expressly stated or the context otherwise requires, references to "we," "our," "us," "the Company," and "Coinbase" refer to Coinbase Global, Inc. and its consolidated subsidiaries.

Executive Overview

This executive overview of Management's Discussion and Analysis of Financial Condition and Results of Operations highlights selected information and does not contain all of the information that is important to readers of this Annual Report on Form 10-K.

In 2023, we paired operational excellence with product innovation to deliver a strong year of execution against our product roadmap.

For the year ended December 31, 2023, our net revenue was $2.9 billion, including $1.5 billion in transaction revenue and $1.4 billion in subscription and services revenue. For the year ended December 31, 2022, our net revenue was $3.1 billion, including $2.4 billion in transaction revenue and $0.8 billion in subscription and services revenue.

For the year ended December 31, 2023, our net income was $0.1 billion and Adjusted EBITDA was $1.0 billion. For the year ended December 31, 2022, our net loss was $2.6 billion and Adjusted EBITDA was negative $0.4 billion.

Beyond the numbers, we accelerated product velocity and improved our existing product suite, while laying important foundations for future growth. We acquired key licenses, registrations and launched operations into six new markets.

In 2024 Coinbase will focus on three main priorities. First, driving revenue through improving our core trading and USDC. Second, driving utility in crypto with experiments in payments using USDC and Base. Lastly, we will continue to drive regulatory clarity for the industry. All told, Coinbase is a fundamentally stronger company today than a year ago, and we are in a strong financial position to capitalize on the opportunities ahead.

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Key Business Metrics

In addition to the measures presented in our consolidated financial statements, we use the key business metrics listed below to evaluate our business, measure our performance, identify trends affecting our business, and make strategic decisions:

	Year Ended December 31,			% Change	
	2023	2022	2021	2023	2022
MTUs *(in millions)*	7.0	8.3	11.2	(16)	(26)
Trading Volume *(in billions)*	$ 468	$ 830	$ 1,671	(44)	(50)
Net income (loss) *(in millions)*	$ 95	$ (2,625)	$ 3,624	104	(172)
Adjusted EBITDA[(1)] *(in millions)*	$ 964	$ (371)	$ 4,090	360	(109)

(1) See the section titled "*Non-GAAP Financial Measure*" below for a reconciliation of net income (loss) to Adjusted EBITDA and an explanation for why we consider Adjusted EBITDA to be a helpful metric for investors.

Monthly Transacting Users

We define a Monthly Transacting User ("MTU") as a consumer who actively or passively transacts in one or more products on our platform at least once during the rolling 28-day period ending on the date of measurement. MTUs presented for the end of a quarter are the average of each month's MTUs in each respective quarter. MTUs presented as of the end of a year represent the MTUs for the last quarter of that year. The annual average MTUs for the years ended December 31, 2023, 2022, and 2021, were 7.4 million, 8.8 million and 8.4 million, respectively. MTUs engage in transactions that generate both transaction revenue and subscription and services revenue. Revenue-generating transactions include active transactions such as buying or selling crypto assets or passive transactions such as earning a staking reward. MTUs also engage in transactions that are non-revenue generating such as send and receive. MTUs may overstate the number of unique consumers due to differences in product architecture or user behavior.

MTUs declined for the year ended December 31, 2023 as compared to 2022 due to a 0.8 million decrease in staking users driven by updates to our staking service, which required users to manually opt-in to certain networks within a notice period and a 0.4 million decrease in trading users in line with lower Trading Volume. MTUs declined for the year ended December 31, 2022 as compared to 2021 driven primarily by a decline of 6.9 million in users engaging in trades on our platform in line with lower Trading Volume, partially offset by a 4.0 million increase in staking users due to the addition of new staking assets in 2022.

Trading Volume

We define "Trading Volume" as the total U.S. dollar equivalent value of spot matched trades transacted between a buyer and seller through our platform during the period of measurement. Trading Volume represents the product of the quantity of assets transacted and the trade price at the time the transaction was executed. As trading activity directly impacts transaction revenue, we believe this measure is a reflection of liquidity on our order books, trading health, and the underlying growth of the cryptoeconomy.

Generally, Trading Volume on our platform is primarily influenced by the price of crypto assets, crypto asset volatility, and macroeconomic conditions. In periods of high crypto asset prices and crypto asset volatility, we have experienced correspondingly high levels of Trading Volume on our platform.

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Our Trading Volume in future periods will depend on the relative availability and adoption of Bitcoin, Ethereum, and other crypto assets.

	Year Ended December 31,			% Change	
	2023	2022	2021	2023	2022
Trading Volume (in billions):					
Consumer	$ 75	$ 167	$ 535	(55)	(69)
Institutional	393	663	1,136	(41)	(42)
Total	$ 468	$ 830	$ 1,671	(44)	(50)
Trading Volume by crypto asset:					
Bitcoin	34 %	29 %	24 %	17	21
Ethereum	20	25	21	(20)	19
USDT(1)	11	nm	nm	nm	nm
Other crypto assets	35	46	55	(24)	(16)
Total(2)	100 %	100 %	100 %		
Transaction revenue by crypto asset:					
Bitcoin	35 %	29 %	25 %	21	16
Ethereum	17	22	21	(23)	5
Other crypto assets	48	49	54	(2)	(9)
Total(2)	100 %	100 %	100 %		

nm - not meaningful
(1) USDT is a stablecoin issued by Tether Operations Limited.
(2) Figures presented above may not sum precisely due to rounding.

For the year ended December 31, 2023 as compared to 2022, Trading Volume declined primarily due to a reduction in Crypto Asset Volatility[1] of 43%, while crypto market capitalization remained resilient during the year ended December 31, 2023. The decline in volatility was a result of overall degraded crypto market sentiment, regulatory uncertainty, bank failures, and market shock events like the temporary de-pegging of USDC in March 2023, as well as an overall reduction in liquidity. Increases in the prices of various crypto assets during the fourth quarter of 2023 also impacted crypto asset volatility, overall industry trading volume, and more specifically our Trading Volume and transaction revenues. Partially offsetting these volume declines, USDT volume was elevated, largely due to de-pegging events which drove higher activity in secondary markets such as our trading platform.

For the year ended December 31, 2022 as compared to 2021, Trading Volume declined primarily due to decreased crypto market capitalization, reflecting decreased average crypto asset prices in general. The year 2022 and late 2021 saw trends of both lower crypto asset prices and a decrease of 32% in Crypto Asset Volatility for the year ended December 31, 2022 compared to 2021 driven by weaker macroeconomic conditions. Weakening market conditions were further exacerbated by two events in 2022. The first was the de-pegging of $LUNA which contributed to an approximately 60% crypto market capitalization decline in the second quarter of 2022 and ultimately drove the credit related bankruptcies of Three Arrows Capital, Voyager, and Celsius. The second event was the collapse of FTX in the fourth quarter of 2022, which drove additional credit related bankruptcies. These events contributed to an overall crypto market capitalization decline of 64% or approximately $1.5 trillion of value lost in 2022 which in turn

[1] Crypto Asset Volatility represents our internal measure of crypto asset volatility in the market relative to prior periods. The volatility is based on intraday returns of a volume-weighted basket of all assets listed on our trading platform. These returns are used to compute the basket's intraday volatility which is then scaled to a daily window. These daily volatility values are then averaged over the applicable time period as needed.

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impacted overall industry trading volume and more specifically our Trading Volume and transaction revenues.

During the year ended December 31, 2023, no asset other than Bitcoin, Ethereum, and USDT individually represented more than 10% of our Trading Volume and no asset other than Bitcoin and Ethereum individually represented more than 10% of our transaction revenue. During the year ended December 31, 2022, no asset other than Bitcoin or Ethereum individually represented more than 10% of either our Trading Volume or transaction revenue.

Components of Results of Operations

Revenue

We generate revenue from transactions, subscription and services, and other activities. The vast majority of our total revenue is generated in the United States, based on the domicile of the customers. No other country accounted for more than 10% of our total revenue during the periods presented.

Net revenue

Transaction revenue

We provide a trade matching service for users to buy, sell, or convert crypto assets through our platform. This trading activity is the primary source of our transaction revenue and core to the service we offer. Transaction revenue is generated primarily from transaction fees applied to spot trades that are executed by both consumer and institutional customers on our platform. The transaction fee earned is based on the price and quantity of the crypto asset that is bought, sold, or converted. Transaction revenue is recognized at the time the transaction is processed. Transaction revenue is directly correlated with Trading Volume, which is driven by the number of spot trade transactions processed on our platform. Institutional customers incur lower fees per transaction than consumer customers and, as a result, the impact of changes in consumer Trading Volume on transaction revenue is more pronounced than changes in institutional Trading Volume. In addition, changes in our pricing and mix between types of transactions will affect transaction revenue. See the section titled "*—Key Business Metrics—Trading Volume*" above for more information on our Trading Volume metric.

Subscription and services revenue

Subscription and services revenue primarily consists of:

- Stablecoin revenue: As a platform that facilitates crypto asset transactions, we derive stablecoin revenue from our arrangement with the issuer of USDC. We earn a pro rata portion of income earned on USDC reserves based on the amount of USDC held on each respective party's platform, and from the distribution and usage of USDC after certain expenses. Income derived by us from this arrangement is dependent on various factors including the balance of USDC on our platform, the total market capitalization of USDC, and the prevailing interest rate environment.

- Blockchain rewards: We operate a proof-of-stake service that enables customers to stake eligible crypto assets and validate transactions on certain blockchain networks. This allows customers to earn rewards from the networks while maintaining ownership of their assets. We earn commission revenue from staking rewards received by customers that is calculated as a percentage of the amounts distributed.

- Interest income: We hold customer custodial funds and cash and cash equivalents at certain third-party banks which earn interest. Customers custodial funds balances vary depending on Trading Volume. As consumer Trading Volume increases, we generally see an increase in customer custodial funds on our platform. This revenue is also dependent on the prevailing interest rate environment. Additionally, we earn interest income on loans issued to our consumer and institutional customers. This interest income is dependent on total loans issued to customers

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and the prevailing interest rate environment. Interest earned on customer custodial funds and loans is included in interest income within subscription and services revenue, while interest earned on our corporate cash and cash equivalents is included in corporate interest and other income, within other revenue.

- Custodial fee revenue: We derive custodial fee revenue based on a percentage of the daily value of customer crypto assets that we hold under custody in our dedicated cold storage solution. The value of crypto assets held under custody is driven by the quantity, price, and type of crypto asset. Our custodial fee revenue is further dependent on the fee rates we charge to our customers.
- Other: Other subscription and services revenue primarily comprises revenue from: Coinbase One; Coinbase Cloud, which includes staking application, delegation, and infrastructure services; Prime Financing; and revenue from other subscription licenses.

Other revenue

Other revenue includes interest income earned on our corporate cash and cash equivalents. Interest income is calculated using the interest method and depends on the balance of cash and cash equivalents as well as the prevailing interest rate environment. Other revenue also includes the sale of crypto assets when we are the principal in the transaction, which occur primarily as a result of unanticipated system disruptions.

Operating expenses

Operating expenses consist of transaction expense, technology and development, sales and marketing, general and administrative, restructuring, crypto asset impairment, net, and other operating expense, net. Personnel-related expense in all of these categories includes employee cash and stock-based compensation expense.

Transaction expense

Transaction expense includes costs directly associated with revenues. For transaction revenues, these expenses include costs to operate our platform, process crypto asset trades, and perform wallet services. For subscription and services revenues, the primary expenses are the rewards distributed to users for staking their assets. Fixed-fee costs are expensed over the term of the contract and transaction-level costs are expensed as incurred.

Our transaction expenses as a percentage of revenue will vary depending on the composition of our revenue. For example, if interest income and stablecoin revenue increase as a percentage of net revenue, transaction expenses as a percentage of net revenue will decrease as there are no transaction expenses directly attributed to these revenues. Conversely, if blockchain rewards increase as a percentage of net revenue, transaction expenses as a percentage of net revenue will increase since the majority of blockchain rewards revenue is distributed to the customer. Additionally, transaction expenses can be impacted by the commission or fee we charge for staking our customers' assets, as well as by transaction reversal losses.

Technology and development

Technology and development expenses comprise mainly personnel-related expenses incurred in operating, maintaining, and enhancing our platform and in developing new products and services. These costs also include website hosting and infrastructure expenses, and the amortization of internally developed and acquired developed technology. Certain costs of developing new products and services are capitalized to property and equipment, net.

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Sales and marketing

Sales and marketing expenses primarily include personnel-related expenses, marketing programs costs, and costs related to customer acquisition. Sales and marketing costs are expensed as incurred.

General and administrative

General and administrative expenses include personnel-related expenses incurred to support our business, including executive, customer support, compliance, finance, human resources, legal, and other support operations. These expenses also include costs of professional services and software subscriptions for support services.

Crypto asset impairment, net

Crypto asset impairment, net represents gross impairments recorded on crypto assets held, net of subsequent realized gains on the sale and disposal of previously impaired crypto assets held.

Restructuring

Restructuring expenses comprise separation pay, stock-based compensation, and other personnel costs related to reductions in our headcount. For more information, see *Note 3. Restructuring* of the Notes to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Other operating expense, net

Other operating expense, net includes fair value gains and losses related to derivatives and derivatives designated in qualifying fair value hedge accounting relationships, as well as platform-related incidents and losses. Because these components fluctuate with market conditions, other operating expense, net can vary widely between periods. From time to time we may make political contributions, which also get captured within other operating expense, net.

Interest expense

Interest expense on debt includes coupon interest expense, as well as amortization of debt discounts and debt issuance costs.

Other (income) expense, net

Other (income) expense, net includes the following items:

- net gains on the repurchase of certain of our long-term debt;
- realized foreign exchange impacts resulting from the settlement of our foreign currency assets and liabilities, and unrealized foreign exchange impacts resulting from remeasurement of transactions and monetary assets and liabilities denominated in non-functional currencies;
- impairment recognized on certain strategic equity investments in privately held companies without readily determinable fair values and gains and losses on investments, net, which consists primarily of realized and unrealized gains and losses from fair value adjustments; and
- unrealized gains and losses from fair value adjustments on certain financial instruments.

Because the majority of these components are generally variable based on changes in market conditions, they can vary widely from period to period.

Benefit from income taxes

Benefit from income taxes includes income taxes related to foreign jurisdictions and U.S. federal and state income taxes.

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Results of Operations

The following table summarizes the historical consolidated statements of operations data (in thousands) and each component as a percentage of total revenue:

	Year Ended December 31,					
	2023		2022		2021	
	$	%(1)	$	%(1)	$	%(1)
Revenue:						
Net revenue	$ 2,926,540	94	$ 3,148,815	99	$ 7,354,753	94
Other revenue	181,843	6	45,393	1	484,691	6
Total revenue	3,108,383	100	3,194,208	100	7,839,444	100
Operating expenses:						
Transaction expense	420,705	14	629,880	20	1,267,924	16
Technology and development	1,324,541	43	2,326,354	73	1,291,561	16
Sales and marketing	332,312	11	510,089	16	663,689	9
General and administrative	1,041,308	33	1,600,586	50	909,392	12
Crypto asset impairment, net	(34,675)	(1)	722,211	23	153,160	2
Restructuring	142,594	5	40,703	1	—	—
Other operating expense, net	43,260	1	74,593	2	477,148	6
Total operating expenses	3,270,045	105	5,904,416	185	4,762,874	61
Operating (loss) income	(161,662)	(5)	(2,710,208)	(85)	3,076,570	39
Interest expense	82,766	3	88,901	3	29,160	—
Other (income) expense, net	(167,583)	(5)	265,473	8	20,463	—
(Loss) income before income taxes	(76,845)	(2)	(3,064,582)	(96)	3,026,947	39
Benefit from income taxes	(171,716)	(6)	(439,633)	(14)	(597,173)	(7)
Net income (loss)	$ 94,871	3	$ (2,624,949)	(82)	$ 3,624,120	46

(1) Percentage of total revenue. Figures presented above may not sum precisely due to rounding.

Comparison of the years ended December 31, 2023, 2022, and 2021

Revenue

	Year Ended December 31,			Change			
				2023		2022	
	2023	2022	2021	$	%	$	%
		(in thousands)		*(in thousands)*		*(in thousands)*	
Transaction revenue	$ 1,519,654	$ 2,356,244	$ 6,837,266	$ (836,590)	(36)	$ (4,481,022)	(66)
Subscription and services revenue	1,406,886	792,571	517,487	614,315	78	275,084	53
Other revenue	181,843	45,393	484,691	136,450	301	(439,298)	(91)
Total revenue	$ 3,108,383	$ 3,194,208	$ 7,839,444	$ (85,825)	(3)	$ (4,645,236)	(59)

For the years ended December 31, 2023, 2022 and 2021, we generated 88%, 84% and 81%, respectively, of total revenue in the United States. No other country accounted for more than 10% of total revenue during the years presented.

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Transaction revenue

	Year Ended December 31,			Change			
				2023		2022	
	2023	2022	2021	$	%	$	%
		(in thousands)		(in thousands)		(in thousands)	
Consumer, net	$ 1,429,490	$ 2,236,900	$ 6,490,992	$ (807,410)	(36)	$ (4,254,092)	(66)
Institutional, net	90,164	119,344	346,274	(29,180)	(24)	(226,930)	(66)
Total transaction revenue	$ 1,519,654	$ 2,356,244	$ 6,837,266	$ (836,590)	(36)	$ (4,481,022)	(66)

Transaction revenue declined for the year ended December 31, 2023 as compared to 2022, primarily due to:

- a $1.2 billion reduction in consumer transaction revenue attributed to a corresponding 55% decrease in consumer Trading Volume. This decrease was offset in part by an increase of $418.8 million attributed to changes in customer mix towards trades which have higher fees and pricing changes as we increased the spread on certain types of consumer trades in 2023, which led to an overall increase in average blended fee rate of 41%.

Transaction revenue declined for the year ended December 31, 2022 as compared to 2021, primarily due to:

- a $4.5 billion reduction in consumer transaction revenue attributed to a corresponding 69% decrease in consumer Trading Volume. This decrease was offset in part by an increase of $222.9 million attributed to changes in customer mix towards trades which have higher fees and pricing changes as we increased the spread on certain types of consumer trades in 2022, which led to an overall increase in average blended fee rate of 11%; and
- a decrease of $144.0 million in institutional transaction revenue attributed to a decline in institutional Trading Volume of 42%, as well as a decrease of $82.9 million driven by lower fees associated with our market maker program, which led to an overall decrease in average blended fee rate of 41%.

Subscription and services revenue

	Year Ended December 31,			Change			
				2023		2022	
	2023	2022	2021	$	%	$	%
		(in thousands)		(in thousands)		(in thousands)	
Stablecoin revenue	$ 694,247	$ 245,710	$ 9,882	$ 448,537	183	$ 235,828	nm
Blockchain rewards	330,885	275,507	223,055	55,378	20	52,452	24
Interest income	173,914	81,246	15,953	92,668	114	65,293	409
Custodial fee revenue	69,501	79,847	136,293	(10,346)	(13)	(56,446)	(41)
Other subscription and services revenue	138,339	110,261	132,304	28,078	25	(22,043)	(17)
Total subscription and services revenue	$ 1,406,886	$ 792,571	$ 517,487	$ 614,315	78	$ 275,084	53

nm - not meaningful

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Subscription and services revenue increased for the year ended December 31, 2023 as compared to 2022, primarily due to:

- higher stablecoin revenue attributable to higher average earned interest rates on USDC reserves, which rose 325 basis points or 217.5%;
- an increase in blockchain rewards from higher staked balances for certain assets resulting primarily from increased user participation in reward generating activities;
- an increase of $229.6 million in interest income generated on customer custodial cash, reflecting higher average earned interest rates, which were up 295 basis points or 343%. This was offset in part by a $133.7 million decline due to lower average balances of customer custodial cash. These balances decreased 45% attributable to crypto market sentiment discussed in the section titled "*—Key Business Metrics*" above; and
- a decrease in custodial fee revenue, primarily due to a decline in average assets under custody of $3.6 billion, as price effects drove down the value of assets under custody.

There were no material changes to note within other subscription and services revenue.

Subscription and services revenue increased for the year ended December 31, 2022 as compared to 2021, primarily due to:

- higher stablecoin revenue attributable to higher average earned interest rates on USDC reserves, which rose 136 basis points or 969%;
- an increase in blockchain rewards due to the addition of new assets available for staking; and
- an increase in interest income generated on customer custodial cash attributable to higher average earned interest rates, which were up 78 basis points or 975%; offset in part by
- a decrease in custodial fee revenue, primarily due to a decrease in average assets under custody of $48.3 billion, as price effects drove down the value of assets under custody.

There were no material changes to note within other subscription and services revenue.

Other revenue

	Year Ended December 31,			Change			
				2023		2022	
	2023	2022	2021	$	%	$	%
		(in thousands)		*(in thousands)*		*(in thousands)*	
Corporate interest and other income	$ 181,827	$ 44,768	$ 2,141	$ 137,059	306	$ 42,627	nm
Crypto asset sales revenue	16	625	482,550	(609)	(97)	$ (481,925)	(100)
Total other revenue	$ 181,843	$ 45,393	$ 484,691	$ 136,450	301	$ (439,298)	(91)

nm - not meaningful

Other revenue increased for the year ended December 31, 2023 as compared to 2022, primarily due to higher corporate interest and other income, as average earned interest rates on corporate balances rose 278 basis points or 157%.

Other revenue decreased for the year ended December 31, 2022 as compared to 2021, primarily due to higher crypto asset sales in 2021 as a result of unanticipated system disruptions.

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Operating expenses

	Year Ended December 31,			Change			
				2023		2022	
	2023	2022	2021	$	%	$	%
		(in thousands)		*(in thousands)*		*(in thousands)*	
Transaction expense	$ 420,705	$ 629,880	$ 1,267,924	$ (209,175)	(33)	$ (638,044)	(50)
Technology and development	1,324,541	2,326,354	1,291,561	(1,001,813)	(43)	1,034,793	80
Sales and marketing	332,312	510,089	663,689	(177,777)	(35)	(153,600)	(23)
General and administrative	1,041,308	1,600,586	909,392	(559,278)	(35)	691,194	76
Crypto asset impairment, net	(34,675)	722,211	153,160	(756,886)	(105)	569,051	372
Restructuring	142,594	40,703	—	101,891	250	40,703	—
Other operating expense, net	43,260	74,593	477,148	(31,333)	(42)	(402,555)	(84)
Total operating expenses	$ 3,270,045	$ 5,904,416	$ 4,762,874	$ (2,634,371)	(45)	$ 1,141,542	24

There were material trends of decreased operating expenses for the year ended December 31, 2023 as compared to 2022 following increased operating expenses for the year ended December 31, 2022 as compared to 2021. In early 2023, we set a financial objective to generate positive Adjusted EBITDA in all crypto market conditions. This goal led us to materially reduce our operating expenses in 2023 as compared to 2022. We plan to be nimble and dynamically increase or decrease our expense base in accordance with overall macro market conditions and revenue opportunities to achieve our goal of positive Adjusted EBITDA. In the first quarter of 2024, we expect modest growth in technology and development and general and administrative as compared to the fourth quarter of 2023. In addition, we also expect a modest decline in sales and marketing expenses compared to the fourth quarter of 2023.

Transaction expense

	Year Ended December 31,			Change			
				2023		2022	
	2023	2022	2021	$	%	$	%
		(in thousands)		*(in thousands)*		*(in thousands)*	
Blockchain rewards fees	$ 229,851	$ 202,480	$ 146,769	$ 27,371	14	$ 55,711	38
Payment processing and account verification	73,816	194,044	341,013	(120,228)	(62)	(146,969)	(43)
Transaction reversal losses	51,501	93,886	233,832	(42,385)	(45)	(139,946)	(60)
Miner fees	49,789	131,714	542,889	(81,925)	(62)	(411,175)	(76)
Other	15,748	7,756	3,421	7,992	103	4,335	127
Total transaction expense	$ 420,705	$ 629,880	$ 1,267,924	$ (209,175)	(33)	$ (638,044)	(50)

Transaction expense decreased for the year ended December 31, 2023 as compared to 2022, primarily due to:

- an increase in blockchain rewards largely due to higher staked balances; offset by
- a decrease in payment processing and account verification expenses, mainly due to a decline in Trading Volume of 44%;
- a decrease in transaction reversal losses as a result of the lower Trading Volumes noted above, combined with our efforts to reduce reversals through optimization of our fraud monitoring processes; and
- a decrease in miner fees as a result of optimizations in onchain activity.

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Transaction expense decreased for the year ended December 31, 2022 as compared to 2021, primarily due to:

- an increase in blockchain rewards as a result of the addition of new assets available for staking; offset by
- a decrease in payment processing and account verification expenses, driven primarily by a decline in Trading Volume of 50%;
- a decrease in transaction reversal losses as a result of the lower Trading Volumes noted above, combined with our efforts to reduce reversals through optimization of our fraud monitoring processes; and
- a decrease in miner fees driven by a decrease in blockchain transmission volume.

Technology and development expense

	Year Ended December 31,			Change			
				2023		2022	
	2023	2022	2021	$	%	$	%
		(in thousands)		(in thousands)		(in thousands)	
Personnel-related	$ 936,881	$ 1,638,685	$ 958,387	$ (701,804)	(43)	$ 680,298	71
Website hosting and infrastructure expenses	192,009	439,798	241,740	(247,789)	(56)	198,058	82
Amortization expense	111,336	121,534	38,112	(10,198)	(8)	83,422	219
Other	84,315	126,337	53,322	(42,022)	(33)	73,015	137
Total technology and development expenses	$ 1,324,541	$ 2,326,354	$ 1,291,561	$ (1,001,813)	(43)	$ 1,034,793	80

Technology and development expenses decreased for the year ended December 31, 2023, as compared to 2022, primarily due to:

- lower personnel-related expenses, driven by a 24% decrease in average headcount following our workforce reduction in January 2023. This decrease in headcount reduced personnel-related expenses by $454.2 million, and included the impact of stock-based compensation. Further, stock-based compensation decreased by an additional $247.6 million due to the roll-off of non-recurring multi-year stock-based compensation awards; and
- a decrease in website hosting and infrastructure expenses due to our investments in more efficient and modern infrastructure and architecture, both in our customer-facing products and internal tooling.

There were no material changes to note within amortization expense or other.

Technology and development expenses increased for the year ended December 31, 2022 as compared to 2021, primarily due to:

- higher personnel-related expenses, including a $518.9 million increase in stock-based compensation expense, reflecting an 87% increase in average headcount and the full-year impact of equity instruments issued in conjunction with business combinations that occurred throughout 2021 and early in 2022;
- a $143.0 million increase in website hosting costs as we continued to invest in our products and platform, and a $55.1 million increase in software licenses driven by the increase in average headcount; and

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- an increase in amortization expense, related to amortization of capitalized software and assembled workforce.

There were no material changes to note within other.

Sales and marketing expense

	Year Ended December 31,			Change 2023		Change 2022	
	2023	2022	2021	$	%	$	%
		(in thousands)		*(in thousands)*		*(in thousands)*	
Personnel-related	$ 143,762	$ 146,157	$ 86,555	$ (2,395)	(2)	$ 59,602	69
Marketing programs	119,494	292,770	474,773	(173,276)	(59)	(182,003)	(38)
Other	69,056	71,162	102,361	(2,106)	(3)	(31,199)	(30)
Total sales and marketing expenses	$ 332,312	$ 510,089	$ 663,689	$ (177,777)	(35)	$ (153,600)	(23)

Sales and marketing expenses decreased for the year ended December 31, 2023, as compared to 2022, primarily due to:

- reduced media and brand spend as we actively lowered our investment given the decline in year-over-year revenue.

There were no material changes to note within personnel-related expenses and other.

Sales and marketing expenses decreased for the year ended December 31, 2022 as compared to 2021, primarily due to:

- higher personnel-related expenses, including a $41.2 million increase in stock-based compensation expense, due to a 109% increase in average headcount; offset by
- a decrease in marketing programs, primarily due to a $316.5 million reduction in digital advertising spend due to lower investment in paid media, offset in part by $128.7 million higher offline and brand spend; and
- a decrease of $32.4 million in referral and promotion fees related to marketing initiatives such as sweepstakes and incentivized campaigns, included within other.

General and administrative expense

	Year Ended December 31,			Change 2023		Change 2022	
	2023	2022	2021	$	%	$	%
		(in thousands)		*(in thousands)*		*(in thousands)*	
Personnel-related (excluding customer support)	$ 498,626	$ 614,661	$ 384,065	$ (116,035)	(19)	$ 230,596	60
Customer support	133,726	476,351	186,285	(342,625)	(72)	290,066	156
Professional services	168,731	150,695	79,659	18,036	12	71,036	89
Other	240,225	358,879	259,383	(118,654)	(33)	99,496	38
Total general and administrative expenses	$ 1,041,308	$ 1,600,586	$ 909,392	$ (559,278)	(35)	$ 691,194	76

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General and administrative expenses decreased for the year ended December 31, 2023, as compared to 2022, primarily due to:

- a decrease in personnel-related expenses (excluding customer support), driven primarily by a 17% decrease in average headcount, as a result of the workforce reduction in January 2023;
- a decrease in customer support costs, reflecting $242.7 million of reductions in costs of managed services to support compliance operations and customer experience, driven by automation and an overall reduction in capacity needs that we built in 2022, and a decrease of $99.9 million in customer support personnel-related expenses resulting from the workforce reduction discussed above; and
- a decrease in other general and administrative expenses, largely driven by $37.2 million in lower taxes, licenses, and fees, as the prior year included incremental costs related to the application of certain indirect tax rules, as well as a $50.0 million one-time cost accrual related to the settlement with NYDFS in 2022.

General and administrative expenses increased for the year ended December 31, 2022, as compared to 2021, primarily due to:

- an increase in personnel-related expenses excluding customer support, driven primarily by a 92% increase in average headcount;
- an increase in customer support costs, reflecting a $198.8 million increase in costs of managed services to support compliance operations and customer experience, as a result of increased capacity needs to address backlogs from 2021, and an increase of $91.3 million in customer support personnel-related expenses;
- an increase in professional services, reflecting $32.9 million in higher legal fees related to litigation, regulatory, and compliance and an increase of $30.2 million in business consulting; and
- an increase in other general and administrative expenses, largely driven by $75.1 million in higher settlement costs, which included a $50.0 million accrual related to the settlement with NYDFS, and $22.1 million in incremental software license costs to support business, security, and risk applications, partially offset by a decrease of $39.2 million in costs associated with our Direct Listing in 2021.

Crypto asset impairment, net

	Year Ended December 31,			Change			
				2023		2022	
	2023	2022	2021	$	%	$	%
		(in thousands)		(in thousands)		(in thousands)	
Gross crypto asset impairment expense	$ 96,783	$ 757,257	$ 329,152	$ (660,474)	(87)	$ 428,105	130
Recoveries	(131,458)	(35,046)	(175,992)	(96,412)	275	140,946	(80)
Total crypto asset impairment, net	$ (34,675)	$ 722,211	$ 153,160	$ (756,886)	(105)	$ 569,051	372

Crypto asset impairment expense, net decreased during the year ended December 31, 2023 as compared to 2022, driven by gross crypto asset impairments in the prior year from the challenging crypto market conditions discussed in the section titled "*—Key Business Metrics*" above, which resulted in lower carrying values of crypto assets held in the current year. These impairments were offset in part by higher expense recoveries as we sold previously impaired assets at recovered prices.

Crypto asset impairment, net increased during the year ended December 31, 2022 as compared to

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2021, as higher impairment expense was recognized in 2022 as a result of the challenging crypto market conditions discussed in the section titled "—*Key Business Metrics*" above. Additionally, lower subsequent crypto asset sales and disposals of previously impaired assets led to decreased impairment recoveries recognized in 2022.

Effective January 1, 2024 we adopted Accounting Standard Update 2023-08, Accounting for and Disclosure of Crypto Assets ("ASU 2023-08") which will change how we value crypto assets held, as we will be required to recognize such assets at fair value with changes recognized in net income each reporting period.

Restructuring expense

Restructuring expense was $142.6 million for the year ended December 31, 2023 and was driven by separation pay, stock-based compensation expense relating to the acceleration of the vesting of outstanding equity awards in accordance with the terms of such awards, and other personnel costs related to the workforce reduction in January 2023.

Restructuring expense was $40.7 million for the year ended December 31, 2022 and was driven by separation pay and other personnel costs related to the workforce reduction in June 2022 and the subsequent release of accruals of certain costs related thereto that were not utilized.

There was no restructuring expense for the year ended December 31, 2021.

Other operating expense, net

	Year Ended December 31,			Change			
				2023		2022	
	2023	2022	2021	$	%	$	%
		(in thousands)		*(in thousands)*		*(in thousands)*	
Platform-related incidents and losses	$ 15,717	$ 80,916	$ 61,732	$ (65,199)	(81)	$ 19,184	31
Gains on derivatives	(17,127)	(12,625)	(21,329)	(4,502)	36	8,704	(41)
Customer accommodation transaction costs	16	529	435,971	(513)	(97)	(435,442)	(100)
Other	44,654	5,773	774	38,881	673	4,999	646
Total other operating expense, net	$ 43,260	$ 74,593	$ 477,148	$ (31,333)	(42)	$ (402,555)	(84)

Changes in other operating expense, net for the year ended December 31, 2023 as compared to 2022 primarily reflect:

- lower platform-related incidents and losses as a result of implementing stronger monitoring processes and controls to mitigate incidents on our platform; and
- an increase of $33.0 million related to political contributions included within other.

There were no material changes to note within gains on derivatives and customer accommodation transaction costs.

Changes in other operating expense, net for the year ended December 31, 2022 as compared to 2021 primarily reflect:

- lower customer accommodation transactions costs, as 2021 included incremental crypto assets sold as a result of unanticipated system disruptions.

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There were no material changes to note within platform-related incidents and losses, gains on derivatives, and other.

Interest expense

	Year Ended December 31,			Change			
				2023		2022	
	2023	2022	2021	$	%	$	%
		(in thousands)		*(in thousands)*		*(in thousands)*	
Interest expense	$ 82,766	$ 88,901	$ 29,160	$ (6,135)	(7)	$ 59,741	205

There were no material changes in interest expense for the year ended December 31, 2023 as compared to 2022. The increase in interest expense for the year ended December 31, 2022 as compared to 2021 was primarily due to a full-year impact of interest expense recognized on our 2026 Convertible Notes that were issued in May 2021 and our Senior Notes that were issued in September 2021.

Other (income) expense, net

	Year Ended December 31,			Change			
				2023		2022	
	2023	2022	2021	$	%	$	%
		(in thousands)		*(in thousands)*		*(in thousands)*	
Foreign exchange losses, net	$ 10,609	$ 161,749	$ 40,989	$ (151,140)	(93)	$ 120,760	295
(Gains) losses on strategic investments	(24,368)	101,219	(19,602)	(125,587)	(124)	120,821	(616)
Gain on extinguishment of long-term debt	(117,383)	—	—	(117,383)	100	—	—
Other	(36,441)	2,505	(924)	(38,946)	nm	3,429	(371)
Total other (income) expense, net	$ (167,583)	$ 265,473	$ 20,463	$ (433,056)	(163)	$ 245,010	nm

nm - not meaningful

Other (income) expense, net changed for the year ended December 31, 2023, as compared to 2022, primarily due to:

- a decrease in net foreign exchange losses due to improvement in foreign exchange risk management;
- net gains on strategic investments driven by a gain of $49.9 million resulting from an equity investment transaction with Circle US Holdings, Inc. in 2023 and a decrease in the amount of impairment expense recognized on certain strategic equity investments;
- a gain on the repurchase of certain of our 2026 Convertible Notes and Senior Notes during 2023. See *Note 14. Indebtedness* of the Notes to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K for further information; and
- a decrease in other driven by the inclusion of a $26.9 million unrealized gain in 2023 related to fair value adjustments on certain financial instruments.

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Other (income) expense, net changed for the year ended December 31, 2022, as compared to 2021, primarily due to:

- an increase in net foreign exchange losses due to the timing of Euro denominated intercompany settlements and an 11% and 10% depreciation of the average exchange rates for the Euro and the British Pound, respectively, against the U.S. dollar in 2022, and realized losses on foreign exchange forward derivative contracts of $59.1 million; and
- an increase in the amount of impairment expense recognized on certain strategic equity investments.

There were no material changes to note within other.

Benefit from income taxes

	Year Ended December 31,			Change			
				2023		2022	
	2023	2022	2021	$	%	$	%
		(in thousands)		*(in thousands)*		*(in thousands)*	
Benefit from income taxes	$ (171,716)	$ (439,633)	$ (597,173)	$ 267,917	(61)	$ 157,540	(26)

The benefit from income taxes decreased for the year ended December 31, 2023 as compared to 2022 primarily due to lower tax benefits from a reduction of pretax loss, partially offset by a reduction in the valuation allowance recorded on impairment charges and additional tax benefits for stock-based compensation.

The benefit from income taxes decreased for the year ended December 31, 2022 as compared to 2021 primarily due to a reduction in tax benefits relating to stock-based compensation and research and development credits, and a valuation allowance recorded on impairment charges, offset by an increase in tax benefit on pretax loss.

Non-GAAP Financial Measure

In addition to our results determined in accordance with GAAP, we believe Adjusted EBITDA, a non-GAAP financial measure, is useful in evaluating our operating performance. We use Adjusted EBITDA to evaluate our ongoing operations and for internal planning and forecasting purposes. We believe that Adjusted EBITDA may be helpful to investors because it provides consistency and comparability with past financial performance. However, Adjusted EBITDA is presented for supplemental informational purposes only, has limitations as an analytical tool, and should not be considered in isolation or as a substitute for financial information presented in accordance with GAAP. There are a number of limitations related to Adjusted EBITDA rather than net income (loss), which is the nearest GAAP equivalent of Adjusted EBITDA. Some of these limitations are Adjusted EBITDA excludes:

- benefit from income taxes;
- interest expense, or the cash requirements necessary to service interest or principal payments on our debt, which reduces cash available to us;
- depreciation and intangible assets amortization expense and, although these are non-cash expenses, the assets being depreciated and amortized may have to be replaced in the future;
- stock-based compensation expense, which has been, and will continue to be for the foreseeable future, a significant recurring expense for our business and an important part of our compensation strategy;
- other impairment expense, which represents impairment on property and equipment and intangible assets and is infrequent in nature and is a non-cash adjustment;

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- non-recurring accrued legal contingencies, settlements, and related costs, which reduces cash available to us;
- non-recurring expenses related to our Direct Listing in April 2021;
- impairment on crypto assets still held, net, represents impairment on crypto assets still held and is a non-cash expense, which has been recurring, and may in the future recur, although the crypto assets impaired may be sold in the future at a price at or higher than the price the assets have been impaired to;
- the impact of restructuring, which is infrequent and not related to normal operations but impacted our results in 2022 and 2023;
- the impact of fair value gain or loss on derivatives, a non-cash expense, which has been recurring, and may in the future recur;
- the impact of crypto asset borrowing costs, a non-cash expense, which is similar in nature to interest expense on our crypto asset borrowings, which has been recurring, and may in the future recur;
- gain on extinguishment of long-term debt due to repurchases prior to maturity, a non-cash adjustment, which has been recurring, and may in the future recur;
- gain or loss on investments, which represents net gains on investments and impairment on investments, net, a non-cash expense, which has been recurring, and may in the future recur, although the impaired investments may be sold in the future at a price lower, at or higher than the price the assets have been impaired to;
- the impact of unrealized foreign exchange gains or losses and fair value adjustments on foreign exchange derivatives for hedging activities, non-cash adjustments, which have been recurring, and may in the future recur; and
- a non-recurring fee and write-off related to an early lease termination, a non-recurring accrual for value-added tax related to our Irish operations, and non-cash unrealized gains or losses on contingent consideration, which we have consolidated into the line item "other adjustments, net" because they are not material individually.

In addition, other companies, including companies in our industry, may calculate Adjusted EBITDA differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our disclosure of Adjusted EBITDA as a tool for comparison. A reconciliation is provided below for Adjusted EBITDA to net income (loss), the most directly comparable financial measure stated, in accordance with GAAP. Investors are encouraged to review the related GAAP financial measure and the reconciliation of Adjusted EBITDA to net income (loss), and not to rely on any single financial measure to evaluate our business.

We calculate Adjusted EBITDA as net loss or income, adjusted to exclude provision for or benefit from income taxes, interest expense, depreciation and amortization, stock-based compensation expense, other impairment expense, non-recurring accrued legal contingencies, settlements, and related costs, non-recurring Direct Listing expenses, impairment on crypto assets still held, net, restructuring, fair value gain or loss on derivatives, crypto asset borrowing costs, gain on extinguishment of long-term debt, net, loss or gain on investments, net, unrealized foreign exchange gain or loss, and other adjustments, net.

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The following table provides a reconciliation of net income (loss) to Adjusted EBITDA:

	Year Ended December 31,		
	2023	2022	2021
		(in thousands)	
Net income (loss)	$ 94,871	$ (2,624,949)	$ 3,624,120
Adjusted to exclude the following:			
Benefit from income taxes	(171,716)	(439,633)	(597,173)
Interest expense	82,766	88,901	29,160
Depreciation and amortization	139,642	154,069	63,651
Stock-based compensation	780,668	1,565,823	820,685
Other impairment expense	18,793	26,518	500
Non-recurring accrued legal contingencies, settlements, and related costs	15,000	64,250	1,500
Non-recurring Direct Listing expenses	—	—	39,160
Impairment on crypto assets still held, net	29,481	592,495	119,421
Restructuring	142,594	40,703	—
Fair value (gain) loss on derivatives	(41,033)	7,410	(32,056)
Crypto asset borrowing costs	4,807	6,675	11,847
Gain on extinguishment of long-term debt, net	(117,383)	—	—
(Gain) loss on investments, net	(20,826)	101,445	—
Unrealized foreign exchange loss (gain)	17,190	28,516	(14,944)
Other adjustments, net	(11,200)	16,379	24,200
Adjusted EBITDA	$ 963,654	$ (371,398)	$ 4,090,071

Liquidity and Capital Resources

We believe our existing cash and cash equivalents and USDC will be sufficient in both the short and long term to meet our requirements and plans for cash, including meeting our working capital and capital expenditure requirements. Our ability to meet our requirements and plans for cash, including meeting our working capital and capital expenditure requirements, will depend on many factors, including market acceptance of crypto assets and blockchain technology, our growth, our ability to attract and retain customers on our platform, the continuing market acceptance of our products and services, the introduction of new subscription products and services on our platform, expansion of sales and marketing activities, and overall economic conditions. We anticipate satisfying our short-term cash requirements with our existing cash and cash equivalents and USDC and may satisfy our long-term cash requirements with cash and cash equivalents and USDC on hand or with proceeds from a future equity or debt financing.

To the extent that current and anticipated future sources of liquidity are insufficient to fund our future business activities and cash and other requirements, we may be required to seek additional equity or debt financing. The sale of additional equity would result in additional dilution to our stockholders. The incurrence of additional debt financing would result in debt service obligations and the instruments governing such debt could provide for operating and financing covenants that would restrict our operations. As a result of our credit rating downgrade, our ability to raise additional financing from external sources in the future may be adversely affected and we may not be able to raise capital on terms acceptable to us or at all. In addition, even if debt financing is available, the cost of additional financing may be significantly higher than our current debt.

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Cash and cash equivalents, restricted cash, and USDC

As of December 31, 2023 and 2022, our cash and cash equivalents, restricted cash, and USDC balances consisted of the following (in thousands):

	December 31, 2023	December 31, 2022
Cash and cash equivalents:		
Cash equivalents[1]	$ 3,682,917	$ 2,250,065
Cash held at banks	1,367,643	2,031,749
Cash held at venues[2]	88,791	143,207
Total cash and cash equivalents	$ 5,139,351	$ 4,425,021
Restricted cash[3]	$ 22,992	$ 25,873
USDC[4]	576,028	861,149

(1) Cash equivalents consists of money market funds denominated in U.S. dollars.
(2) Venues include other crypto asset trading platforms that hold money transmitter licenses and payment processors. This amount excludes $4.7 million and $1.6 million of cash that is subject to restrictions on withdrawal as of December 31, 2023 and 2022, respectively.
(3) Restricted cash consists primarily of amounts held in restricted bank accounts at certain third-party banks as security deposits.
(4) USDC is a stablecoin redeemable on a one-to-one basis for U.S. dollars. While not accounted for as cash or cash equivalents, we treat our USDC holdings as a liquidity resource.

Debt

In September 2021, we issued $2.0 billion in Senior Notes consisting of $1.0 billion of 2028 Senior Notes due on October 1, 2028 and $1.0 billion of 2031 Senior Notes due on October 1, 2031. In May 2021, we issued an aggregate of $1.4 billion of 2026 Convertible Notes that mature on June 1, 2026, unless converted, redeemed or repurchased on an earlier date. We periodically issue short-term debt to support certain business operations.

As market conditions warrant, we may, from time to time, repurchase our outstanding debt securities in the open market, in privately negotiated transactions, by exchange transaction or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity and other factors and may be commenced or suspended at any time. The amounts involved and total consideration paid may be material. In 2023, we repurchased $427.0 million in aggregate principal amount of our outstanding debt securities for cash payments aggregating $303.5 million. Following the close of these transactions, the remaining outstanding principal balance of the 2026 Convertible Notes, 2028 Senior Notes, and 2031 Senior Notes was approximately $1.3 billion, $1.0 billion, and $0.7 billion, respectively, for a total remaining outstanding principal balance of $3.0 billion as of December 31, 2023.

See *Notes 12. Accrued Expenses and Other Current Liabilities* and *14. Indebtedness* of the Notes to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K for further information regarding our short and long-term borrowings, respectively.

In January 2023, S&P Global Ratings announced a downgrade of our issuer credit rating and senior unsecured debt from BB to BB-, and Moody's Investors Service ("Moody's") announced a downgrade of our Corporate Family Rating ("CFR") to B2 from Ba3 and downgraded our guaranteed senior unsecured notes to B1 from Ba2. As of December 31, 2023, our credit ratings with S&P Global Ratings and Moody's remain unchanged from these downgraded levels.

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Crypto assets

We hold crypto assets for investment, operating and borrowing purposes. Our future earnings and cash flows will be impacted when we choose to monetize our crypto assets and the variability of our earnings on these transactions will be dependent on the future fair value of such crypto assets. We have limited ability to predict whether the sale of crypto assets received from airdrops or forks will be material to our future earnings, which is dependent on the future market liquidity, viability and fair value of such crypto assets. Our current policy is not to monetize unsupported forks or airdrops held on our platform. Crypto assets received through airdrops and forks, at the time of the airdrop or fork and at the end of the periods presented, are not material to our financial statements.

As of December 31, 2023 and 2022, the carrying value and fair values of our crypto assets held were as follows (in thousands):

	December 31, 2023			December 31, 2022		
	Carrying Value			Carrying Value		
	Recorded at Cost[1]	Recorded at Fair Value	Fair Value[2]	Recorded at Cost[1]	Recorded at Fair Value	Fair Value[2]
Crypto assets held as investments:						
Bitcoin[3]	$ 126,614	$ —	$ 388,326	$ 21,837	$ 89,716	$ 151,792
Ethereum[3]	129,131	—	272,411	47,531	43,700	138,714
Solana	6,611	—	61,166	2,710	—	2,884
Other	68,254	—	306,060	83,173	—	132,879
Total held as investments	330,610	—	1,027,963	155,251	133,416	426,269
Crypto assets held for operating purposes:						
Bitcoin	7,243	—	9,006	5,390	—	5,833
Ethereum	15,775	—	20,176	24,405	—	25,796
Solana	10,275	—	11,625	1,767	—	2,057
Other	40,810	—	71,617	36,015	—	57,070
Total held for operating purposes	74,103	—	112,424	67,577	—	90,756
Crypto assets borrowed:						
Bitcoin	—	36,368	36,368	—	68,149	68,149
Ethereum	—	3,720	3,720	—	—	—
Solana	—	3,516	3,516	—	—	—
Other	—	1,608	1,608	—	—	—
Total borrowed	—	45,212	45,212	—	68,149	68,149
Total crypto assets held	$ 404,713	$ 45,212	$ 1,185,599	$ 222,828	$ 201,565	$ 585,174

(1) Cost amounts shown are net of impairment recognized.
(2) The fair value of crypto assets held is the fair value of assets recorded at cost plus assets recorded at fair value and is based on quoted market prices for one unit of each crypto asset reported on our platform at 11:59 pm Coordinated Universal Time (UTC) on the last day of the respective period multiplied by the quantity of each crypto asset held.
(3) During the fourth quarter of 2022, we entered into futures contracts to hedge our price exposure on crypto assets held as investments. These contracts were closed out during the first quarter of 2023. As of December 31, 2022, the cost and fair value amounts for Bitcoin were $89.9 million and $85.8 million, respectively, and the cost and fair value amounts for Ethereum were $43.7 million and $50.8 million, respectively.

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Crypto assets held as investments

We view our crypto asset investments as long term holdings and we do not plan to engage in regular trading of crypto assets. From time to time, we may enter into derivatives or other financial instruments in an attempt to hedge our price exposure on our crypto assets held as investments. During times of instability in the market of crypto assets, we may not be able to sell our crypto assets at reasonable prices or at all. As a result, our crypto assets are less liquid than our cash and cash equivalents and may not be able to serve as a source of liquidity for us to the same extent as cash and cash equivalents. Customer accommodations and corporate expenses denominated in crypto assets are fulfilled with crypto assets held for operational purposes. We recognized $34.0 million and $501.0 million of gross impairment expense on our crypto asset investment portfolio for the years ended December 31, 2023 and 2022, respectively.

Crypto assets held for operating purposes

We use crypto assets to fulfill corporate expenses denominated in crypto assets, including miner fees, staking rewards, promotional and marketing expenses, and other various expenses totaling $298.3 million and $383.2 million for the years ended December 31, 2023 and 2022, respectively. We recognized $62.8 million and $256.2 million of gross impairment expense on our crypto asset operating portfolio for the years ended December 31, 2023 and 2022, respectively.

Crypto assets borrowed and related collateral

We borrow fiat and crypto assets from eligible institutional customers. These borrowings are generally open-term or have a term of less than one year. Such activities are not material to our business. We are required to maintain a collateral to loan ratio per our borrowing agreements. Any significant change in crypto asset prices could impact the value of the crypto asset borrowed or the value of crypto asset collateral. Recent downward trends in crypto asset prices have not had a material impact on the value of our corporate collateral. If crypto asset prices rise, we will post additional collateral to maintain required collateral loan ratios. We were in compliance with all collateral requirements as of December 31, 2023.

As of December 31, 2023 and 2022, the balance of our assets that we have pledged as collateral on our borrowings consisted of the following (in thousands, except units):

	December 31, 2023		December 31, 2022	
	Units	Fair Value	Units	Fair Value
Asset				
USDC	51,879,705	$ 51,880	47,633,897	$ 47,634
Bitcoin	—	—	650	10,743
Fiat	N/A	1,191	N/A	41,630
Total		$ 53,071		$ 100,007

Our business model does not expose us to liquidity risk if we have excessive redemptions or withdrawals from customers. We do not use customer crypto assets as collateral for any loan, margin, rehypothecation, or other similar activities without their consent to which we or our affiliates are a party, and we did not have any such arrangements as of December 31, 2023. As of December 31, 2023, we have not experienced excessive redemptions or withdrawals, or prolonged suspended redemptions or withdrawals, of crypto assets to date. See *Risk Factors–Depositing and withdrawing crypto assets into and from our platform involves risks, which could result in loss of customer assets, customer disputes and other liabilities, which could adversely impact our business included* in Part I, Item 1A of this Annual Report on Form 10-K for further information.

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Cash requirements and contractual obligations

Certain jurisdictions where we operate require us to hold eligible liquid assets, as defined by applicable regulatory requirements and commercial law in these jurisdictions, equal to at least 100% of the aggregate amount of all customer custodial cash liabilities. Depending on the jurisdiction, eligible liquid assets can include cash and cash equivalents, customer custodial cash, and in-transit customer receivables. As of December 31, 2023 and 2022, our eligible liquid assets were greater than the aggregate amount of customer custodial cash liabilities. We are also required to hold corporate liquid assets at our subsidiaries to meet capital requirements established by our regulators based on the value of crypto assets held in custody. As of December 31, 2023, we were in compliance with these capital requirements.

As of December 31, 2023, our material cash requirements and contractual obligations arising in the normal course of business due within the next 12 months and in total consisted of the following (in thousands):

	Amounts Due	
	Next 12 Months	Total
Operating leases(1)	$ 11,235	$ 15,151
Non-cancelable purchase obligations(2)	245,011	479,226
2026 Convertible Notes(3)		
Interest	6,365	15,930
Principal	—	1,273,013
2028 Senior Notes(4)		
Interest	33,750	168,750
Principal	—	1,000,000
2031 Senior Notes(4)		
Interest	26,733	213,863
Principal	—	737,457
Other(5)	10,573	10,573
Total	$ 333,667	$ 3,913,963

(1) Lease payments due for corporate offices.
(2) Committed spend for non-cancellable purchase obligations greater than $1.0 million per obligation, primarily relating to technology and advertising.
(3) Assumes the 2026 Convertible Notes are not converted into our Class A common stock, repurchased or redeemed prior to maturity.
(4) Assumes the 2028 and 2031 Senior Notes are not repurchased or redeemed prior to maturity.
(5) Remaining amounts committed under a consent order with NYDFS. In January 2023, the NYDFS announced a consent order focused on historical shortcomings in Coinbase, Inc.'s compliance program. Pursuant to the consent order, Coinbase, Inc. paid a $50.0 million penalty in January 2023 and agreed to invest an additional $50.0 million in its compliance function by the end of 2024.

See *Notes 12. Accrued Expenses and Other Current Liabilities, 14. Indebtedness, 20. Income Taxes* and *22. Commitments and Contingencies* of the Notes to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K, for further information relating to our short and long term material cash requirements and contractual obligations as of December 31, 2023.

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Cash flows

The following table summarizes our consolidated statements of cash flows (in thousands):

	Year Ended December 31,		
	2023	2022	2021
Net cash provided by (used in) operating activities	$ 922,951	$ (1,585,419)	$ 4,038,172
Net cash provided by (used in) investing activities	5,392	(663,822)	(1,124,740)
Net cash (used in) provided by financing activities	(811,332)	(5,838,518)	9,976,084
Net increase (decrease) in cash, cash equivalents, and restricted cash	$ 117,011	$ (8,087,759)	$ 12,889,516
Effect of exchange rates on cash, cash equivalents, and restricted cash	$ 8,772	$ (163,257)	$ (64,883)
Change in customer custodial cash	$ (585,666)	$ (5,547,481)	$ 6,762,841

Operating activities

Our largest source of cash provided by operations are revenues generated from transaction fees and stablecoin revenue. Our primary uses of cash from operating activities include payments to employees for compensation, payments for website hosting and infrastructure services, professional services, outsourced customer support costs, and other general corporate expenditures.

Net cash provided by operating activities increased by $2.5 billion for the year ended December 31, 2023 as compared to 2022 primarily due to:

- a $1.1 billion increase in cash provided by USDC conversions primarily to optimize our corporate balance; and
- a decrease in cash expenditures as a result of our cost management efforts.

Net cash used in operating activities increased by $5.6 billion for the year ended December 31, 2022 as compared to 2021 primarily due to:

- a $4.6 billion decrease in total revenues; and
- a $770.7 million increase in cash used to purchase USDC to increase our corporate balances.

Investing activities

Net cash provided by investing activities increased by $669.2 million for the year ended December 31, 2023 as compared to 2022 primarily due to:

- a $614.8 million decrease in cash used to purchase crypto assets for our corporate investment portfolio and a decrease in crypto asset purchases and disposals due to our investments in database and network infrastructure to support heightened trading volumes on our platform in order to reduce unanticipated system disruptions; and
- a $155.4 million decrease in cash used related to fewer business combinations completed in 2023 due to reduced acquisition activity year-over-year as a result of market conditions and a refresh of our strategic priorities in light of these market conditions; offset in part by
- a $193.2 million increase in cash used for net loans originated and repaid related to an increase in consumer demand for these loans due to stabilizing interest rates and increasing crypto asset prices which are used for collateral against these loans thereby increasing borrowing power.

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Net cash used in investing activities decreased by $460.9 million for the year ended December 31, 2022 as compared to 2021 primarily due to:

- a decrease in strategic equity investments. In 2021, our overall discretionary investing activity grew significantly as we saw rapid acceleration in the pace of innovation in our industry. This drove higher investment volume and spend as: (i) we saw growth in new company formation and invested broadly across the ecosystem through our venture investing program and (ii) we made select larger corporate investments in companies that provided us with exposure to new or complementary areas of crypto (e.g., geographic regions where we did not operate). Our investing activity significantly declined year-over-year in 2022 as macroeconomic conditions shifted and led to tightening in the broader capital markets. We also significantly reduced corporate investing activity due to a refresh of our strategic priorities in light of market changes. While our strategic investing activity declined in 2022 relative to 2021, with cash outflows of $326.5 million for the year ended December 31, 2021 compared to $63.0 million for the year ended December 31, 2022, we continued to invest at a higher rate than in 2020, both in terms of deal volume and spend;
- a $331.9 million decrease in net loans originated and repaid as we have seen a decline in consumer demand for these loans due to increasing interest rates and declining crypto assets prices which are used for collateral against these loans thereby decreasing borrowing power; offset in part by
- a $115.2 million increase in cash used for business combinations completed in 2022 due to changes in market conditions; and
- a $39.0 million increase in our capitalized software costs as we focused efforts on optimizing our platform through investments in database and network infrastructure launching new products, adding payment rails and expanding internationally.

Financing activities

Net cash used in financing activities decreased by $5.0 billion for the year ended December 31, 2023 as compared to 2022 primarily due to:

- a $5.3 billion decrease of customer custodial cash liabilities as a result of a decline in fiat balances held on our platform due to a decrease in market sentiment, as discussed in the section titled "*—Key Business Metrics*" above, and customers seeking higher yields on cash holdings in banks and USDC holdings on our platform; and
- a $74.1 million decrease in taxes paid related to net share settlements of equity awards due the overall decrease in headcount and the decline in our stock price on the vesting dates, the taxable event. Our choice to net settle employee awards and pay taxes is routinely evaluated by management and may change in the future; offset in part by
- an increase of $303.5 million in cash used for long-term debt repurchases that began in June 2023.

Net cash used in financing activities increased by $15.8 billion for the year ended December 31, 2022 as compared to 2021 primarily due to:

- a decrease in customer custodial cash liabilities of $5.6 billion as we saw an overall decline in fiat balances held on our platform due to lower customer trading activity as compared to an inflow of $6.7 billion in the prior year;
- a decrease of net $3.4 billion related to the issuance of our Senior Notes and 2026 Convertible Notes, which did not recur in 2022; and

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- a $165.6 million decrease in proceeds from the issuance of Class A and Class B common stock upon the exercise of stock options as our stock price was at an all-time high in 2021 as compared to 2022, coupled with our first year as a public company and the associated liquidity event this provided for holders of our stock options.

Critical Accounting Estimates

Our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K are prepared in accordance with GAAP. The preparation of consolidated financial statements also 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, operating results, and cash flows will be affected.

See *Note 2. Summary of Significant Accounting Policies* of the Notes to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K for a summary of significant accounting policies and significant estimates and assumptions and their effects on our financial statements. Below are the significant estimates and assumptions that we consider critical because they involve a significant amount of estimation uncertainty and have had or are reasonably likely to have a material impact on our financial condition or results of operations.

Business combinations, goodwill, and intangible assets

We determined that business combinations, goodwill, and intangible assets represent critical accounting estimates, as they involve significant judgment, estimates, and assumptions and to the extent that our estimates and assumptions materially change or if actual circumstances differ from those in the assumptions, our financial statements could be materially impacted.

We account for our business combinations using the acquisition method of accounting, which requires, among other things, allocation of the fair value of purchase consideration to the tangible and intangible assets acquired and liabilities assumed at their estimated fair values on the acquisition date. When determining the fair value of assets acquired and liabilities assumed, we make significant estimates and assumptions, especially with respect to non-crypto intangible assets. These intangible assets do not have observable prices and have primarily consisted of customer relationships, developed technology, licenses, trademarks and trade names, and non-compete agreements, which are recorded at acquisition date fair value, less accumulated amortization. These estimates and assumptions can include, but are not limited to, the cash flows that an asset is expected to generate in the future, the appropriate weighted-average cost of capital, the number of working hours required to recreate the intangible asset (if following the cost approach), and the estimated useful lives. Changes in these assumptions could affect the carrying value of these assets. Our estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and, as a result, actual results may differ from estimates.

Goodwill

We perform an impairment test annually in the fourth quarter or whenever events or changes in circumstances indicate that the carrying value of goodwill might not be fully recoverable. In accordance with applicable accounting guidance, a company can assess qualitative factors to determine whether it is necessary to perform a goodwill impairment test. Alternatively, a company may elect to proceed directly to a quantitative goodwill impairment test. We do the former and assess qualitative factors to determine whether it is necessary to perform a goodwill impairment test. We review factors including changes in our stock price, macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, changes in any key personnel, and any changes in the composition of the carrying amount of our assets. There were no changes to the qualitative factors considered indicating an impairment of goodwill for the reporting periods presented. In the future, if there are material changes in the underlying

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estimates and assumptions pertaining to the impairment assessment, our financial statements could be materially impacted. For the reporting periods presented, we determined that it was more likely than not that the fair value of our reporting unit was more than the respective related carrying amounts, including goodwill, and therefore we did not record any goodwill impairment. Management also concluded that the Company's reporting unit was not at risk of failing this test as of December 31, 2023.

Intangible assets

Intangible assets are initially valued at fair value using generally accepted valuation methods appropriate for the type of intangible asset. Intangible assets with definite lives are amortized over their estimated useful lives and are reviewed for impairment if indicators of impairment arise. Intangible assets assessed as having indefinite lives are not amortized, but are assessed for indicators that the useful life is no longer indefinite or for indicators of impairment each period. Indicators we review, as applicable, include whether there has been a significant adverse change in the extent or manner in which our assets are being used, a significant adverse change in legal factors affecting our assets, customer attrition, and/or a cash flow loss. Due to the dynamic nature of our business and the regulatory environment in which we operate, it is not practicable to model sensitivity of the valuation of these assets to these factors. Each reporting period, we evaluate the estimated remaining useful life of our intangible assets and whether events or changes in circumstances warrant a revision to the remaining period of amortization. We did not identify indicators of impairment of our intangible assets during the reporting periods presented. In the future, if there are material changes in the underlying estimates and assumptions pertaining to the impairment assessment, our financial statements could be materially impacted.

Strategic investments

We hold strategic investments in privately held companies in the form of equity securities without readily determinable fair values in which we do not have a controlling interest or significant influence. The vast majority of these investments are accounted for under the measurement alternative method ("the measurement alternative") and are measured at cost, less impairment, subject to upward and downward adjustments resulting from observable price changes for identical or similar investments of the same issuer ("pricing adjustments"). We determined that valuation of privately-held strategic investments represents a critical accounting estimate because impairment evaluations and pricing adjustments involve significant judgment, estimates, and assumptions, and to the extent that these estimates and assumptions change materially or if actual circumstances differ from those in the assumptions, our financial statements could be materially impacted.

Pricing adjustments

Pricing adjustments require quantitative assessments of the fair value of our strategic investments, which may require the use of unobservable inputs. Pricing adjustments are determined by using various valuation methodologies and involve the use of estimates using the best information available, which may include cash flow projections or other available market data.

Impairment

Privately-held strategic investments are evaluated quarterly for impairment. Our qualitative analysis includes a review of indicators such as: operating results when available, business prospects of the investees, changes in the regulatory and macroeconomic environment, observable price changes in similar transactions, and general market conditions of the geographical area or industry in which our investees operate. If indicators of impairment exist, we prepare quantitative measurements of the fair value of our equity investments using an Option-Pricing Model that uses publicly available market data of comparable companies and other unobservable inputs including expected volatility, expected time to liquidity, adjustments for other company-specific developments, and the rights and obligations of the securities we hold. When the quantitative remeasurements of fair value indicate an impairment exists, we write down the investment to its current fair value.

We anticipate volatility to our net income (loss) in future periods due to changes in the fair values associated with these investments and changes in observable prices and similar transactions that could impact our fair value assessments. Based on future market conditions, these changes could be material to our financial statements. For more information regarding these market conditions and related sensitivity, see the section titled "*Item 7A. Quantitative and Qualitative Disclosures about Market Risk – Equity investment risk*. See *Note 11. Prepaid expenses and other current and non-current assets* of the Notes to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K for details of changes, which were material, in our strategic investments for the years ended December 31, 2023 and 2022.

Income taxes

We determined that income taxes involve critical accounting estimates because management makes significant estimates, assumptions, and judgments to determine our provision for income taxes, deferred tax assets and liabilities, and any valuation allowance recorded against deferred tax assets, and to the extent that our estimates and assumptions materially change, or if actual circumstances differ materially from those in the assumptions, our financial statements could be materially impacted.

We utilize the asset and liability method for computing our income tax provision. Deferred tax assets and liabilities reflect the expected future consequences of temporary differences between the financial reporting and tax bases of assets and liabilities as well as operating loss, capital loss, and tax credit carryforwards, using enacted tax rates. We assess the likelihood that our deferred tax assets will be recovered from future taxable income and, to the extent we believe that recovery is not likely, we establish a valuation allowance. Assessing the need for a valuation allowance requires a great deal of judgement and we consider all available evidence, both positive and negative, to determine whether it is more likely than not that our deferred tax assets are recoverable. We evaluate all available evidence including, but not limited to, history of earnings and losses, forecasts of future taxable income, and the weight of evidence that can be objectively verified. See *Note 20. Income taxes* of the Notes to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K for details of changes in our valuation allowance for the years ended December 31, 2023, 2022, and 2021.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. Interest and penalties related to unrecognized tax benefits are recognized within provision for income taxes. See *Note 20. Income taxes* of the Notes to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K for details of changes in unrecognized tax benefits for the years ended December 31, 2023, 2022, and 2021.

For U.S. federal tax purposes, crypto asset transactions are treated on the same tax principles as property transactions. We recognize a gain or loss when crypto assets are exchanged for other property, in the amount of the difference between the fair market value of the property received and the tax basis of the exchanged crypto assets. Receipts of crypto assets in exchange for goods or services are included in taxable income at the fair market value on the date of receipt.

Legal and other contingencies

We are subject to various legal proceedings and claims that arise in the ordinary course of business, the outcomes of which are inherently uncertain, and such uncertainty may be enhanced due to the industry in which we operate. We record a liability when it is probable that a loss has been incurred and the amount is reasonably estimable, the determination of which requires significant judgment. In addition, we record recoveries of these losses when it is probable that they will be collected. These estimates are highly sensitive to change and involve variables that are not completely within our control nor practicable to model, including decisions made by regulators and settlement negotiations. Resolution of legal and

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other contingencies in a manner inconsistent with management's expectations could have a material impact on our financial condition and results of operations. See the section titled "*—Results of operations—Comparison of the years ended December 31, 2023, 2022, and 2021—Operating expenses—General and administrative expenses*" above for discussion of material changes in legal and other contingencies during the years ended December 31, 2023, 2022, and 2021.

Recent Accounting Pronouncements

See *Note 2. Summary of Significant Accounting Policies* of the Notes to our consolidated financial statements included in Part II, Item 8 of this Annual Report on Form 10-K for a discussion of new accounting pronouncements adopted and not yet adopted as of the date of this Annual Report on Form 10-K.

A. UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The following is an illustrative unaudited pro forma consolidated statement of assets and liabilities of Brainhole Technology Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") (the "**Unaudited Pro Forma Financial Information**") prepared in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants and on the basis of the notes set out below, to illustrate the financial position of the Group as if the further disposal and acquisition of listed securities (the "**Major Transaction**") had been completed on 30 June 2023.

This Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purpose only and because of its hypothetical nature, it may not purport to represent the true picture of the financial position of the Group had the Major Transaction been completed on 30 June 2023. The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

Unaudited pro forma statement of assets and liabilities of the Group

	Unaudited 30 June 2023	Pro forma adjustment (1)	Pro forma adjustment (2)	Pro forma adjustment (3)	Unaudited Pro forma 30 June 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	
Non-current assets					
Plant and equipment	48,235				48,235
Right-of-use assets	5,499				5,499
Intangible assets	891				891
Deferred tax assets	15,748				15,748
Prepayment for plant and equipment	905				905
	71,278				71,278

	Unaudited 30 June 2023	**Pro forma adjustment (1)**	**Pro forma adjustment (2)**	**Pro forma adjustment (3)**	**Unaudited Pro forma 30 June 2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	
Current assets					
Inventories	38,915				38,915
Trade and other receivables	95,708				95,708
Contract assets	1,531				1,531
Amounts due from related companies	7,849				7,849
Financial assets at fair value through profit or loss	54,384	(13,527)	37,811	(22,272)	56,396
Bank balances and cash	44,825	13,493	(37,905)	22,216	42,629
	243,212				243,028
Current liabilities					
Trade and other payables	83,124				83,124
Bank borrowings	5,537				5,537
Lease liabilities	2,394				2,394
Deferred income	387				387
Loan from an immediate holding company	486				486
Loans from related companies	52,973				52,973
Income tax payables	33				33
	144,934				144,934
Net current assets	98,278				98,094
Total assets less current liabilities	169,556				169,372

	Unaudited 30 June 2023 HK$'000 (Note 1)	Pro forma adjustment (1) HK$'000 (Note 2)	Pro forma adjustment (2) HK$'000 (Note 3)	Pro forma adjustment (3) HK$'000 (Note 4)	Unaudited Pro forma 30 June 2023 HK$'000
Non-current liabilities					
Lease liabilities	3,474				3,474
Deferred tax liability	260				260
Deferred income	1,862				1,862
Loan from ultimate controlling party	80,824				80,824
	86,420				86,420
	83,136				82,952
Capital and reserves					
Share capital	8,000				8,000
Reserves	75,136	(34)	(94)	(56)	74,952
	83,136				82,952

Notes to the unaudited pro forma statement of assets and liabilities of the Group:

(1) The unaudited consolidated statement of financial position of the Company as at 30 June 2023 has been extracted from the interim report of the Company dated 30 August 2023.

(2) The Group previously disposed Coinbase Global, Inc. (Nasdaq stock code: COIN) shares ("**Coinbase Shares**") through the open market with details below. Total consideration of Coinbase Shares was HK$13,493,000, being assumed to the fair value of Coinbase Shares as at 30 June 2023.

Trade date	Number of shares disposed	Average selling price per share US$	Average selling price per share HK$	Consideration (excluding stamp duty and related expenses) HK$'000	Stamp duty and related expenses HK$'000	Total consideration HK$'000
24 January 2024	10,700	126	984	10,529	26	10,503
6 February 2024	3,220	120	931	2,998	8	2,990
				13,527	**34**	**13,493**

(3) The Group previously acquired Coinbase Shares through the open market with details below. Total consideration of Coinbase Shares was HK$37,905,000, being assumed to the fair value of Coinbase Shares as at 30 June 2023.

Trade date	**Number of shares acquired**	**Average purchase price per share**	**Average purchase price per share**	**Consideration (excluding stamp duty and related expenses)**	**Stamp duty and related expenses**	**Total consideration**
		US$	*HK$*	*HK$'000*	*HK$'000*	*HK$'000*
4 December 2023	10,700	143	1,115	11,934	30	11,964
19 December 2023	3,200	161	1,249	3,996	10	4,006
27 December 2023	3,470	184	1,432	4,969	12	4,981
14 February 2024	5,710	157	1,220	6,964	18	6,982
15 February 2024	3,740	170	1,326	4,958	12	4,970
16 February 2024	3,470	185	1,438	4,990	12	5,002
				37,811	**94**	**37,905**

(4) The Group disposed Coinbase Shares through the open market with details below. Total consideration of Coinbase Shares was HK$22,216,000, being assumed to the fair value of Coinbase Shares as at 30 June 2023.

Trade date	**Number of shares disposed**	**Average selling price per share**	**Average selling price per share**	**Consideration (excluding stamp duty and related expenses)**	**Stamp duty and related expenses**	**Total consideration**
		US$	*HK$*	*HK$'000*	*HK$'000*	*HK$'000*
20 February 2024	16,370	175	1,361	22,272	56	22,216
				22,272	**56**	**22,216**

B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of the independent reporting accountants' assurance report received from CWK CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of Company, in respect of the unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

CWK
中主環球

The Directors
Suites 1801–03
18/F, One Taikoo Place
979 King's Road
Quarry Bay
Hong Kong

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Brainhole Technology Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities of the Group as at 30 June 2023, and related notes as set out on pages IV-1 to IV-4 of Appendix IV of the circular dated 24 May 2024 (the "**Circular**") (the "**Unaudited Pro Forma Financial Information**") issued by the Company in connection with the further disposal and acquisition of listed securities (the "**Major Transaction**"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described on IV-1 to IV-4 of Appendix IV of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the Major Transaction on the Group's financial position as at 30 June 2023 as if the transaction had taken place at 30 June 2023. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the period ended 30 June 2023, on which an unaudited interim report has been published.

Directors' responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline ("**AG**") 7 Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our independence and quality management

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our firm applies Hong Kong Standard on Quality Management 1 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of the Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of Major Transaction on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

CWK CPA Limited
Certified Public Accountants
Hong Kong,

24 May 2024

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' and chief executives' interests and short positions in shares of the Company

As at the Latest Practicable Date, the Directors and chief executives of the Company and their associates had the following interests in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules (the "**Model Code**") to be notified to the Company and the Stock Exchange.

Long positions in the shares and underlying shares of the Company

Name of Director	Nature of interest	Number of ordinary shares held	Approximate percentage of interest in the Company as at Latest Practicable Date
Mr. Zhang Liang Johnson	Interest of controlled Corporation *(Note)*	599,658,000 Shares (L)	74.96%

(L) denotes long position

Note: Mr. Zhang Liang Johnson, an executive Director, was interested in 599,658,000 Shares, representing approximately 74.96% of the Company's issued share capital, through Yoho Bravo Limited which is wholly-owned by him.

(b) Substantial Shareholders' interests and short positions

Name of Shareholder	Nature of interest	Number of ordinary shares held	Approximate percentage of interest in our Company as at the Latest Practicable Date
Yoho Bravo Limited *(Note)*	Beneficial owner	599,658,000 (L)	74.96%

(L) denotes long position

Note: Mr. Zhang Liang Johnson, an executive Director, was interested in 599,658,000 Shares, representing approximately 74.96% of the Company's issued share capital, through Yoho Bravo Limited which is wholly-owned by him.

Save as disclosed herein, at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO); or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors is a director or employee of a company which had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors entered, or proposed to enter, into any service contract with any member of the Group, excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensation).

4. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS OF THE GROUP

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors had any interest, either directly or indirectly, in any assets which has since 31 December 2023 (being the date to which the latest published audited consolidated financial statements of the Company were made up) been acquired or disposed of by or leased to, any member of the Group or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date and which is significant in relation to the businesses of any member of the Group.

5. MATERIAL CONTRACTS

The Group has entered into the following contract (not being contract entered into in the ordinary course of business) within the two years immediately preceding the Latest Practicable Date which is or may be material:

(a) on 31 July 2023 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 131,400 American depository shares of XPeng Inc. through the open market at the aggregate consideration of approximately US$2.6 million (equivalent to approximately HK$20.6 million) (for which no written contract was entered into between the parties thereto);

(b) on 20 December 2023 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 17,650 Class A common stocks of Affirm Holdings, Inc. through the open market at the aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$7.0 million) (for which no written contract was entered into between the parties thereto);

(c) on 24 January 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 1,910 common stocks of NVIDIA Corporation through the open market at the aggregate consideration of approximately US$1.1 million (equivalent to approximately HK$8.9 million) (for which no written contract was entered into between the parties thereto);

(d) on 30 January 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 1,960 common stocks of Super Micro Computer, Inc. through the open market at the aggregate consideration of approximately US$1.0 million (equivalent to approximately HK$8.0 million) (for which no written contract was entered into between the parties thereto);

(e) on 30 January 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 1,430 common stocks of NVIDIA Corporation through the open market at the aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$7.0 million) (for which no written contract was entered into between the parties thereto);

(f) on 6 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the Further Disposal of Coinbase Shares through the open market at the aggregate consideration of approximately US$0.4 million (equivalent to approximately HK$3.0 million) (for which no written contract was entered into between the parties thereto);

(g) on 15 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the Further Acquisition of Coinbase Shares through the open market at the aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (for which no written contract was entered into between the parties thereto);

(h) on 15 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 880 common stocks of NVIDIA Corporation through the open market at the aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (for which no written contract was entered into between the parties thereto);

(i) on 16 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 2,650 common stocks of NVIDIA Corporation through the open market at the aggregate consideration of approximately US$1.9 million (equivalent to approximately HK$15.0 million) (for which no written contract was entered into between the parties thereto);

(j) on 16 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the February 16 Further Acquisition of Coinbase Shares through the open market at the aggregate consideration of approximately US$0.6 million (equivalent to approximately HK$5.0 million) (for which no written contract was entered into between the parties thereto);

(k) on 16 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 1,020 common stocks of Super Micro Computer, Inc. through the open market at the aggregate consideration of approximately US$1.0 million (equivalent to approximately HK$7.0 million) (for which no written contract was entered into between the parties thereto);

(l) on 20 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the Disposal of Coinbase Shares through the open market at the aggregate consideration of approximately US$2.9 million (equivalent to approximately HK$22.3 million) (for which no written contract was entered into between the parties thereto);

(m) on 20 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 213,000 domestic shares of Seres Group Co., Ltd. through the open market at the aggregate consideration of approximately RMB15.5 million (equivalent to approximately HK$17.1 million) (for which no written contract was entered into between the parties thereto);

(n) on 21 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 51,500 domestic shares of Seres Group Co., Ltd. through the open market at the aggregate consideration of approximately RMB3.7 million (equivalent to approximately HK$4.0 million) (for which no written contract was entered into between the parties thereto);

(o) on 22 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 1,920 common stocks of Super Micro Computer, Inc. through the open market at the aggregate consideration of approximately US$1.7 million (equivalent to approximately HK$12.9 million) (for which no written contract was entered into between the parties thereto);

(p) on 28 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 93,800 domestic shares of Seres Group Co., Ltd. through the open market at the aggregate consideration of approximately RMB8.3 million (equivalent to approximately HK$9.1 million) (for which no written contract was entered into between the parties thereto);

(q) on 29 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 1,490 Super Micro Shares through the open market at the aggregate consideration of approximately US$1.3 million (equivalent to approximately HK$9.9 million) (for which no written contract was entered into between the parties thereto);

(r) on 27 February 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 33,350 class A common stocks of Affirm Holdings, Inc. through the open market at the aggregate consideration of approximately US$1.3 million (equivalent to approximately HK$9.9 million) (for which no written contract was entered into between the parties thereto);

(s) on 1 March 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 101,200 domestic shares of Seres Group Co., Ltd. through the open market at the aggregate consideration of approximately RMB9.2 million (equivalent to approximately HK$10.1 million) (for which no written contract was entered into between the parties thereto);

(t) on 6 March 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 780 common stocks of Super Micro Computer, Inc. through the open market at the aggregate consideration of approximately US$0.9 million (equivalent to approximately HK$6.9 million) (for which no written contract was entered into between the parties thereto);

(u) on 7 March 2024, the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 305,000 domestic shares of IEIT SYSTEMS Co., Ltd. through the open market at the aggregate consideration of approximately RMB12.9 million (equivalent to approximately HK$14.2 million) (for which no written contract was entered into between the parties thereto);

(v) on 21 March 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 23,200 common stocks of Micron Technology, Inc. through the open market at the aggregate consideration of approximately US$2.6 million (equivalent to approximately HK$19.8 million) (for which no written contract was entered into between the parties thereto);

(w) on 21 March 2024 (after trading hours of the Stock Exchange), the Company executed a trade order with BOCI Securities Limited relating to the disposal of 181,000 domestic shares of Seres Group Co., Ltd. through the open market at the aggregate consideration of approximately RMB18.4 million (equivalent to approximately HK$20.3 million) (for which no written contract was entered into between the parties thereto);

(x) on 22 March 2024, the Company executed a trade order with BOCI Securities Limited relating to the acquisition of 650,000 ordinary shares of Pop Mart International Group Limited through the open market at the aggregate consideration of approximately HK$18.0 million (for which no written contract was entered into between the parties thereto);

(y) on 22 March 2024, the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 94,000 domestic shares of Seres Group Co., Ltd. through the open market at the aggregate consideration of approximately RMB9.2 million (equivalent to approximately HK$10.2 million) (for which no written contract was entered into between the parties thereto);

(z) on 1 April 2024, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 10,400 common stocks of Micron Technology, Inc. through the open market at the aggregate consideration of approximately US$1.3 million (equivalent to approximately HK$10.0 million) (for which no written contract was entered into between the parties thereto);

(aa) on 1 April 2024, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 740 common stocks of Super Micro Computer, Inc. through the open market at the aggregate consideration of approximately US$0.8 million (equivalent to approximately HK$6.0 million) (for which no written contract was entered into between the parties thereto);

(bb) on 2 April 2024, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 166,000 ordinary shares of Pop Mart International Group Limited through the open market at the aggregate consideration of approximately HK$5.0 million (for which no written contract was entered into between the parties thereto);

(cc) on 23 April 2024, the Company executed a trade order with BOCI Securities Limited relating to the further acquisition of 145,000 ordinary shares of Pop Mart International Group Limited through the open market at the aggregate consideration of approximately HK$5.0 million (for which no written contract was entered into between the parties thereto);

(dd) on 30 April 2024, the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 66,100 domestic shares of Seres Group Co., Ltd. through the open market at the aggregate consideration of approximately RMB6.5 million (equivalent to approximately HK$7.1 million) (for which no written contract was entered into between the parties thereto); and

(ee) on 7 May 2024, the Company executed a trade order with BOCI Securities Limited relating to the further disposal of 82,900 domestic shares of Seres Group Co., Ltd. through the open market at the aggregate consideration of approximately RMB7.3 million (equivalent to approximately HK$8.0 million) (for which no written contract was entered into between the parties thereto).

6. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, the Group is not engaged in any material litigation or arbitration proceedings nor is any material litigation or claim pending or threatened against it.

7. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors are aware of, none of the Directors nor their respective close associates had any interest in any business which competes or is likely to compete, or is in conflict or is likely to be in conflict, either directly or indirectly, with the business of the Group.

8. EXPERT AND CONSENT

The following is the qualification of the expert who has given opinion or advice contained in this circular:

Name	Qualification
CWK CPA Limited	Certified Public Accountants under Professional Accountant Ordinance (Cap. 50 of Laws of Hong Kong) and Registered Public Interest Entity Auditor under Financial Reporting Council Ordinance (Cap. 588 of Laws of Hong Kong)

CWK CPA Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its report or letter (as the case may be) and references to its name in the form and context in which they are included.

As at the Latest Practicable Date, CWK CPA Limited had no shareholding in any member of the Group, nor did it have any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of the Group.

As at the Latest Practicable Date, CWK CPA Limited did not have any direct or indirect interest in any assets which have been, since 31 December 2023 (being the date to which the latest published audited financial statements of the Group were made up), acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to any member of the Group.

The letter or report (as the case may be) from the above expert is given as at the date of this circular for incorporation therein.

9. GENERAL

(a) The registered address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, the Cayman Islands.

(b) The principal place of business of the Company in Hong Kong is at Suites 1801-03, 18/F, One Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong.

(c) The Hong Kong share registrar of the Company is Tricor Investor Services Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong.

(d) The company secretary of the Company is Ms. Wong Tik. Ms. Wong was appointed as company secretary and authorised representative of the Company on 1 September 2023. Ms. Wong is a certified public accountant and an associate member of the Hong Kong Institute of Certified Public Accountants.

(e) In the event of any inconsistency, the English version of this circular shall prevail over the Chinese version.

10. DOCUMENTS ON DISPLAY

Copies of memorandums giving full particulars of each of the transaction contemplated under the Further Disposal of Coinbase Shares, the Further Acquisition of Coinbase Shares, the February 16 Further Acquisition of Coinbase Shares and the Disposal of Coinbase Shares (material contracts (f), (g), (j) and (l) as mentioned above) will be published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (http://www.brainholetechnology.com) for a period of 14 days from the date of this circular.