

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

FORM 10-Q

(Mark One)

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

For the three months ended June 30, 2023

OR

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

For the transition period from to

Commission file number 001-35618

LegalZoom.com, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

95-4752856

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

101 North Brand Boulevard,
11th Floor, Glendale, California 91203

(Address of Principal Executive Offices, including Zip code)

(323) 962-8600

Registrant's telephone number, including area code

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	LZ	The Nasdaq Global Select Market

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

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

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

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

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

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

As of August 3, 2023, the registrant had outstanding 191,789,748 shares of common stock, \$0.001 par value per share, outstanding.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts contained in this Quarterly Report on Form 10-Q may be forward-looking statements. In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “targets,” “projects,” “contemplates,” “believes,” “estimates,” “forecasts,” “predicts,” “potential” or “continue” or the negative of these terms or other similar expressions. Forward-looking statements contained in this Quarterly Report on Form 10-Q include, but are not limited to, statements regarding our future results of operations and financial position, industry and business trends, stock compensation, business strategy, plans, market growth and our objectives for future operations.

The forward-looking statements in this Quarterly Report on Form 10-Q are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements, including but not limited to those factors discussed below under “Summary of Risk Factors” and in Part II, Item 1A, “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q, as well as those in our subsequent filings with the Securities and Exchange Commission, or SEC. The forward-looking statements in this Quarterly Report on Form 10-Q are based upon information available to us as of the date of this Quarterly Report on Form 10-Q, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

You should read this Quarterly Report on Form 10-Q and the documents that we reference herein and have filed as exhibits to this Quarterly Report on Form 10-Q with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained in this Quarterly Report on Form 10-Q, whether as a result of any new information, future events or otherwise.

Summary of Risk Factors

Our business involves significant risks and you are urged to carefully consider the risks discussed under Part II, Item 1A, “Risk Factors” in this Quarterly Report on Form 10-Q prior to making an investment in us. These risks include, but are not limited to, the following:

- Our recent growth may not be indicative of our future growth and, if we continue to grow, we may not be able to manage our growth effectively.
 - Our business primarily depends on business formations and fluctuations or declines in the number of business formations may adversely affect our business.
 - Our business depends substantially on converting our transactional customers to subscribers and our subscribers renewing their subscriptions with us and expanding their use of our platform.
 - Our future quarterly results of operations may fluctuate significantly due to a wide range of factors, which makes our future results difficult to predict.
 - We have a history of net losses, we anticipate increasing expenses in the future, and we may not be able to maintain profitability.
 - If we fail to provide high-quality services, customer care and customer experience and add new services that meet our customers’ expectations, we may not be able to attract and retain customers.
 - If we do not continue to innovate and provide a platform that is useful to our customers, we may not remain competitive, and our results of operations could suffer.
 - The legal solutions market is highly competitive and our failure to compete successfully could materially and adversely affect our business, results of operations, financial condition and future prospects.
 - Our business depends on our brand and reputation, which could be adversely affected by numerous factors.
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- If our marketing efforts are unsuccessful, our ability to attract new customers or retain existing customers may be adversely affected, which may adversely affect our business, results of operations, financial condition and future prospects.
- We depend on top talent, including our senior management team, to grow and operate our business, and if we are unable to hire, retain or motivate our employees, including as a result of our remote-first workforce policy, we may not be able to grow or operate effectively, which may adversely affect our business and future prospects.
- Our business and success depend in part on our strategic relationships with third-parties, including our partner ecosystem, and our business would be harmed if we fail to maintain or expand these relationships.
- We have identified material weaknesses in our internal control over financial reporting and, if we fail to remediate these material weaknesses, we may not be able to accurately or timely report our financial condition or results of operations, which may adversely affect investor confidence and the price of our common stock.
- The recent restatement of certain of our unaudited condensed consolidated financial statements may affect investor confidence and raise reputational issues and may subject us to additional risks and uncertainties, including increased professional costs and the increased possibility of legal proceedings and regulatory inquiries.
- Our business and services subject us to complex and evolving U.S. and foreign laws and regulations regarding the unauthorized practice of law, legal document processing, legal plans, tax preparation and other related matters, and any failure or perceived failure by us to comply with applicable laws and regulations may subject us to regulatory inquiries, claims, suits, and prosecutions, as well as changes in our service offerings, potential liabilities, or additional costs.

Note Regarding Third-Party Information

This Quarterly Report on Form 10-Q includes market data and certain other statistical information and estimates that are based on reports and other publications from industry analysts, market research firms, and other independent sources, as well as management's own good faith estimates and analyses. We believe these third-party reports to be reputable, but have not independently verified the underlying data sources, methodologies, or assumptions. The reports and other publications referenced are generally available to the public and were not commissioned by LegalZoom.com, Inc. Information that is based on estimates, forecasts, projections, market research, or similar methodologies is inherently subject to uncertainties, and actual events or circumstances may differ materially from events and circumstances reflected in this information.

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Part I**Item 1. Condensed Consolidated Financial Statements (Unaudited)****LegalZoom.com, Inc.****Unaudited Condensed Consolidated Balance Sheets**
(In thousands, except par values)

	June 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$ 238,937	\$ 189,082
Accounts receivable, net of allowances of \$5,734 and \$4,730, respectively	13,495	13,177
Prepaid expenses and other current assets	13,308	16,699
Current assets held for sale	22,722	22,722
Total current assets	288,462	241,680
Property and equipment, net	38,894	30,823
Goodwill	63,265	63,229
Intangible assets, net	16,317	18,900
Operating lease right-of-use assets	9,875	11,148
Deferred income taxes	21,831	29,380
Available-for-sale debt securities	1,004	995
Other assets	8,989	9,240
Total assets	<u>\$ 448,637</u>	<u>\$ 405,395</u>
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 33,307	\$ 25,312
Accrued expenses and other current liabilities	52,349	57,373
Deferred revenue	179,432	164,200
Operating lease liabilities	2,405	2,317
Total current liabilities	267,493	249,202
Operating lease liabilities, non-current	7,800	8,958
Deferred revenue	711	892
Other liabilities	4,284	3,968
Total liabilities	280,288	263,020
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 100,000 shares authorized at June 30, 2023 and December 31, 2022, none issued or outstanding at June 30, 2023 and December 31, 2022	—	—
Common stock, \$0.001 par value; 1,000,000 shares authorized; 191,657 shares and 190,822 shares issued and outstanding at June 30, 2023 and December 31, 2022, respectively	191	190
Additional paid-in capital	1,070,461	1,032,550
Accumulated deficit	(902,633)	(891,862)
Accumulated other comprehensive income	330	1,497
Total stockholders' equity	168,349	142,375
Total liabilities and stockholders' equity	<u>\$ 448,637</u>	<u>\$ 405,395</u>

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

LegalZoom.com, Inc.

Unaudited Condensed Consolidated Statements of Operations
(In thousands, except per share amounts)

	Three Months Ended June 30,		Six months ended June 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
Revenue	\$ 168,854	\$ 162,649	\$ 334,790	\$ 318,076
Cost of revenue	63,748	57,151	124,143	113,333
Gross profit	105,106	105,498	210,647	204,743
Operating expenses:				
Sales and marketing	53,525	71,721	113,675	148,595
Technology and development	19,900	16,197	39,583	34,156
General and administrative	26,936	28,969	53,440	58,457
Total operating expenses	100,361	116,887	206,698	241,208
Income (loss) from operations	4,745	(11,389)	3,949	(36,465)
Interest income (expense), net	2,153	29	3,734	(24)
Other income (expense), net	624	(2,022)	1,318	(3,566)
Income (loss) before income taxes	7,522	(13,382)	9,001	(40,055)
Provision for (benefit from) income taxes	6,127	(639)	9,964	(1,559)
Net income (loss)	\$ 1,395	\$ (12,743)	\$ (963)	\$ (38,496)
Net income (loss) per share attributable to common stockholders—basic:	\$ 0.01	\$ (0.06)	\$ (0.01)	\$ (0.19)
Net income (loss) per share attributable to common stockholders—diluted:	\$ 0.01	\$ (0.06)	\$ (0.01)	\$ (0.19)
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders—basic:	191,342	197,819	191,318	198,040
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders—diluted:	194,826	197,819	191,318	198,040

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

LegalZoom.com, Inc.

Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)
(In thousands)

	Three Months Ended June 30,		Six months ended June 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
Net income (loss)	\$ 1,395	\$ (12,743)	\$ (963)	\$ (38,496)
Other comprehensive (loss) income, net of tax:				
Change in foreign currency translation adjustments	(536)	2,209	(1,167)	3,611
Change in available-for-sale debt securities due to unrealized gains	—	—	—	38
Total other comprehensive (loss) income	(536)	2,209	(1,167)	3,649
Total comprehensive income (loss)	\$ 859	\$ (10,534)	\$ (2,130)	\$ (34,847)

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

LegalZoom.com, Inc.

Unaudited Condensed Consolidated Statements of Stockholders' Equity
(In thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2022	190,822	\$ 190	\$ 1,032,550	\$ (891,862)	\$ 1,497	\$ 142,375
Issuance of common stock upon exercise of stock options	28	—	22	—	—	22
Issuance of common stock upon vesting of restricted stock awards	1,164	1	(1)	—	—	—
Stock-based compensation	—	—	17,378	—	—	17,378
Repurchased common stock	(771)	(1)	—	(6,767)	—	(6,768)
Other comprehensive loss	—	—	—	—	(631)	(631)
Net loss	—	—	—	(2,358)	—	(2,358)
Balance at March 31, 2023	191,244	\$ 190	\$ 1,049,948	\$ (900,987)	\$ 866	\$ 150,017
Issuance of common stock upon exercise of stock options and ESPP	362	—	2,951	—	—	2,951
Issuance of common stock upon vesting of restricted stock awards	661	1	(1)	—	—	—
Shares surrendered for settlement of minimum statutory tax withholdings	(232)	—	(2,469)	—	—	(2,469)
Stock-based compensation	—	—	20,031	—	—	20,031
Repurchased common stock	(378)	—	—	(3,041)	—	(3,041)
Other comprehensive loss	—	—	—	—	(536)	(536)
Net income	—	—	—	1,395	—	1,395
Balance at June 30, 2023	191,657	\$ 191	\$ 1,070,461	\$ (902,633)	\$ 330	\$ 168,349

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2021	198,084	\$ 198	\$ 947,160	\$ (748,012)	\$ (1,795)	\$ 197,551
Issuance of common stock upon exercise of stock options	202	—	225	—	—	225
Issuance of common stock upon vesting of restricted stock awards	392	—	—	—	—	—
Stock-based compensation	—	—	22,346	—	—	22,346
Repurchased common stock	(79)	—	—	(1,102)	—	(1,102)
Other comprehensive income	—	—	—	—	1,440	1,440
Net loss	—	—	—	(25,753)	—	(25,753)
Balance at March 31, 2022 (Restated)	198,599	\$ 198	\$ 969,731	\$ (774,867)	\$ (355)	\$ 194,707
Issuance of common stock upon exercise of stock options and ESPP	174	—	1,262	—	—	1,262
Issuance of common stock upon vesting of restricted stock awards	268	1	(1)	—	—	—
Shares surrendered for settlement of minimum statutory tax withholdings	(1)	—	(30)	—	—	(30)
Stock-based compensation	—	—	23,596	—	—	23,596
Repurchased common stock	(2,961)	(3)	—	(38,050)	—	(38,053)
Other comprehensive income	—	—	—	—	2,209	2,209
Net loss	—	—	—	(12,743)	—	(12,743)
Balance at June 30, 2022 (Restated)	196,079	\$ 196	\$ 994,558	\$ (825,660)	\$ 1,854	\$ 170,948

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

LegalZoom.com, Inc.
Unaudited Condensed Consolidated Statements of Cash Flows
(In thousands)

	Six Months Ended June 30,	
	2023	2022 (Restated)
Cash flows from operating activities		
Net loss	\$ (963)	\$ (38,496)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	11,406	10,933
Amortization of right-of-use assets	1,336	852
Amortization of debt issuance costs	112	112
Impairment of other equity security	—	170
Stock-based compensation	35,423	44,712
Deferred income taxes	7,614	(2,109)
Change in fair value of contingent consideration	(695)	(150)
Unrealized foreign exchange (gain) loss	(1,104)	3,405
Other	(1)	(1)
Changes in operating assets and liabilities:		
Accounts receivable	(316)	(2,357)
Prepaid expenses and other current assets	3,407	(417)
Other assets	4	(338)
Accounts payable	8,319	(13,553)
Accrued expenses and other liabilities	(4,082)	6,921
Operating lease liabilities	(1,132)	(1,642)
Income tax payable	8	15
Deferred revenue	15,037	16,700
Net cash provided by operating activities	74,373	24,757
Cash flows from investing activities		
Proceeds from acquisition working capital adjustment	—	307
Purchase of property and equipment	(15,227)	(10,379)
Net cash used in investing activities	(15,227)	(10,072)
Cash flows from financing activities		
Repayment of capital lease obligations	(18)	—
Payment of contingent consideration	—	(600)
Repurchase of common stock	(9,809)	(39,155)
Shares surrendered for settlement of minimum statutory tax withholding	(2,469)	(30)
Proceeds from issuance of stock under employee stock plans	2,973	1,487
Net cash used in financing activities	(9,323)	(38,298)
Effect of exchange rate changes on cash and cash equivalents	32	(147)
Net increase (decrease) in cash and cash equivalents	49,855	(23,760)
Cash and cash equivalents, at beginning of the period	189,082	239,297
Cash and cash equivalents, at end of the period	\$ 238,937	\$ 215,537
Non-cash operating, investing, and financing activities:		
Purchase of property and equipment included in accounts payable and accrued expenses and other current liabilities	\$ 983	\$ 869
Capitalized stock-based compensation	1,986	1,230
Right-of-use assets under operating leases	63	7,814

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

LegalZoom.com, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

Note 1. Description of the Business

LegalZoom.com, Inc. was initially formed as a California corporation in 1999 and reincorporated as a Delaware corporation in 2007. LegalZoom.com, Inc. and its wholly owned subsidiaries are referred to herein as the “Company”, “we,” “us,” or “our”.

We are a provider of services that meet the legal needs of small businesses and consumers. Our position at business inception allows us to become a trusted business advisor, supporting the evolving needs of a new business across its lifecycle. Along with business formation, our offerings include ongoing compliance and tax advice and filings, bookkeeping, virtual mailbox and e-signature solutions, trademark filings, and estate plans. Additionally, we have insights into our customers and leverage our offerings as a channel to introduce small businesses to leading brands in our partner ecosystem, solving even more of their business needs.

Note 2. Restatement

As previously disclosed on February 17 and February 27, 2023, in connection with the preparation of our consolidated financial statements for the year ended December 31, 2022, we identified tax errors within our previously issued unaudited condensed consolidated financial statements as of and for the quarterly and year to date periods ended March 31, 2022, or Q1 2022, June 30, 2022, or Q2 2022, and September 30, 2022, or Q3 2022, as included in our previously filed Quarterly Reports on Form 10-Q. Management concluded that such errors resulted in the previously issued Q1 2022, Q2 2022 and Q3 2022 unaudited condensed consolidated financial statements, including the respective year-to-date periods, being materially misstated and therefore requiring restatement.

Specifically, within our income tax provision there was an error relating to the identification of named executive officers subject to limitation on the deductibility of executive compensation under Internal Revenue Code Section 162(m), or Section 162(m). The Section 162(m) error had the impact of a \$0.2 million understatement of the benefit for income taxes and a \$4.1 million overstatement of the provision for income taxes for the three and six months ended June 30, 2022, respectively, and a \$1.2 million overstatement of the benefit for income taxes and a \$2.8 million overstatement of the provision for income taxes for the three and nine months ended September 30, 2022, respectively, and the associated impacts on deferred tax assets.

In connection with the tax errors noted above, we are also correcting other previously identified immaterial errors related to: i) \$1.2 million of revenue and \$0.2 million of associated costs of revenue that should have been recognized in Q1 2022, and which were initially corrected for as an out of period correction in Q2 2022; ii) \$1.2 million of a late customer acquisition marketing, or CAM credit, that should have been recognized as a reduction to sales and marketing expense in Q2 2022, and which was initially corrected for as an out of period adjustment in Q3 2022; and iii) \$0.9 million of revenue and \$0.3 million of associated costs of revenue that should have been recognized in Q3 2022.

Description of Restatement of Financial Information

In the following tables, we have presented a reconciliation of our unaudited condensed consolidated financial information as originally reported, to the as restated amounts as of and for the three and six months ended June 30, 2022. The restatement for the three and nine months ended September 30, 2022 will be effected in the future filing of our 2023 unaudited condensed consolidated financial statements within our Quarterly Report on Form 10-Q.

The table below sets forth the unaudited condensed consolidated balance sheet information, including the balances as reported, adjustments and the balances as restated (in thousands, except per share amounts):

	June 30, 2022		
	As Reported	Adjustments	As Restated
Assets			
Current assets:			
Cash and cash equivalents	\$ 215,537	\$ —	\$ 215,537
Accounts receivable, net of allowances of \$4,508	12,993	—	12,993
Prepaid expenses and other current assets	13,860	—	13,860
Total current assets	242,390	—	242,390
Property and equipment, net	49,342	—	49,342

	June 30, 2022		
	As Reported	Adjustments	As Restated
Goodwill	59,933	—	59,933
Intangible assets, net	14,570	—	14,570
Operating lease right-of-use assets	6,961	—	6,961
Deferred income taxes	25,685	4,064	29,749
Available-for-sale debt securities	1,182	—	1,182
Other assets	13,319	(7)	13,312
Total assets	<u>\$ 413,382</u>	<u>\$ 4,057</u>	<u>\$ 417,439</u>
Liabilities and stockholders' equity			
Current liabilities:			
Accounts payable	18,404	—	18,404
Accrued expenses and other current liabilities	55,820	(1,235)	54,585
Deferred revenue	163,140	—	163,140
Operating lease liabilities	1,542	—	1,542
Total current liabilities	238,906	(1,235)	237,671
Operating lease liabilities, non-current	4,842	—	4,842
Deferred revenue	1,137	—	1,137
Other liabilities	2,841	—	2,841
Total liabilities	<u>247,726</u>	<u>(1,235)</u>	<u>246,491</u>
Commitments and contingencies			
Stockholders' equity:			
Preferred stock, \$0.001 par value; 100,000 shares authorized; 0 issued or outstanding at June 30, 2022	—	—	—
Common stock, \$0.001 par value; 1,000,000 shares authorized; 196,079 shares issued and outstanding at June 30, 2022	196	—	196
Additional paid-in capital	994,558	—	994,558
Accumulated deficit	(830,952)	5,292	(825,660)
Accumulated other comprehensive income	1,854	—	1,854
Total stockholders' equity	<u>165,656</u>	<u>5,292</u>	<u>170,948</u>
Total liabilities and stockholders' equity	<u>\$ 413,382</u>	<u>\$ 4,057</u>	<u>\$ 417,439</u>

The table below sets forth the unaudited condensed consolidated statements of operations, including the balances as reported, adjustments and the as restated balances (in thousands, except per share amounts):

	Three Months Ended			Six Months Ended		
	June 30, 2022			June 30, 2022		
	As Reported	Adjustments	As Restated	As reported	Adjustments	As restated
Revenue	\$ 163,867	\$ (1,218)	\$ 162,649	\$ 318,076	\$ —	\$318,076
Cost of revenue	57,393	(242)	57,151	113,333	—	113,333
Gross profit	106,474	(976)	105,498	204,743	—	204,743
Operating expenses:						
Sales and marketing	72,945	(1,224)	71,721	149,819	(1,224)	148,595
Technology and development	16,197	—	16,197	34,156	—	34,156
General and administrative	28,969	—	28,969	58,457	—	58,457
Total operating expenses	118,111	(1,224)	116,887	242,432	(1,224)	241,208
Loss from operations	(11,637)	248	(11,389)	(37,689)	1,224	(36,465)
Interest income (expense), net	29	—	29	(24)	—	(24)
Other expense, net	(2,022)	—	(2,022)	(3,566)	—	(3,566)
Loss before income taxes	(13,630)	248	(13,382)	(41,279)	1,224	(40,055)

	Three Months Ended			Six Months Ended		
	June 30, 2022			June 30, 2022		
	As Reported	Adjustments	As Restated	As reported	Adjustments	As restated
(Benefit from) provision for income taxes	(451)	(188)	(639)	2,509	(4,068)	(1,559)
Net loss	\$ (13,179)	\$ 436	\$ (12,743)	\$ (43,788)	\$ 5,292	\$ (38,496)
Net loss per share attributable to common stockholders—basic and diluted:	\$ (0.07)	\$ —	\$ (0.06)	\$ (0.22)	\$ —	\$ (0.19)
Weighted-average shares used to compute net loss per share attributable to common stockholders—basic and diluted:	197,819	—	197,819	198,040	—	198,040

The table below sets forth the unaudited condensed consolidated statements of comprehensive loss, including balances as reported, adjustments and balances as restated amounts (in thousands):

	Three Months Ended			Six Months Ended		
	June 30, 2022			June 30, 2022		
	As Reported	Adjustments	As Restated	As reported	Adjustments	As restated
Net Loss	\$ (13,179)	\$ 436	\$ (12,743)	\$ (43,788)	\$ 5,292	\$ (38,496)
Total other comprehensive income	2,209	—	2,209	3,649	—	3,649
Total comprehensive loss	\$ (10,970)	\$ 436	\$ (10,534)	\$ (40,139)	\$ 5,292	\$ (34,847)

The table below sets forth the unaudited condensed consolidated statements of stockholders' equity, including balances as reported, adjustments and balances as restated amounts (in thousands):

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount				
Balance at June 30, 2022 as reported	196,079	\$ 196	\$ 994,558	\$ (830,952)	\$ 1,854	\$ 165,656
Cumulative adjustments to net loss	—	—	—	5,292	—	5,292
Balance at June 30, 2022 as restated	196,079	\$ 196	\$ 994,558	\$ (825,660)	\$ 1,854	\$ 170,948

The table below sets forth the unaudited condensed consolidated statement of cash flows, including balances as reported, adjustments and balances as restated amounts (in thousands):

	Six Months Ended June 30, 2022		
	As Reported	Adjustments	As Restated
Cash flows from operating activities			
Net loss	\$ (43,788)	\$ 5,292	\$ (38,496)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	10,933	—	10,933
Amortization of right-of-use assets	852	—	852
Amortization of debt issuance costs	112	—	112
Impairment of other equity security	170	—	170
Stock-based compensation	44,712	—	44,712
Deferred income taxes	1,955	(4,064)	(2,109)
Change in fair value of contingent consideration	(150)	—	(150)
Unrealized foreign exchange loss	3,405	—	3,405
Other	(1)	—	(1)

	Six Months Ended June 30, 2022		
	As Reported	Adjustments	As Restated
Changes in operating assets and liabilities, net of effects of business combination:			
Accounts receivable	(2,357)	—	(2,357)
Prepaid expenses and other current assets	(417)	—	(417)
Other assets	(345)	7	(338)
Accounts payable	(13,553)	—	(13,553)
Accrued expenses and other liabilities	8,156	(1,235)	6,921
Operating lease liabilities	(1,642)	—	(1,642)
Income tax payable	15	—	15
Deferred revenue	16,700	—	16,700
Net cash provided by operating activities	24,757	—	24,757
Cash flows from investing activities			
Proceeds from acquisition working capital adjustment	307	—	307
Purchase of property and equipment	(10,379)	—	(10,379)
Net cash used in investing activities	(10,072)	—	(10,072)
Cash flows from financing activities			
Payment of contingent consideration	(600)	—	(600)
Repurchase of common stock	(39,155)	—	(39,155)
Shares surrendered for settlement of minimum statutory tax withholding	(30)	—	(30)
Proceeds from issuance of stock under employee stock plans	1,487	—	1,487
Net cash used in financing activities	(38,298)	—	(38,298)
Effect of exchange rate changes on cash and cash equivalents	(147)	—	(147)
Net decrease in cash and cash equivalents, and restricted cash equivalents	(23,760)	—	(23,760)
Cash and cash equivalents, and restricted cash equivalents, at beginning of the period	239,297	—	239,297
Cash and cash equivalents at end of the period	\$ 215,537	\$ —	\$ 215,537

Note 3. Summary of Significant Accounting Policies

A summary of the significant accounting policies we follow in the preparation of the accompanying unaudited condensed consolidated financial statements is set forth below.

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America, or GAAP, for interim financial information. Certain information and disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. Accordingly, these unaudited condensed consolidated financial statements should be read in conjunction with our audited consolidated financial statements and the related notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2022. The December 31, 2022 unaudited condensed consolidated balance sheet was derived from our audited consolidated financial statements as of that date. Our unaudited condensed consolidated financial statements include, in the opinion of management, all adjustments, consisting of normal and recurring items, necessary for the fair statement of the unaudited condensed consolidated financial statements. All intercompany balances and transactions have been eliminated in consolidation. There have been no significant changes in accounting policies during the three and six months ended June 30, 2023 from those disclosed in the annual consolidated financial statements for the year ended December 31, 2022 and the related notes, except as noted below in the *Recently Adopted Accounting Pronouncements*.

The operating results for the three and six months ended June 30, 2023 are not necessarily indicative of the results expected for the full year ending December 31, 2023.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenue and expenses, and related disclosures of contingent liabilities in the consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, revenue recognition, sales allowances and expected credit loss allowances, available-for-sale debt securities, other equity securities, recoverability of long-lived assets and goodwill, income taxes, commitments and contingencies, and stock-based compensation. Actual results could differ materially from those estimates. On an ongoing basis, we evaluate the estimates compared to historical experience and other factors including the current economic and regulatory environment, which form the basis for our judgments about the carrying value of assets and liabilities.

Significant Accounting Policies

Significant accounting policies are detailed in "Note 2: Summary of Significant Accounting Policies" of our Annual Report on Form 10-K for the year ended December 31, 2022. On January 1, 2022, we adopted Financial Accounting Standards Board, or FASB, Accounting Standards Codification No. 842, *Leases*, or ASC 842, with application to leases that existed as of the adoption date. On January 1, 2022, we also adopted Accounting Standard Update, or ASU, No. 2016-13, *Financial Instruments—Credit losses: Measurement of Credit Losses on Financial Instruments (Topic 326)*, or ASU 2016-13, using the modified-retrospective transition method for assets measured at amortized cost other than available-for-sale debt securities, which was adopted using a prospective transition approach. The adoption of ASU 2016-13 did not have a material impact on our unaudited condensed consolidated financial statements.

Segment and Geographic Information

Our Chief Executive Officer, as the Chief Operating Decision Maker, organizes our company, manages resource allocations, and measures performance on the basis of one operating segment.

Revenue outside of the U.S., based on the location of the customer, represented less than 1% of our unaudited consolidated revenue for the three and six months ended June 30, 2023 and 2022. Our property and equipment and right-of-use, or ROU, assets located outside of the U.S. were immaterial as of June 30, 2023 and December 31, 2022.

Foreign Currency

The British Pound Sterling is the functional currency for our foreign subsidiaries domiciled in the U.K. The financial statements of these foreign subsidiaries are translated to U.S. Dollars using period-end rates of exchange for assets and liabilities, historical rates of exchange for equity, and average rates of exchange for the period for revenue and expenses. Translation gains and losses are recorded in accumulated other comprehensive income (loss) as a component of our unaudited condensed consolidated statements of stockholders' equity. We recognized foreign currency transaction gains of \$0.5 million and \$1.1 million during the three and six months ended June 30, 2023, respectively, and losses of \$2.0 million and \$3.4 million during the three and six months ended June 30, 2022, respectively.

Concentrations of Credit Risk

We maintain accounts in U.S. and U.K. banks with funds insured by the Federal Deposit Insurance Corporation, or FDIC, and the Financial Services Compensation Scheme, or FSCS, respectively. Our bank accounts may, at times, exceed the FDIC and FSCS insured limits. Financial instruments that potentially subject us to credit risk consist principally of cash and cash equivalents. Management believes that we are not exposed to any significant credit risk related to our cash or cash equivalents and have not experienced any losses in such accounts.

Due to a large and diverse customer base, no individual customer represented more than 10% of total revenue for the three and six months ended June 30, 2023 and 2022. At June 30, 2023 and December 31, 2022, there were no customers with an outstanding balance of 10% or more of our total accounts receivable balance.

Accounts Receivable and Allowance for Credit Losses

Our accounts receivable balances, which are not collateralized and do not bear interest, primarily consist of amounts receivable from our credit and debit card merchant processors, customer receivables, and fees due from third-parties for services purchased by our customers from such third-parties. We reduce our accounts receivable for sales allowances and a reserve for potentially uncollectible receivables. We determine the amount of the allowances based on various factors, including historical collection experience, the age of the accounts receivable balances, credit quality of our customers, current economic conditions, reasonable and supportable forecasts of future economic conditions, and other factors that may affect our ability to collect from customers. Account balances are charged off against the allowance when we determine that it is

not probable we will collect the receivable. At June 30, 2023 and December 31, 2022 the allowance for credit losses was not material.

Leases

On January 1, 2022, we recorded operating lease ROU assets of \$5.7 million and operating lease liabilities of \$5.9 million. The difference between the leased assets and lease liabilities represents the existing deferred rent liabilities balance at adoption of ASC 842, resulting from historical straight-line recognition of operating leases, which was reclassified upon adoption to reduce the measurement of the leased assets. The adoption of the standard did not have a material impact on our stockholders' equity, results of operations, or cash flows.

The standard provides several optional practical expedients in transition. We elected the package of practical expedients permitted under the transition guidance, which eliminates the requirement to reassess whether a contract contains a lease and lease classification.

We have also made accounting policy elections, including a short-term lease exception policy, permitting us to not apply the recognition requirements of this standard to short-term leases, which are leases with expected terms of 12 months or less, and an accounting policy to account for lease and certain non-lease components as a single component for certain classes of assets. Additionally, we used the portfolio approach when applying the discount rate selected based on the dollar amount and term of the obligation.

We determine whether an arrangement is a lease, or contains a lease, at inception if we are able to identify an asset and can conclude we have the right to control the identified asset for a period of time. Leases are included in operating lease ROU assets and operating lease liabilities in the accompanying unaudited condensed consolidated balance sheets. Leases with an initial term of 12 months or less are not recorded on the condensed consolidated balance sheets.

ROU assets represent our right to control an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and operating lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. As our leases do not provide an implicit rate, we use the incremental borrowing rate based on the information available at the commencement date in determining the discount rate used to present value lease payments. We used the incremental borrowing rate on January 1, 2022 for operating leases that commenced on or prior to that date. The incremental borrowing rate used is estimated based on what we would be required to pay for a collateralized loan over a similar term. Our leases typically do not include any residual value guarantees, bargain purchase options, or asset retirement obligations.

Our lease terms are only for periods in which we have enforceable rights. A lease is no longer enforceable when both the lessee and the lessor each have the right to terminate the lease without permission from the other party with no more than an insignificant penalty. Our lease terms are impacted by options to extend or terminate the lease when it is reasonably certain that we will exercise that option. We generally use the base, non-cancelable lease term when determining the lease assets and liabilities.

Our agreements may contain variable lease payments. We include variable lease payments that depend on an index or a rate and exclude those which depend on facts or circumstances occurring after the commencement date, other than the passage of time.

Revenue Recognition

We derive our revenue from the following sources:

Transaction revenue—Transaction revenue is primarily generated from our customized legal document services upon fulfillment of these services. Transaction revenue includes filing fees and is net of cancellations, promotional discounts, sales allowances and credit reserves.

Subscription revenue—Subscription revenue is generated primarily from subscriptions to our registered agent, compliance packages, attorney advice, legal forms, tax, virtual mail and e-signature services in addition to software-as-a-service, or SaaS, subscriptions in the U.K. We generally recognize revenue from our subscriptions ratably over the subscription term. Subscription terms generally range from thirty days to one year. Subscription revenue includes the transaction price allocated to bundled free trials for our subscription services and is net of promotional discounts, cancellations, sales allowances and credit reserves and payments to third-party service providers such as legal plan law firms.

For transaction and subscription revenue, we generally collect payments and fees at the time orders are placed and prior to services being rendered. We record amounts collected for services that have not been performed as deferred revenue on our consolidated balance sheet. The transaction price that we record is generally based on the contractual amounts and is reduced for estimated sales allowances for price

concessions, charge-backs, sales credits and refunds, which are accounted for as variable consideration when estimating the amount of revenue to recognize.

Partner revenue—Partner revenue consists primarily of one-time or recurring fees earned from third-party providers from leads generated to such providers through our online legal platform. Revenue is recognized when the related performance-based criteria have been met. We assess whether performance criteria have been met on a cost-per-click or cost-per-action basis.

Revenue from our transaction, subscription and partner revenue is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
Transaction	\$ 60,494	\$ 65,291	\$ 122,733	\$ 130,616
Subscription	102,199	91,308	199,510	175,672
Partner	6,161	6,050	12,547	11,788
Total revenue	\$ 168,854	\$ 162,649	\$ 334,790	\$ 318,076

Recent Accounting Pronouncements

Prior to December 31, 2022, we qualified as an emerging growth company, or EGC, and were allowed by the Jumpstart Our Business Startups Act to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements were made applicable to private companies. We became a large accelerated filer and no longer qualified as an EGC at the conclusion of the fiscal year ended December 31, 2022. The adoption dates discussed below for recently adopted accounting pronouncements reflect the transition periods required as a result of becoming a large accelerated filer as of December 31, 2022. We will be required to adopt all future new or revised accounting pronouncements in accordance with public company timelines.

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit losses: Measurement of Credit Losses on Financial Instruments (Topic 326)*, which revises the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which results in more timely recognition of losses on financial instruments, including, but not limited to, available-for-sale debt securities and accounts receivable. We adopted ASU 2016-13 effective January 1, 2022. The adoption of this accounting standard did not have a material impact on our unaudited condensed consolidated financial statements.

In June 2022, the FASB issued ASU No. 2022-03, *Fair Value Measurement—Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions (Topic 820)*, or ASU 2022-03, which clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments are effective for fiscal years beginning after December 15, 2023. We early adopted ASU 2022-03 during the three months ended June 30, 2023. The adoption of this accounting standard did not have a material impact on our unaudited condensed consolidated financial statements.

In September 2022, the FASB issued ASU No. 2022-04, *Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations*, which requires that a buyer in a supplier finance program disclose qualitative and quantitative information about its supplier finance programs. We adopted ASU 2022-04 effective January 1, 2023. The adoption of this accounting standard did not have a material impact on our unaudited condensed consolidated financial statements.

In March 2023, the FASB issued ASU No. 2023-01, *Leases (Topic 842): Common Control Arrangements*, which amends certain provisions of ASC 842 related to the accounting for leasehold improvements in common-control arrangements. ASU 2023-01 is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. We early adopted ASU 2023-01 effective January 1, 2023. The adoption of this accounting standard did not have a material impact on our unaudited condensed consolidated financial statements.

In March 2023, the FASB issued ASU No. 2023-02, *Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*, which allows reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. ASU 2023-02 is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. We early adopted ASU 2023-02 effective January 1, 2023.

The adoption of this accounting standard did not have a material impact on our unaudited condensed consolidated financial statements.

In July 2023, the FASB issued ASU 2023-03 to amend various paragraphs in the Accounting Standards Codification to align with the previously issued SEC guidance. ASU 2023-03 did not provide any new guidance, and there is no transition or effective date associated with it resulting in the ASU 2023-03 being effective upon issuance. Consequently, the adoption of this accounting standard did not have a material impact on our unaudited condensed consolidated financial statements.

Note 4. Other Financial Statement Information

Accounts Receivable

Changes in the allowances consisted of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
Beginning balance	\$ 4,870	\$ 3,633	\$ 4,730	\$ 4,060
Add: amounts recognized as a reduction of revenue	3,962	2,471	6,078	4,193
Add: allowance for credit losses recognized in general and administrative expense	425	68	489	140
Less: write-offs, net of recoveries	(3,523)	(1,664)	(5,563)	(3,885)
Ending balance	<u>\$ 5,734</u>	<u>\$ 4,508</u>	<u>\$ 5,734</u>	<u>\$ 4,508</u>

The allowance recognized as a reduction of revenue primarily relates to our installment plan receivables for which we expect we will not be entitled to a portion of the transaction price based on our historical experience with similar transactions. The allowance recognized against general and administrative expense represents an allowance relating to receivables from partners that are no longer considered collectible.

Prepaid Expenses and Other Current Assets

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

	June 30, 2023	December 31, 2022
Prepaid expenses	\$ 8,611	\$ 10,624
Deferred cost of revenue	1,929	1,915
Capitalized cloud computing development costs	1,177	1,407
Income tax receivable	575	760
Other current assets	1,016	1,993
Total prepaid expenses and other current assets	<u>\$ 13,308</u>	<u>\$ 16,699</u>

Accrued Expenses and Other Current Liabilities

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

	June 30, 2023	December 31, 2022
Accrued payroll and related expenses	\$ 24,763	\$ 27,822
Accrued vendor payables	15,638	15,531
Accrued advertising	494	1,071
Sales allowances	4,707	4,426
Accrued sales, use and business taxes	3,544	3,838

	June 30, 2023	December 31, 2022
Other	3,203	4,685
Total accrued expenses and other current liabilities	<u>\$ 52,349</u>	<u>\$ 57,373</u>

Depreciation and Amortization

Depreciation and amortization expense of our property and equipment, including capitalized internal-use software, and intangible assets consisted of the following (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
Cost of revenue	\$ 3,011	\$ 2,184	\$ 5,633	\$ 4,254
Sales and marketing	1,354	1,879	2,611	3,754
Technology and development	841	692	1,699	1,418
General and administrative	631	784	1,463	1,507
Total depreciation and amortization expense	<u>\$ 5,837</u>	<u>\$ 5,539</u>	<u>\$ 11,406</u>	<u>\$ 10,933</u>

Deferred revenue

Deferred revenue as of June 30, 2023 and December 31, 2022 was \$180.1 million and \$165.1 million, respectively. Revenue recognized in the three months ended June 30, 2023 and 2022 that was included in deferred revenue as of March 31, 2023 and 2022 was \$88.5 million and \$92.4 million, respectively. Revenue recognized in the six months ended June 30, 2023 and 2022 that was included in deferred revenue as of December 31, 2022 and 2021 was \$128.2 million and \$123.9 million, respectively.

We have omitted disclosure on the transaction price allocated to remaining performance obligations and estimated timing of revenue recognition as our contracts with customers that have a duration of more than one year are immaterial.

Note 5. Assets Held for Sale

During the quarter ended September 30, 2022, following an evaluation of our office space and business requirements, we commenced a plan to sell our operational headquarters in Austin, Texas, consisting of land, a building and building improvements, and determined that these assets met the held for sale criteria. We ceased recording depreciation on these assets upon meeting the held for sale criteria. At June 30, 2023, the total carrying value of the assets held for sale was \$22.7 million. The estimated fair value less costs to sell the assets held for sale exceed their carrying values and hence no impairment was necessary during the quarter ended June 30, 2023.

Note 6. Long-term Debt

In 2021, we entered into an amended and restated credit and guaranty agreement, or 2021 Revolving Facility, providing for revolving borrowings of up to \$150.0 million with an availability period of five years. Under the 2021 Revolving Facility, we can use up to \$20.0 million in letters of credit and up to \$10.0 million in borrowings on same-day notice, referred to as swingline loans. Additional debt issuance costs of \$0.8 million were allocated to the 2021 Revolving Facility.

On May 5, 2023, we entered into an amendment to the 2021 Revolving Facility to replace the LIBOR interest rate benchmark with the Secured Overnight Financing Rate, or SOFR, benchmark, with a 0.10% credit spread adjustment to the SOFR benchmark, or Adjusted Term SOFR, for all available interest periods, provided that if the Adjusted Term SOFR is less than zero, the Adjusted Term SOFR shall be deemed to be zero. Other than the foregoing, the remaining terms of the 2021 Revolving Facility remained unchanged. The interest rate applicable to the 2021 Revolving Facility is subject to a 1.0% floor and is a rate equal to the greatest of (i) the administrative agent's prime rate (ii) the federal funds effective rate plus 1/2 of 1.0% or (iii) Adjusted Term SOFR plus 1.0%.

The interest rate margins under the 2021 Revolving Facility are subject to a reduction of 0.25% and a further reduction of 0.25% upon achieving total net first lien leverage ratios of 3.50 to 1.00 and 2.50 to 1.00, respectively. We are required to pay a commitment fee in respect of unutilized commitments under the 2021

Revolving Facility. The commitment fee is, initially, 0.35% per annum. The commitment fee is subject to a reduction of 0.10% if the total net first lien leverage ratio does not exceed 3.50 to 1.00. We are also required to pay customary letter of credit fees and agency fees. We have the option to voluntarily repay outstanding loans under the 2021 Revolving Facility at any time without premium or penalty, other than customary "breakage" costs with respect to SOFR loans. There is no scheduled amortization under the 2021 Revolving Facility. Any principal amount outstanding is due and payable in full at maturity, five years from the closing date of the 2021 Revolving Facility. Obligations under the 2021 Revolving Facility are guaranteed by our existing and future direct and indirect material wholly-owned domestic subsidiaries, subject to certain exceptions.

The 2021 Revolving Facility contains a number of covenants that, among other things, subject to certain exceptions, restrict our ability and the ability of our restricted subsidiaries to incur additional indebtedness and guarantee indebtedness; create or incur liens; pay dividends and distributions or repurchase capital stock; merge, liquidate and make asset sales; change lines of business; change our fiscal year; incur restrictions on our subsidiaries' ability to make distributions and create liens; modify our organizational documents; make investments, loans and advances; and enter into certain transactions with affiliates.

The 2021 Revolving Facility requires compliance with a total net first lien leverage ratio of 4.50 to 1.00, or Financial Covenant. The Financial Covenant will be tested at quarter-end only if the total principal amount of all revolving loans, swingline loans and drawn letters of credit that have not been reimbursed exceeds 35% of the total commitments under the 2021 Revolving Facility on the last day of such fiscal quarter.

At June 30, 2023 and December 31, 2022, we had no amounts outstanding under our 2021 Revolving Facility or any outstanding letters of credit and we were in compliance with all financial covenants.

Note 7. Commitments and Contingencies

Advertising, Media and Other Commitments

We use a variety of media to advertise our services, including search engine marketing, television and radio. At June 30, 2023, we had non-cancelable minimum advertising and media commitments for future advertising spots of \$5.3 million, substantially all of which will be paid over a two-year period. We also have non-cancelable agreements with various vendors, which require us to pay \$59.4 million over a five-year period, of which \$43.2 million remains to be paid as of June 30, 2023.

Legal Proceedings

From time to time, we may become subject to legal proceedings, claims and litigation arising in the ordinary course of business. We are not currently a party to any material legal proceedings, nor are we aware of any pending or threatened litigation that could have a material adverse effect on our results of operations, cash flows, and financial condition, should such litigation be resolved unfavorably.

Indemnifications

Indemnification provisions in our third-party service provider agreements provide that we will indemnify, hold harmless, and reimburse the indemnified parties on a case-by-case basis for losses suffered or incurred by the indemnified parties in connection with any claim by any third-party as a result of our website, advertising, marketing, payment processing, collection or customer service activities. The maximum potential amount of future payments we could be required to make under these indemnification provisions is undeterminable.

No amounts have been accrued or have been paid during any period presented as we believe the fair value of these indemnification obligations is immaterial.

Note 8. Stockholders' Equity

Stock Repurchase Program

On March 1, 2022, our board of directors approved a stock repurchase program authorizing us to repurchase up to \$150.0 million of our common stock, with no fixed expiration. Stock repurchases under this program may be made through any manner, including open market transactions, accelerated stock repurchase agreements, or privately negotiated transactions with third parties, and in such amounts as management deems appropriate. Open market repurchases will be structured to occur in accordance with applicable federal securities laws, including within the pricing and volume requirements of Rule 10b-18 under the Securities Exchange Act of 1934, as amended. We may also, from time to time, enter into Rule 10b5-1 plans to facilitate repurchases of our shares of common stock under this authorization. This program does not obligate

us to acquire any particular amount of common stock and may be modified, suspended or terminated at any time at the discretion of our board of directors.

During the three months ended June 30, 2023, using Rule 10b5-1 plans, we repurchased a total of 378,363 shares of our common stock through open market purchases at an average per share price of \$8.04 for a total repurchase of \$3.0 million including broker commissions. During the six months ended June 30, 2023, we repurchased a total of 1,149,080 shares of our common stock through open market purchases at an average per share price of \$8.54 for a total repurchase of \$9.8 million including broker commissions. The repurchases were recorded as a reduction to stockholders' equity. Approximately \$45.1 million remains available for future repurchases under the stock repurchase program as of June 30, 2023.

The Inflation Reduction Act of 2022, enacted in August 2022, imposed a 1% non-deductible excise tax on net repurchases of shares by domestic corporations whose stock is traded on an established securities market. Consequently, this excise tax is applicable to our stock repurchase program beginning in 2023 and represents a cost of the repurchases of our common stock. We have not recognized excise tax liability as of June 30, 2023 because our stock issuances exceeded stock repurchases during the six months ended June 30, 2023.

Note 9. Stock-based Compensation

Stock-based Compensation Expense

We recorded stock-based compensation expense in the following categories in the accompanying unaudited condensed consolidated statements of operations and balance sheets (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
Cost of revenue	\$ 1,105	\$ 1,331	\$ 1,979	\$ 1,608
Sales and marketing	1,447	3,536	\$ 2,979	\$ 6,661
Technology and development	4,875	4,148	\$ 9,195	\$ 8,446
General and administrative	11,529	13,832	\$ 21,270	\$ 27,997
Total stock-based compensation expense	18,956	22,847	\$ 35,423	\$ 44,712
Amount capitalized to internal-use software	1,075	749	\$ 1,986	\$ 1,230
Total stock-based compensation expense	\$ 20,031	\$ 23,596	\$ 37,409	\$ 45,942

Stock Options

During the six months ended June 30, 2023, we granted 4.2 million stock options to members of our senior leadership team. Fair value of the options was measured using the Black-Scholes option pricing model on the date of grant, and associated expense will be recognized over the requisite service period. Vesting of the options will be accelerated upon a qualifying termination that occurs during the change-in-control period, as defined in the option grant agreement, or immediately prior to the effective time of a change-in-control if the option award is not assumed, continued or substituted by the surviving or acquiring entity (or its parent) in connection with such change-in-control. The weighted-average assumptions that were used to calculate the grant-date fair value of our stock option grants using the Black-Scholes option pricing model were as follows:

	Six Months Ended June 30, 2023
Expected life (years)	5.87
Risk-free interest rate	3.4% - 3.8%
Expected volatility	50.4% - 50.7%
Expected dividend yield	—

Restricted Stock Units

During the six months ended June 30, 2023, we granted 7.8 million restricted stock units, or RSUs, with a total grant date fair value of \$66.4 million to various employees. RSUs are measured based on the fair market value of the underlying stock on the date of grant and recognized as expense over the requisite service period.

During the six months ended June 30, 2023, we also granted 1.3 million RSUs with performance conditions, or PSUs, to members of our senior leadership team. Vesting of the PSUs is contingent upon the recipient's continuous employment over the requisite service period and is subject to fulfillment by the Company of predefined performance criteria. Such awards will be earned only if certain performance targets established by and under the direction of the compensation committee of the board of directors are met during the performance period. The number of PSUs subject to vesting is determined at the end of the performance period and may equal zero percent (0%) to one hundred and fifty percent (150%) of the target award based upon Company's achievement of certain revenue, profitability, and market share targets. If the performance criteria are achieved, 75% of the PSUs will vest on the date the compensation committee of the board of directors certifies achievement of the performance criteria, and the remaining 25% of the PSUs will vest on the one year anniversary of such certification date. PSUs are measured based on the fair market value of the underlying stock on the date of grant and recognized as expense over the employee's requisite service period using graded vesting attribution method to the extent it is probable that the performance conditions will be achieved. We recognized \$1.6 million and \$1.7 million in stock-based compensation expense during three and six months ended June 30, 2023, respectively, related to these PSU awards. In the event of change-in-control (as defined in the employment agreement between the Company and each recipient of the performance award), the vesting conditions of PSUs will be modified resulting in a vesting of a greater of (i) one hundred percent (100%) of the target award, or (ii) the number of shares commensurate with the Company's market share for the trailing 12-month period ending on the date that is the end of the nearest month prior to the date of the change of control, provided that 75% of such PSUs will vest on June 30, 2024 and the remaining 25% of such PSUs will vest on June 30, 2025, subject to the recipients continuing to be service providers through each such date and accelerated if the acquirer does not assume the awards in an economically equivalent manner.

On May 5, 2023, the compensation committee of the board of directors approved amendments to the terms of the stock option and RSU awards granted to members of our senior leadership team during the year ended December 31, 2022, whereby the vesting of such stock options and RSUs will be accelerated upon (i) a qualifying termination that occurs during the change-in-control period or (ii) the individual's termination as a result of his or her death or disability (as each such term is defined in the employment agreement between the Company and applicable individual). Further, the amendments provide that such stock options, to the extent vested and outstanding on the date of the individual's qualifying termination or the termination of the individual's employment in the event of his or her death or disability, as applicable and after giving effect to the vesting acceleration, shall remain outstanding and exercisable until the earlier of: (x) the original expiration date of the stock options, (y) the one-year anniversary of the date of the individual's termination of employment with the Company, and (z) immediately prior to the effective time of a change in control if such stock option is not assumed, continued or substituted by the surviving or acquiring entity (or its parent) in connection with such change in control. The modification to add the foregoing provisions did not result in an incremental fair value of the impacted awards because the original vesting conditions were expected to be satisfied as of the modification date and the termination of the individual's employment in the event of change-in-control or as a result of his or her death or disability was not probable as of the date of this filing.

Note 10. Income Taxes

We recorded a provision for income taxes of \$6.1 million and \$10.0 million for the three and six months ended June 30, 2023, respectively, and a benefit from income taxes of \$0.6 million and \$1.6 million for the three and six months ended June 30, 2022, respectively. The effective tax rate for the three months ended June 30, 2023 and 2022 was 81.5% and 4.8% (as restated), respectively. For the six months ended June 30, 2023 and 2022, the effective tax rate was 110.7% and 3.9% (as restated), respectively. The difference from the federal statutory rate of 21% is primarily due to the recognition of significant non-deductible stock-based compensation and other discrete adjustments.

Gross unrecognized tax benefits were \$9.4 million and \$8.9 million as of June 30, 2023 and December 31, 2022, respectively. The gross unrecognized tax benefits, if recognized by us, will result in a reduction of approximately \$9.4 million, excluding interest and penalties, to the provision for income taxes, thereby favorably impacting our effective tax rate. Our policy is to recognize interest and penalties related to income tax matters in income tax expense. For the periods presented, interest and penalties related to income tax positions were not material to our unaudited condensed consolidated financial statements.

We are subject to taxation and file income tax returns in the U.S. federal, state, and foreign jurisdictions. The federal income tax returns for the years 2018 and forward and state income tax returns for the tax years

2008 and forward remain open to examination. We are under examination in one state which is not expected to have an impact on our results of operations, cash flows and financial condition.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
Numerator:				
Net income (loss)	\$ 1,395	\$ (12,743)	\$ (963)	\$ (38,496)
Net income (loss) attributable to common stockholders—basic and diluted	\$ 1,395	\$ (12,743)	\$ (963)	\$ (38,496)
Denominator:				
Weighted-average common stock used in computing net income (loss) per share attributable to common stockholders—basic	191,342	197,819	191,318	198,040
Effect of potentially dilutive securities				
Options to purchase common stock	884	—	—	—
RSUs	2,583	—	—	—
Employee stock purchase plan	17	—	—	—
Weighted-average common stock used in computing net income (loss) per share attributable to common stockholders—diluted	194,826	197,819	191,318	198,040
Net income (loss) per share attributable to common stockholders—basic	\$ 0.01	\$ (0.06)	\$ (0.01)	\$ (0.19)
Net income (loss) per share attributable to common stockholders—diluted	\$ 0.01	\$ (0.06)	\$ (0.01)	\$ (0.19)

The following table presents the number of stock options, RSUs, and PSUs excluded from the calculation of diluted net income (loss) per share attributable to common stockholders because they are anti-dilutive (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
Options to purchase common stock	10,529	17,772	21,048	17,772
RSUs	3,344	7,792	14,047	7,792
Employee stock purchase plan	8	83	122	83
PSUs	1,316	—	1,316	—
Total	15,197	25,647	36,533	25,647

Note 12. Restructuring

From time to time, we initiate cost reduction activities to integrate acquired businesses, to align our workforce with strategic business activities, or to improve efficiencies in our operations. During three and six months ended June 30, 2023, we incurred \$0.1 million and \$0.7 million, respectively, in severance costs related to the reduction of our U.K. headcount, which is expected to be substantially complete by December 31, 2023. Restructuring expenses include severance for the impacted employees and are included in general and administrative expenses in the accompanying unaudited condensed consolidated financial statements.

Note 13. Fair Value Measurements

Fair value is defined 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. The standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

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

Level 2 — Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

At June 30, 2023 and December 31, 2022, our financial assets and liabilities recorded at fair value on a recurring basis consist of cash equivalents, available-for-sale debt securities and contingent consideration from acquisitions. The cash equivalents consist of money market funds valued using quoted prices in active markets, which represents Level 1 inputs in the fair value hierarchy. The available-for-sale debt securities are valued using a Monte Carlo simulation, which include inputs that represent Level 3 inputs in the fair value hierarchy. Contingent consideration is valued using the present value and probability of the estimated future cash outflow, which include inputs that represent Level 3 inputs in the fair value hierarchy.

The carrying amounts of accounts receivable, accounts payable and accrued expenses and other current liabilities approximate fair values because of the short-term nature of these items.

The following tables summarize our assets and liabilities that are measured at fair value on a recurring basis, by level, within the fair value hierarchy (in thousands):

	As of June 30, 2023		
	Level 1	Level 2	Level 3
Available-for-sale debt securities	\$ —	\$ —	\$ 1,004
Money market funds	198,862	—	—
Total assets	\$ 198,862	\$ —	\$ 1,004
Contingent consideration	—	—	141
Total liabilities	\$ —	\$ —	\$ 141

	As of December 31, 2022		
	Level 1	Level 2	Level 3
Available-for-sale debt securities	\$ —	\$ —	\$ 995
Money market fund	130,215	—	—
Total assets	\$ 130,215	\$ —	\$ 995
Contingent consideration	—	—	836
Total liabilities	\$ —	\$ —	\$ 836

Note 14. Accumulated Other Comprehensive (Loss) Income

Changes in accumulated other comprehensive (loss) income consisted of the following:

(in thousands)	Six Months Ended June 30, 2023		
	Before Tax Amount	Tax Effect	Net of Tax Amount
Foreign currency translation adjustments:			
Beginning balance at December 31, 2022	\$ 1,358	\$ —	\$ 1,358
Change during period	(631)	—	(631)
Ending balance at March 31, 2023	727	—	727
Change during period	(536)	—	(536)

	Six Months Ended June 30, 2023		
	Before Tax Amount	Tax Effect	Net of Tax Amount
<i>(in thousands)</i>			
Ending balance at June 30, 2023	\$ 191	\$ —	\$ 191
Available-for-sale debt securities:			
Beginning balance at December 31, 2022	\$ 184	\$ (45)	\$ 139
Unrealized gains (losses)	—	—	—
Ending balance at March 31, 2023	184	(45)	139
Unrealized gains (losses)	—	—	—
Ending balance at June 30, 2023	\$ 184	\$ (45)	\$ 139
Accumulated other comprehensive income:			
Beginning balance at December 31, 2022	\$ 1,542	\$ (45)	\$ 1,497
Other comprehensive loss	(631)	—	(631)
Ending balance at March 31, 2023	911	(45)	866
Other comprehensive loss	(536)	—	(536)
Ending balance at June 30, 2023	\$ 375	\$ (45)	\$ 330

	Six Months Ended June 30, 2022 (Restated)		
	Before Tax Amount	Tax Effect	Net of Tax Amount
<i>(in thousands)</i>			
Foreign currency translation adjustments:			
Beginning balance at December 31, 2021	\$ (2,078)	\$ —	\$ (2,078)
Change during period	1,402	—	1,402
Ending balance at March 31, 2022	(676)	—	(676)
Change during period	2,209	—	2,209
Ending balance at June 30, 2022	\$ 1,533	\$ —	\$ 1,533
Available-for-sale debt securities:			
Beginning balance at December 31, 2021	\$ 331	\$ (48)	\$ 283
Unrealized gains	51	(13)	38
Ending balance at March 31, 2022	382	(61)	321
Unrealized gains (losses)	—	—	—
Ending balance at June 30, 2022	\$ 382	\$ (61)	\$ 321
Accumulated other comprehensive (loss) income:			
Beginning balance at December 31, 2021	\$ (1,747)	\$ (48)	\$ (1,795)
Other comprehensive income	1,453	(13)	1,440
Ending balance at March 31, 2022	(294)	(61)	(355)
Other comprehensive income	2,209	—	2,209
Ending balance at June 30, 2022	\$ 1,915	\$ (61)	\$ 1,854

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited condensed consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q, as well as Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operation" and Part II, Item 8, "Financial Statements and Supplementary Data" included in our 2022 Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 1, 2023. In addition, the financial information for the three and six months ended June 30, 2022 included herein has been restated as more fully described in Note 2 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q. The following discussion contains forward-looking statements based upon current plans, expectations and beliefs and that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth in the "Risk Factors" section of this Quarterly Report on Form 10-Q. See "Forward-Looking Statements" preceding Part I of this Quarterly Report on Form 10-Q.

Overview

LegalZoom is a leading online platform for business formation in the United States, or U.S. Driven by a mission to unleash entrepreneurship, we deliver comprehensive legal, tax and compliance products and expertise for small business owners through easy-to-use technology. From free business formations to business management solutions and professional advisory services, we support millions of small business owners and their families throughout the entrepreneurial journey. Our unique position at business inception allows us to become a trusted business advisor, supporting the evolving needs of a new business throughout its lifecycle, and we have expanded our platform to include professional expertise and other products, both legal and non-legal, to better meet the needs of small businesses. Along with formations, our services include ongoing compliance and tax advice and filings, bookkeeping, virtual mailbox and e-signature solutions, trademark filings, and estate plans. Additionally, we have unique insights into our customers and leverage our product as a channel to introduce small businesses to leading brands in our partner ecosystem, solving even more of their business needs. We operate across all 50 states and in over 3,000 counties in the U.S., with over 22 years of experience in simplifying the legal and compliance process for our customers and empowering entrepreneurs to make their dream a reality.

Our Business Model and Growth Strategy

Our business model is to acquire customers at the time of business formation and then continue to serve their legal, compliance and tax solutions needs over the life of their businesses with our mix of transaction, subscription, and partner offerings. Transaction products include legal documents, business filings, and related services for small business owners and their families, such as business formations, annual compliance filings, intellectual property, estate planning documents, forms, and agreements. Subscription products include compliance solutions and credentialed professional subscription services, including legal and tax advisory and preparation services, as well as additional owned services such as bookkeeping, virtual mail and e-signature. We also introduce our customers to a variety of third-party partners, giving them access to critical services they need to start and run their businesses, such as business license services, credit card and banking services, website development, productivity tools, and business insurance, among others.

Our strategy is to scale our existing business and gain market share by investing in our small business ecosystem and marketing; integrating our independent attorney network and tax professionals into our product set; expanding our addressable market; and attracting additional customers and increasing conversion through the introduction of lower-priced products and services. We are innovating our product lineup to target more price-sensitive customer segments and certain of our business formation services are now available nationwide without charge. As we undergo this business model transformation and shift to this "freemium" strategy, including as we continue to test new products and price points to optimize our lineup, we expect increased volatility across our product offerings. We also aim to grow average revenue per subscription unit, or ARPU, through building in-house adjacencies and expanding our ecosystem to provide new recurring revenue streams.

Recent Developments and Updates

- On August 3, 2023, we launched LZ Books, a simple online accounting solution developed to empower "solopreneurs" – single member LLCs or sole proprietors – to effectively manage their books, secure new work, and be prepared for tax time. We believe LZ Books represents a new potential customer entry point for LegalZoom, while also integrating with, and providing an up-sell opportunity to, LZ Tax.
- In the second quarter, we began to redesign the LegalZoom account experience, which we believe will improve the way customers engage with their existing subscriptions. We believe this redesigned

experience, which launched August 3, 2023, will result in customers growing their use of our platform to include additional products and subscription services post-formation.

- We exited certain legacy partnership relationships as part of our focus on profitable, customer-led growth. In the short term, we expect these exits to negatively impact business formations and, in turn, our subscription unit growth, as business formations act as an entrance point for many customers into the LegalZoom ecosystem.
- In October 2020, we introduced LZ Tax, a LegalZoom fulfilled tax advisory and preparation service, and in 2022, we began our first cycle of preparing tax filings at scale. We are continuing to scale up LZ Tax and we are learning more about our tax customers in the process. As we optimize our LZ Tax offerings to better meet the needs of our target customers, we are seeing and expect to continue to see a decrease in the number of customers purchasing and retaining an LZ Tax subscription unit. While this decrease will produce a revenue headwind into 2024, we expect increased retention of our LZ Tax subscription units over the long term.

Key Business Metrics

In addition to the measures presented in our unaudited condensed consolidated financial statements, we regularly monitor the following financial and operating metrics to evaluate the growth of our business, measure the effectiveness of our marketing efforts, identify trends, formulate financial forecasts and make strategic decisions.

Number of business formations

We define the number of business formations in a given period as the number of limited liability company, or LLC, incorporation, not-for-profit and doing business as, or DBA, orders placed on our platform in such period, excluding such orders from our operations in the U.K. We consider the number of business formations to be an important metric considering that it is typically the first product or service small business customers purchase on our platform, creating the foundation for additional products and subsequent subscription and partner revenue as customers adopt additional products and services throughout the lifecycle of their business.

We believe that including customers filing DBAs on our platform provides a more accurate representation of the number of newly formed businesses we serve. These transactions are most often completed by sole proprietors who represent potential future transaction and subscription cross-sell opportunities as their businesses mature.

Furthermore, we believe our definition of the number of business formations is most closely aligned with U.S. Census reporting of new applications for Employer Identification Numbers, or EINs, which we believe to be the most relevant source of publicly available U.S. market data.

The below table sets forth the number of business formations for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	<i>(in thousands)</i>			
Number of business formations	161	113	331	242

We experienced a 42% and 37% increase in business formation transactions during the three and six months ended June 30, 2023, respectively, compared to the three and six months ended June 30, 2022. Our business formation transactions increased during the three and six months ended June 30, 2023 primarily due to an increase in LLC formations driven by our nationwide roll-out of free LLC formations beginning in the first quarter of 2023. Our business formation transactions outpaced the 7% increase in overall U.S. business formations during the three months ended June 30, 2023 compared to the three months ended in June 30, 2022 and also outpaced the 5% increase in overall U.S. business formations during the six months ended June 30, 2023 compared to the six months ended June 30, 2022, in each case, based on a review of U.S. Census data revealing new applications for EINs.

Number of transactions

We define the number of transactions in a given period as gross transaction order volume, prior to refunds, on our platform during such period. Transactions may include one or more services purchased at the

same time. For example, a customer of our business formation services may choose to form an LLC and purchase an operating agreement and business licenses at the same time. This constitutes a single transaction. Refunds, or partial refunds, may be issued under certain circumstances pursuant to the terms of our customer satisfaction guarantee. We consider the number of transactions to be an important metric considering that our customers generally begin their LegalZoom journey with a transaction, creating the foundation for generating subsequent subscription and partner revenue.

The below table sets forth the number of transactions for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	<i>(in thousands)</i>			
Number of transactions	283	225	591	492

We experienced a 26% increase in the number of transactions during the three months ended June 30, 2023 compared to the three months ended June 30, 2022, and a 20% increase during the six months ended June 30, 2023 compared to the six months ended June 30, 2022. The increase in the number of transactions during the three and six months ended June 30, 2023 resulted primarily from the increase in business formations discussed above, as well as an increase in the number of compliance-related transactions. This increase was partially offset by a 7% and 9% reduction in estate planning and other transactions during the three and six months ended June 30, 2023, respectively. The six months ended June 30, 2023 was also impacted by lower volumes in our intellectual property business largely due to the discontinuation of our do-it-yourself trademark product in favor of our attorney-assisted solution in March 2022.

Our estate planning and other consumer transactions declined as a percentage of total transactions in the three and six months ended June 30, 2023. We expect the proportion of estate planning and other consumer transactions to continue to decrease over time, as we focus more of our investment in small business formations.

Over the long-term, we expect to continue to grow transactions; however, the growth may fluctuate period-over-period due to the variability of overall business formations and estate planning transactions, as well as due to our testing and introduction of new products and price points as we seek to optimize our product lineup.

Average order value

We define average order value for a given period as total transaction revenue divided by total number of transactions in such period. We consider average order value to be an important metric given it indicates how much customers are spending on our platform per transaction.

The below table sets forth the average order value for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
	(Restated)		(Restated)	
Average order value	\$ 214	\$ 290	\$ 207	\$ 266

Average order value decreased by 26% during the three months ended June 30, 2023 compared to the three months ended June 30, 2022, and decreased by 22% during the six months ended June 30, 2023 compared to the six months ended June 30, 2022. The decrease in average order value for the three and six months ended June 30, 2023 was primarily driven by a 36% and 31% decrease, respectively, in average order value related to our business formations, as well as decreases in the average order value of our IP and other transactions. The decrease in average order value related to our business formations was due to the nationwide rollout of free LLC formations during the first quarter of 2023.

Our average order value may fluctuate period-over-period based on the mix of business formations relative to estate planning and other consumer transactions, the timing of transaction revenue recognition, and our ability to introduce and sell new products. We expect year-over-year growth in average order value to be negative throughout the remainder of 2023 given the nationwide rollout of free LLC formations.

Number of subscription units

We define the number of subscription units in a given period as the paid subscriptions at the end of such period, including those that are not yet 60 days past their subscription order dates. Refunds, or partial refunds, may be issued under certain circumstances pursuant to the terms of our customer satisfaction guarantee.

We consider the number of subscription units to be an important metric since subscriptions enable us to increase the lifetime value of a customer through deeper, longer-term relationships. In addition, as we innovate our product line-up and make a free business formation a foundational element of our business model, we believe the number of subscription units, when viewed together with the number of business formations during a particular period, provides insight into the effectiveness of our “freemium” strategy and its ability to drive growth in our subscription business.

Subscriptions typically range from 30 days to one year in duration and the vast majority of our new subscriptions originate from business formation orders and have an annual term. Our customers can have multiple subscriptions at the end of a period. For example, a popular combination for a new small business owner is attorney advice and registered agent subscriptions.

The below table sets forth the number of subscription units as of June 30, 2023 and 2022:

	As of June 30,	
	2023	2022
	<i>(in thousands)</i>	
Number of subscription units	1,553	1,394

We achieved 11% growth in subscription units from June 30, 2022 to June 30, 2023, primarily driven by a 14% increase in our registered agent and compliance subscription units, partially offset by a decline in our consumer and other subscription units.

On a sequential basis, the number of subscription units as of June 30, 2023 increased 3% from 1,501 thousand subscription units as of March 31, 2023. We aim to continue to grow subscription units over the long term by increasing the proportion of our small business customers that purchase a subscription service and by improving retention rates.

Average revenue per subscription unit

We define average revenue per subscription unit, or ARPU, as of a given date as subscription revenue for the twelve-month period ended on such date, or LTM, divided by the average of the number of subscription units at the beginning and end of the LTM period. We consider ARPU to be an important metric because it helps to illustrate our ability to provide and monetize higher value subscriptions. In addition, when viewed together with subscription units, ARPU provides insight into the impact that higher-value subscriptions have on our ability to grow our subscription units.

The below table sets forth ARPU as of June 30, 2023 and 2022:

	As of June 30,	
	2023	2022
Average revenue per subscription unit	\$ 259	\$ 252

ARPU as of June 30, 2023 was flat sequentially compared to March 31, 2023 and up 3% year-over-year with the increase driven primarily by an increase in ARPU related to our consumer and other subscription units. We aim to increase ARPU over time as subscription units from our new product offerings, which carry higher average price points than our other subscription products, comprise a greater share of total subscription units.

Annual small business retention rate

We define annual small business retention rate as the percentage of small business subscription units active as of the last day of the quarter one year ago that were still active subscriptions 12 months later. Small business subscription units represent our subscriptions targeted at our small business customers and include subscriptions for our registered agent and compliance services, LZ Tax, our small business legal advisory plan and subscriptions acquired through our purchase of Earth Class Mail and Revvsales Inc., and exclude subscriptions from our enterprise customers, our operations in the U.K. and our consumer legal advisory plan.

Annual small business retention rate includes both monthly and annual subscription units and reflects all subscription unit attrition, including as a result of actual business failures of certain of our customers. Our annual small business retention rate as of June 30, 2023 was approximately 63%.

We expect annual retention rate to fluctuate as we continue to test new products, subscription term lengths and price points and seek to optimize our product offerings across our lineup in connection with our “freemium” strategy. While there may be a general correlation between annual small business retention rate and our ability to increase customer lifetime value and the growth of our customer base, we do not view it as a predictor of future revenue given the varying needs of a small business during its lifecycle and the varying use cases of the products underlying our subscription units.

Key Factors Affecting Our Performance

We believe that our future performance will depend on many factors, including the following:

- **Our share of business formations.** The majority of our transaction revenue is generated by providing formation services to guide our customers through the transition from being aspiring business owners to actually launching their entities. We offer entity formation services for LLCs, corporations and non-profits as well as DBA filings. In the three and six months ended June 30, 2023 and 2022, business formations represented the largest share of our total transaction orders. In addition, business formations act as an entrance point for many customers to the LegalZoom ecosystem, where they then often purchase additional products and services. Our business depends on the continuation of new business formations in the U.S., which may be seasonal in nature and dependent on macroeconomic factors, and even more so, on our ability to increase our share of these formations. Further, as we continue to invest in fulfillment automation technologies and become more efficient in fulfilling business formation orders, the timing of our revenue recognition in future periods may vary from historical seasonality and other trends.
- **Product leadership.** We have invested and expect to continue to invest significantly in our user experience, which we believe is critical to attracting and converting customers and improving retention. These investments consist mainly of creating educational content, improving our website and application user interface, and creating and offering additional products and services, including the growing use of experts in the customer journey. The performance of our products is important to attracting new customers to our platform, maintaining a healthy subscriber base and retaining our customers.
- **Ability to enhance customer lifetime value.** Our relationship with our small business customers typically starts with the formation of their business and we aim to deepen this relationship over time as their businesses grow and their needs become more complex. Our goal is that customers grow their use of our platform to include additional products and subscription services as their businesses evolve and, in turn, they increase their cumulative spend with us over time. We are also improving the way customers engage with their existing subscriptions, which we believe will result in higher customer engagement. Additionally, we offer third-party services via our partner ecosystem, such as our partnership with Wix, and we aim to generate incremental revenue via these partner offerings.
- **Investment in marketing.** We have invested, and expect that we will continue to invest, in the promotion of our services through our various customer acquisition channels, including performance marketing, search engine optimization, television, digital video, social, radio, and our inside sales team. We frequently evaluate how we price, market, and sell transaction products in order to optimize our subscription business.
- **Investment in tax offerings.** Tax services represent a natural adjacency in our mission to make legal and compliance services accessible to small businesses. Based on customer surveys, we estimate that approximately 70% of small business owners that sought a tax accountant did not have one at the time of their entity formation but face tax implications as a result of the entity they choose. To address this customer need, we have invested in our tax advisory offering, and we anticipate incurring additional costs related to LZ Tax as we continue to scale these tax offerings. We believe that our tax offerings represent an attractive opportunity for incremental revenue growth.
- **Talent acquisition and retention.** We are focused on providing a quality employee experience as we believe the future success of our business is heavily dependent on our ability to attract and retain talented and highly productive employees, including software engineers, product designers, brand and performance marketers, and customer-facing positions. We compete for talent within the technology industry and believe that our strong brand recognition and greater company purpose are important, positive considerations in our ability to recruit talent. We also are scaling an in-house team of certified public accountants, or CPAs, and enrolled agents that are critical to our tax offerings.

- **Macroeconomic factors.** Fluctuations in general macroeconomic, political, regulatory and market conditions, such as recessionary fears, the current inflationary environment and rising interest rates can adversely impact consumer spending patterns, the success of existing small businesses and the formation of new small businesses. While overall U.S. business formations increased in the three and six months ended June 30, 2023 compared to the same period in 2022 based on a review of U.S. Census data, we believe that future negative or decelerating impacts from sustained inflation, higher interest rates or other macroeconomic fluctuations remain uncertain.

Key Components of our Results of Operations

Revenue

We generate revenue from the sources identified below.

Transaction revenue. Transaction revenue is primarily generated from our customized legal document services upon fulfillment of these services. Transaction revenue includes filing fees and is net of cancellations, promotional discounts, sales allowances and credit reserves.

Subscription revenue. Subscription revenue is generated primarily from subscriptions to our registered agent, compliance packages, attorney advice, legal forms, tax, virtual mail and e-signature services in addition to software-as-a-service, or SaaS, subscriptions in the U.K. We generally recognize revenue from our subscriptions ratably over the subscription term. Subscription terms generally range from thirty days to one year. Subscription revenue includes the transaction price allocated to bundled free trials for our subscription services and is net of promotional discounts, cancellations, sales allowances and credit reserves and payments to third-party service providers such as legal plan law firms.

For transaction and subscription revenue, we generally collect payments and fees at the time orders are placed and prior to services being rendered. We record amounts collected for services that have not been performed as deferred revenue on our consolidated balance sheet. The transaction price that we record is generally based on the contractual amounts and is reduced for estimated sales allowances for price concessions, charge-backs, sales credits and refunds, which are accounted for as variable consideration when estimating the amount of revenue to recognize.

Partner revenue. Partner revenue consists primarily of one-time or recurring fees earned from third-party providers from leads generated to such providers through our online legal platform. Revenue is recognized when the related performance-based criteria have been met. We assess whether performance criteria have been met on a cost-per-click or cost-per-action basis. In the near term, we expect a decrease in partner revenue as we transition away from legacy partners that do not align with our new strategic direction and focus more on long-term opportunities to have strategic partnerships that build on recurring revenue models.

See the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates—Revenue Recognition" in our 2022 Annual Report on Form 10-K for a description of the accounting policies related to revenue recognition, including arrangements that contain multiple deliverables.

Cost of revenue

Cost of revenue includes all costs of providing and fulfilling our services. Cost of revenue primarily includes government filing fees; costs of fulfillment, customer care and credentialed professionals, and related benefits, including stock-based compensation; costs of independent contractors for document preparation; telecommunications and data center costs; amortization of acquired developed technology; depreciation and amortization of network computers, equipment and internal-use software; printing, shipping and handling charges; credit and debit card fees; allocated overhead; legal document kit expenses; and sales and use taxes. We defer direct and incremental costs primarily related to government filing fees incurred prior to the associated service meeting the criteria for revenue recognition. These contract assets are recognized as cost of revenue in the same period the related revenue is recognized.

We expect our cost of revenue to increase in absolute dollars as we continue to invest in enhancing our customer experience and in new product development, including expert-assisted offerings for our tax and attorney-assisted legal offerings.

Gross profit and gross margin

Gross profit, or revenue less cost of revenue, and gross margin, or gross profit as a percentage of revenue, have been and will continue to be affected by various factors, primarily the mix between transaction, subscription and partner revenue. Our gross margin on subscription and partner revenue is higher than our gross margin on transaction revenue. Our long-term gross margin expansion is also expected to be driven by

automation improvements and digitization efforts. Further, our acquisitions of other companies have negatively impacted our gross margin in the short term, and any such future acquisitions could have a similar effect.

In the short term, we expect our gross profit to increase in absolute dollars but our gross margin to be impacted by higher filing fees as a percentage of revenue due to the roll-out of our new product line-up, as well as by our continued investment in scaling our tax business, which has lower gross margins than other products in our portfolio. However, we expect our gross margin to increase modestly over the longer term as we continue to focus on growing higher-margin subscription revenue and as we invest in fulfillment automation technologies. In addition, our gross margin could fluctuate from period to period due to fulfillment rates and seasonality.

Operating expenses

Our operating expenses consist primarily of sales and marketing, technology and development, general and administrative expenses, and to a lesser extent, impairments of goodwill, long-lived assets and other assets.

Sales and marketing

Sales and marketing expenses consist of customer acquisition media costs; compensation and related benefits, including stock-based compensation for marketing and sales personnel; media production; public relations and other promotional activities; general business development activities; an allocation of depreciation and amortization and allocated overhead. Customer acquisition media costs consist primarily of search engine marketing, television and radio costs. Marketing and advertising costs to promote our services are expensed in the period incurred. Media production costs are expensed the first time the advertisement is aired.

We intend to continue to invest in sales and marketing to drive additional revenue, further penetrate our expanding addressable market, and build on our digital brand leadership and awareness. We anticipate that sales and marketing expenses will continue to be our largest operating expense category for the foreseeable future, and we expect the year-over-year declines in this spend to moderate going forward.

Technology and development

Technology and development expenses consist primarily of personnel costs and related benefits, including stock-based compensation, expenses for outside consultants, an allocation of depreciation and amortization and allocated overhead. These expenses include costs incurred in the development and implementation of our products, websites, mobile applications, online legal platform, research and development and related infrastructure. Technology and development expenses are expensed as incurred, except to the extent that such costs are associated with internal-use software costs that qualify for capitalization.

Excluding stock-based compensation, we expect our technology and development expenses to continue to increase in absolute dollars for the foreseeable future as we invest in new products and services and in production automation technologies to enhance our customer experience. We expect our technology and development expenses to remain relatively consistent or increase as a percentage of our revenue over the long-term, although our technology and development expenses may fluctuate as a percentage of our revenue from period-to-period due to seasonality and the timing and extent of these expenses.

General and administrative

Our general and administrative expenses relate primarily to compensation and related benefits, including stock-based compensation, for executive and corporate personnel, professional and consulting fees, an allocation of depreciation and amortization, allocated overhead and legal costs. We expense legal costs for defending legal proceedings as incurred.

Excluding stock-based compensation, we expect our general and administrative expenses to increase in absolute dollars for the foreseeable future due to additional costs associated with accounting, compliance, insurance and investor relations. Over the next year, we will continue to incur stock-based compensation expense as a result of certain modifications to equity awards that occurred in connection with our initial public offering, or IPO; however, we expect our general and administrative expenses to decrease as a percentage of our revenue over the longer term. Our general and administrative expenses may fluctuate as a percentage of our revenue from period-to-period due to seasonality and the timing and extent of these expenses.

Interest income (expense), net

Interest income (expense), net, consists primarily of interest income generated from our investment in money market funds offset by amortization of debt issuance costs related to our Amended and Restated Credit and Guaranty Agreement, or 2021 Revolving Facility.

We expect interest income (expense), net, to remain insignificant in the near term as we have no outstanding indebtedness. However, we would incur interest expense in the longer term should we draw down on our 2021 Revolving Facility or incur other indebtedness.

Income taxes

Our provision for income taxes consists of current and deferred federal, state and foreign income taxes.

We account for income taxes in accordance with ASC 740, *Income Taxes*, which requires an estimate of the annual effective tax rate for the full year to be applied to the interim period, taking into account year-to-date amounts and projected results for the full year. Our effective tax rate could fluctuate significantly from quarter to quarter based on recurring and nonrecurring factors including, but not limited to: variations in the estimated and actual level of pre-tax income or loss by jurisdiction; changes in enacted tax laws and regulations, and interpretations thereof, including with respect to tax credits and state and local income taxes; developments in tax audits and other matters; recognition of excess tax benefits and tax deficiencies from stock-based compensation and certain nondeductible expenses. Changes in judgment from the evaluation of new information resulting in the recognition, derecognition, or remeasurement of a tax position taken in a prior annual period are recognized separately in the quarter of the change.

Results of Operations

The following table sets forth our consolidated statement of operations data for each of the periods indicated. The period-to-period comparison of financial results should not be considered as a prediction or indicative of our future results:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
	<i>(in thousands)</i>			
Revenue	\$ 168,854	\$ 162,649	\$ 334,790	\$ 318,076
Cost of revenue ⁽¹⁾⁽²⁾	63,748	57,151	124,143	113,333
Gross profit	105,106	105,498	210,647	204,743
Operating expenses:				
Sales and marketing ⁽¹⁾⁽²⁾	53,525	71,721	113,675	148,595
Technology and development ⁽¹⁾⁽²⁾	19,900	16,197	39,583	34,156
General and administrative ⁽¹⁾⁽²⁾	26,936	28,969	53,440	58,457
Total operating expenses	100,361	116,887	206,698	241,208
Income (loss) from operations	4,745	(11,389)	3,949	(36,465)
Interest income (expense), net	2,153	29	3,734	(24)
Other income (expense), net	624	(2,022)	1,318	(3,566)
Income (loss) before income taxes	7,522	(13,382)	9,001	(40,055)
Provision for (benefit from) income taxes	6,127	(639)	9,964	(1,559)
Net income (loss)	\$ 1,395	\$ (12,743)	\$ (963)	\$ (38,496)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
	<i>(in thousands)</i>			
Cost of revenue	\$ 1,105	\$ 1,331	\$ 1,979	\$ 1,608
Sales and marketing	1,447	3,536	2,979	6,661
Technology and development	4,875	4,148	9,195	8,446
General and administrative	11,529	13,832	21,270	27,997
Total stock-based compensation expense	<u>\$ 18,956</u>	<u>\$ 22,847</u>	<u>\$ 35,423</u>	<u>\$ 44,712</u>

Stock-based compensation expense decreased significantly for the three and six months ended June 30, 2023 compared to the same periods of 2022 due to the modification of certain equity awards in connection with our IPO. Refer to Note 9 to our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q.

(2) Includes depreciation and amortization expense for our property and equipment, including capitalized internal-use software and intangible assets as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
	<i>(in thousands)</i>			
Cost of revenue	\$ 3,011	\$ 2,184	\$ 5,633	\$ 4,254
Sales and marketing	1,354	1,879	2,611	3,754
Technology and development	841	692	1,699	1,418
General and administrative	631	784	1,463	1,507
Total depreciation and amortization expense	<u>\$ 5,837</u>	<u>\$ 5,539</u>	<u>\$ 11,406</u>	<u>\$ 10,933</u>

Comparison of the Three Months Ended June 30, 2023 and 2022

Revenue

	Three Months Ended June 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Revenue by type				
Transaction	\$ 60,494	\$ 65,291	\$ (4,797)	(7)%
Subscription	102,199	91,308	10,891	12 %
Partner	6,161	6,050	111	2 %
Total revenue	<u>\$ 168,854</u>	<u>\$ 162,649</u>	<u>\$ 6,205</u>	<u>4 %</u>

The increase in total revenue was primarily driven by an increase in subscription revenue. Subscription revenue was 61% and 56% of total revenue for the three months ended June 30, 2023 and 2022, respectively, and transaction revenue was 36% and 40% of total revenue for the three months ended June 30, 2023 and 2022, respectively.

Transaction revenue for the three months ended June 30, 2023 decreased due to a 26% decrease in average order value compared to the three months ended June 30, 2022, partially offset by a 26% increase in transaction units over the same period. The decrease in average order value for the three months ended June 30, 2023 was driven primarily by a 36% decrease in average order value related to the nationwide rollout of free LLC formations during the first quarter of 2023, as well as decreases in the average order value of our IP and other transactions. The overall increase in transaction units during the three months ended June 30, 2023 was due to a 42% increase in business formations due primarily to the nationwide rollout of free LLC formations. This increase was partially offset by a 7% reduction in estate planning and other consumer transactions.

Subscription revenue for the three months ended June 30, 2023 increased primarily due to an 11% increase in the number of subscription units and a 3% improvement in ARPU compared to the three months ended June 30, 2022. The increase in subscription units was driven primarily by a 14% increase in our registered agent and compliance subscription units, partially offset by a decline in our consumer and other subscription units compared to the three months ended June 30, 2022. ARPU increased 3% compared to June 30, 2022 driven primarily by an increase in ARPU related to our consumer and other subscription units.

Partner revenue for the three months ended June 30, 2023 increased as a result of higher business formation volumes during the period.

Cost of revenue

	Three Months Ended June 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Cost of revenue	\$ 63,748	\$ 57,151	\$ 6,597	12 %

Cost of revenue for the three months ended June 30, 2023 increased by \$6.6 million mainly due to a \$4.4 million increase in third-party staffing fees and filing fees. The increase in filing fees was primarily driven by the increase in business formations during the three months ended June 30, 2023.

Gross profit

	Three Months Ended June 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Gross profit	\$ 105,106	\$ 105,498	\$ (392)	— %

The decrease in gross profit was driven by a \$6.2 million increase in revenue offset by a \$6.6 million increase in cost of revenue.

Sales and marketing

	Three Months Ended June 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Sales and marketing	\$ 53,525	\$ 71,721	\$ (18,196)	(25 %)

Sales and marketing expenses for the three months ended June 30, 2023 decreased primarily due to an \$8.1 million reduction in customer acquisition marketing spend, a \$6.3 million reduction in media production spend, a \$3.4 million reduction in payroll and related benefits, and a \$2.1 million reduction in stock-based compensation expense, partially offset by \$2.7 million increase in consulting fees. The decrease in stock-based

compensation expense and payroll and related benefits was largely due to decreased sales and marketing headcount. Customer acquisition marketing spend was \$36.0 million and \$44.1 million for the three months ended June 30, 2023 and 2022, respectively, as we reduced our marketing spend in response to the uncertain macroeconomic environment.

Technology and development

	Three Months Ended June 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Technology and development	\$ 19,900	\$ 16,197	\$ 3,703	23 %

Technology and development expenses for the three months ended June 30, 2023 increased primarily due to an increase in payroll and related benefits largely due to increased technology and development headcount.

General and administrative

	Three Months Ended June 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
General and administrative	\$ 26,936	\$ 28,969	\$ (2,033)	(7 %)

General and administrative expenses for the three months ended June 30, 2023 decreased primarily due to a \$2.3 million decrease in stock-based compensation.

Interest income (expense), net

	Three Months Ended June 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Interest income (expense), net	\$ 2,153	\$ 29	\$ 2,124	n/m

The change in interest income (expense), net, was primarily due to dividend income generated from our money market investments during the three months ended June 30, 2023.

Other income (expense), net

	Three Months Ended June 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Other income (expense), net	\$ 624	\$ (2,022)	\$ 2,646	(131 %)

The change in other income (expense), net, between 2023 and 2022 was primarily due to changes in foreign currency movements related to our intercompany loans which were denominated in British Pound Sterling, or GBP.

Provision for (benefit from) income taxes

	Three Months Ended June 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Provision for (benefit from) income taxes	\$ 6,127	\$ (639)	\$ 6,766	n/m
Effective tax rate	81.5 %	4.8 %		

The provision for income taxes for the three months ended June 30, 2023 resulted from a \$6.8 million unfavorable change as compared to the three months ended June 30, 2022. The change was primarily due to pre-tax book income and non-deductible stock-based compensation for the three months ended June 30, 2023 compared to a pre-tax loss for the three months ended June 30, 2022.

Comparison of the Six Months Ended June 30, 2023 and 2022

Revenue

	Six Months Ended June 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Revenue by type				
Transaction	\$ 122,733	\$ 130,616	\$ (7,883)	(6 %)
Subscription	199,510	175,672	23,838	14 %
Partner	12,547	11,788	759	6 %
Total revenue	\$ 334,790	\$ 318,076	\$ 16,714	5 %

The increase in total revenue was primarily driven by an increase in subscription revenue. Subscription revenue was 60% and 55% of total revenue for the six months ended June 30, 2023 and 2022, respectively, and transaction revenue was 37% and 41% of total revenue for the six months ended June 30, 2023 and 2022, respectively.

Transaction revenue for the six months ended June 30, 2023 decreased due to a 22% decrease in average order value compared to the six months ended June 30, 2022, partially offset by a 20% increase in the number of transaction units over the same period. The decrease in average order value for the six months ended June 30, 2023 was driven primarily by a 31% decrease in average order value related to our business formations, as well as decreases in the average order value of our IP and other transactions. The decrease in average order value related to our business formations was driven primarily by the nationwide rollout of free LLC formations during the first quarter of 2023. The overall increase in transaction units during the six months ended June 30, 2023 was due to a 37% increase in business formations due primarily to the nationwide rollout of free LLC formations. This increase was partially offset by a 9% reduction in estate planning and other consumer transactions and lower volumes in our intellectual property business largely due to the discontinuation of our do-it-yourself trademark product in favor of our attorney-assisted solution in March 2022.

Subscription revenue for the six months ended June 30, 2023 increased primarily due to a 11% increase in the number of subscription units as of June 30, 2023 compared to June 30, 2022 and a 3% increase in ARPU compared to June 30, 2022. The increase in subscription units was driven primarily by a 14% increase in our registered agent and compliance subscription units, partially offset by a decline in our consumer and other subscription units compared to the six months ended June 30, 2022. ARPU increased 3% compared to June 30, 2022 driven primarily by an increase in ARPU related to our consumer and other subscription units.

Partner revenue for the six months ended June 30, 2023 increased as a result of higher business formation volumes during the period.

General and administrative

	Six Months Ended June 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
General and administrative	\$ 53,440	\$ 58,457	\$ (5,017)	(9 %)

General and administrative expenses for the six months ended June 30, 2023 decreased primarily due to \$6.7 million decrease in stock-based compensation, mainly in connection with award modifications from our IPO in July 2021.

Interest income (expense), net

	Six Months Ended June 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Interest income (expense), net	\$ 3,734	\$ (24)	\$ 3,758	n/m

The change in interest income (expense), net, was primarily due to dividend income generated from our money market investments during the six months ended June 30, 2023.

Other (expense) income, net

	Six Months Ended June 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Other (expense) income, net	\$ 1,318	\$ (3,566)	\$ 4,884	(137 %)

The change in other (expense) income, net, between 2023 and 2022 was primarily due to changes in foreign currency movements related to our intercompany loans which were denominated in GBP.

Provision for (benefit from) income taxes

	Six Months Ended June 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Provision for (benefit from) income taxes	\$ 9,964	\$ (1,559)	\$ 11,523	n/m
Effective tax rate	110.7 %	3.9 %		

The provision for income taxes for the six months ended June 30, 2023 resulted from an \$11.5 million unfavorable change as compared to the six months ended June 30, 2022. The change was primarily due to pre-tax book income and non-deductible stock-based compensation for the six months ended June 30, 2023 compared to a pre-tax loss for the six months ended June 30, 2022.

Liquidity and Capital Resources

Overview

We fund our operations and capital expenditures from cash flows from operating activities. Our primary requirements for liquidity and capital are to finance working capital, capital expenditures and general corporate purposes. At June 30, 2023, our principal sources of liquidity were cash and cash equivalents of \$238.9 million, which consisted of cash on deposit with banks and money market funds, of which approximately \$1.5 million related to our foreign subsidiaries. Our cash and cash equivalents increased by \$49.9 million from December 31, 2022 to June 30, 2023, primarily as a result of cash provided by operating activities, partially offset by purchases of property and equipment and stock repurchases during the period.

We currently anticipate that our available cash, cash equivalents and cash provided by operating activities will be sufficient to meet our operational cash needs for at least the next twelve months and in the foreseeable future. We have the ability to supplement our liquidity needs over the longer term with borrowings under our 2021 Revolving Facility. In addition, we previously announced our intention to sell our operating headquarters in Austin, Texas, which is discussed in more detail in Note 5 to our unaudited condensed consolidated financial statements.

We have historically considered the undistributed earnings of our foreign subsidiaries to be indefinitely reinvested, and accordingly no taxes have been provided on such earnings. We continue to evaluate our plans for reinvestment or repatriation of unremitted foreign earnings and have not changed our previous indefinite reinvestment determination following the enactment of the 2017 Tax Cuts and Jobs Act, or Tax Act. We have not repatriated funds to the U.S. to satisfy domestic liquidity needs, nor do we anticipate the need to do so. If we determine that all or a portion of our foreign earnings are no longer indefinitely reinvested, we may be subject to foreign withholding taxes and U.S. state income taxes.

Furthermore, our board of directors has authorized our management to repurchase up to \$150.0 million of shares of our common stock from time to time. As of the date of this filing, we have repurchased \$104.9 million of our common stock under our stock repurchase program. For additional information regarding our stock repurchase program, refer to Note 8 to our unaudited condensed consolidated financial statements.

Borrowings

2021 Revolving Facility

On July 2, 2021, we entered into our 2021 Revolving Facility with JPMorgan Chase Bank, N.A., as the administrative agent. The 2021 Revolving Facility, as amended, provides for the issuance of up to \$20.0 million of letters of credit as well as borrowings on same-day notice, referred to as swingline loans, in an amount of up to \$10.0 million. As of June 30, 2023, we had no borrowings outstanding and \$150.0 million available for use under our 2021 Revolving Facility.

Subject to the satisfaction of certain criteria, we will be able to increase the 2021 Revolving Facility by an amount equal to the sum of (i) the greater of \$90.0 million and 75% of consolidated last twelve months cash earnings before interest expense, tax, depreciation and amortization, or LTM CEBITDA, plus (ii) unused amounts under the general debt basket (i.e., an amount equal to the greater of \$50.0 million and an equivalent percentage of consolidated LTM CEBITDA), plus (iii) an unlimited amount so long as we are in pro forma compliance with the Financial Covenant (as defined below), in each case, with the consent of the lenders participating in the increase.

We are required to pay a commitment fee in respect of unutilized commitments under the 2021 Revolving Facility. The commitment fee is, initially, 0.35% per annum. The commitment fee is subject to a reduction of 0.10% if the total net first lien leverage ratio does not exceed 3.50 to 1.00. We are also required to pay customary letter of credit fees and agency fees. As of June 30, 2023, the interest rate applicable to the 2021 Revolving Facility was subject to a 1.0% floor and was at a rate equal to the greatest of: (i) the administrative agent's prime rate; (ii) the federal funds effective rate plus 1/2 of 1.0%; and (iii) the secured overnight financing rate, or SOFR, plus a 0.10% credit spread adjustment to the SOFR benchmark, or Adjusted Term SOFR, plus 1.0%; provided that if the Adjusted Term SOFR is less than zero, the Adjusted Term SOFR shall be deemed to be zero. The interest rate margins under the 2021 Revolving Facility are subject to a reduction of 0.25% and a further reduction of 0.25% if the total net first lien leverage ratio does not exceed 3.50 to 1.00 and 2.50 to 1.00, respectively.

We have the option to voluntarily repay outstanding loans at any time without premium or penalty, other than customary "breakage" costs with respect to SOFR loans. There is no scheduled amortization under the 2021 Revolving Facility. The principal amount outstanding is due and payable in full at maturity, five years from the closing date of the 2021 Revolving Facility.

Obligations under the 2021 Revolving Facility are guaranteed by our existing and future direct and indirect material wholly-owned domestic subsidiaries, subject to certain exceptions. The 2021 Revolving Facility is secured by a first-priority security interest in substantially all of the assets of the borrower and the guarantors, subject to certain exceptions.

The 2021 Revolving Facility contains a number of covenants that, among other things and subject to certain exceptions, restrict our ability and the ability of our restricted subsidiaries to incur additional indebtedness and guarantee indebtedness; create or incur liens; pay dividends and distributions or repurchase capital stock; merge, liquidate and make asset sales; change lines of business; change our fiscal year; incur restrictions on our subsidiaries' ability to make distributions and create liens; modify our organizational documents; make investments, loans and advances; and enter into certain transactions with affiliates.

The 2021 Revolving Facility requires compliance with a total net first lien leverage ratio of 4.50 to 1.00, or the Financial Covenant. The Financial Covenant will be tested at quarter-end only if the total principal amount of all revolving loans, swingline loans and drawn letters of credit that have not been reimbursed exceeds 35% of the total commitments under the 2021 Revolving Facility on the last day of such fiscal quarter.

Cash flows

The following table sets forth a summary of our cash flows for the periods indicated:

	Six Months Ended June 30,	
	2023	2022
	(Restated)	
	<i>(in thousands)</i>	
Net cash provided by operating activities	\$ 74,373	\$ 24,757
Net cash used in investing activities	(15,227)	(10,072)
Net cash used in financing activities	(9,323)	(38,298)
Effect of exchange rate changes on cash and cash equivalents	32	(147)
Net increase (decrease) in cash and cash equivalents	<u>\$ 49,855</u>	<u>\$ (23,760)</u>

Net cash provided by operating activities

Our largest source of operating cash is cash collections from our customers for our transaction and subscription services. Our primary uses of cash in operating activities are for our fulfillment, production and customer care costs, employee salaries and benefits, sales and marketing expenses and third-party consulting expenses. Net cash provided by operating activities is impacted by our net income (loss) adjusted for certain non-cash items, including depreciation and amortization expense, stock-based compensation and impairments of long-lived assets, as well as the effect of changes in operating assets and liabilities.

In the six months ended June 30, 2023, cash provided by operating activities was \$74.4 million resulting from a net loss of \$1.0 million, adjusted for stock-based compensation and other non-cash expenses of \$54.1 million and net cash flows provided by changes in operating assets and liabilities of \$21.2 million. The \$21.2 million of net cash flows provided from changes in our operating assets and liabilities included a \$15.0 million increase in deferred revenue largely due to growth of our subscription units, which are predominantly billed in advance of our revenue recognition, a \$8.3 million increase in accounts payable, and a \$3.4 million decrease in prepaid expenses and other current assets, partially offset by a \$5.2 million reduction in accrued expenses and operating lease liability and other liabilities due to the timing of our payments.

Net cash used in investing activities

Our primary investing activities have consisted of capital expenditures to purchase property and equipment necessary to support our customer contact center, network and operations, the capitalization of internal-use software necessary to develop and maintain our platform and deliver new products and features, which provide value to our customers, business acquisitions and investments in other companies. As our business grows, we expect our capital expenditures to continue to increase.

In the six months ended June 30, 2023, net cash used in investing activities was \$15.2 million resulting primarily from purchases of property and equipment, including capitalization of internal-use software.

Net cash used in financing activities

Our primary uses of cash in financing activities are for repurchases of common stock and settlements of stock options and RSUs. Net cash provided by financing activities is primarily impacted by exercises of stock options by our employees and issuance of common stock.

In the six months ended June 30, 2023, net cash used in financing activities was \$9.3 million, resulting from \$9.8 million in repurchases of our common stock under our stock repurchase program and a \$2.5 million settlement of minimum statutory tax withholding upon vesting of RSUs, partially offset by \$3.0 million of proceeds from the issuance of stock under our employee stock plans.

Material Cash Requirements

We believe our current cash and cash equivalents, as well as cash expected to be generated by future operating activities, will be sufficient to meet our material cash requirements for the next twelve months. Our material cash requirements include the below contractual and other obligations:

Advertising, Media and Other Commitments

We use a variety of media to advertise our services, including search engine marketing, television and radio. At June 30, 2023, we had non-cancelable minimum advertising and media commitments for future advertising spots of \$5.3 million, substantially all of which will be paid over a two-year period. We also have non-cancelable agreements with various vendors, which require us to pay \$59.4 million over a five-year period, of which \$43.2 million remains to be paid as of June 30, 2023.

Lease Obligations

At June 30, 2023, we had various non-cancelable operating leases for office space and equipment, which expire between January 2024 and November 2029. As of June 30, 2023, we had total minimum operating lease maturities of \$11.5 million, \$1.4 million of which mature within six months. See Note 9 of our consolidated financial statements included in our 2022 Annual Report on Form 10-K for additional information regarding our future operating lease payments.

Non-GAAP Financial Measures

To supplement our unaudited condensed consolidated financial statements, which are prepared and presented in accordance with U.S. generally accepted accounting principles, or GAAP, we use certain non-GAAP financial measures, as described below, to understand and evaluate our core operating performance. These non-GAAP financial measures, which may be different from similarly titled measures used by other companies, are presented to enhance investors' overall understanding of our financial performance and liquidity and should not be considered a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. We believe that these non-GAAP financial measures provide useful information about our financial performance and liquidity, enhance the overall understanding of our past performance and future prospects and allow for greater transparency with respect to important measures used by our management for financial and operational decision-making. We are presenting these non-GAAP measures to assist investors in seeing our financial performance using a management view and because we believe that these measures provide an additional tool for investors to use in comparing our core financial performance over multiple periods with other companies in our industry.

Adjusted EBITDA and Adjusted EBITDA Margin

We define Adjusted EBITDA as net income (loss) adjusted to exclude interest income (expense), net, provision for (benefit from) income taxes, depreciation and amortization, other expense (income), net, stock-based compensation, loss on debt extinguishment, impairment of goodwill, long-lived and other assets, losses from impairment of available-for-sale debt securities, restructuring expenses, legal expenses, acquisition related expenses, transaction-related expenses and certain other non-recurring expenses. Our Adjusted EBITDA financial measure differs from GAAP in that it excludes certain items of income and expense. We define Adjusted EBITDA margin as Adjusted EBITDA as a percentage of revenue. We define net income (loss) margin as net income (loss) as a percentage of revenue based on our unaudited condensed consolidated financial statements.

Adjusted EBITDA is one of the primary performance measures used by our management and our board of directors to understand and evaluate our financial performance and operating trends, including period-to-period comparisons, prepare and approve our annual budget, develop short and long-term operational plans and determine appropriate compensation plans for our employees. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our results of operations in the same manner as our management team and board of directors. In assessing our performance, we exclude certain expenses that we believe are not comparable period over period. Adjusted

EBITDA should not be considered in isolation of, or as an alternative to, measures prepared and presented in accordance with GAAP. There are a number of limitations related to the use of Adjusted EBITDA rather than net income (loss), which is the nearest GAAP equivalent of Adjusted EBITDA, and it may be calculated differently by other companies in our industry, limiting its usefulness as a comparative measure. Some of these limitations include that the non-GAAP financial measure:

- does not reflect interest income (expense), or the cash requirements necessary to service interest or principal payments, which reduces cash available to us;
- does not reflect provision for income taxes that may result in payments that reduce cash available to us;
- excludes depreciation and amortization and, although these are non-cash expenses, the assets being depreciated may be replaced in the future;
- does not reflect foreign currency exchange or other gains or losses, which are included in other (expense) income, net;
- excludes stock-based compensation expense, which has been, and will continue to be, a significant recurring expense for our business and an important part of our compensation strategy;
- excludes losses from impairments of goodwill, long-lived and other assets and available-for-sale debt securities;
- excludes legal expenses, which reduce cash available to us;
- excludes restructuring expenses, which reduce cash available to us;
- excludes transaction-related expenses that are not considered representative of our underlying performance, which reduce cash available to us; and
- does not reflect certain other non-recurring expenses that are not considered representative of our underlying performance, which reduce cash available to us.

The following table presents a reconciliation of net income (loss) to Adjusted EBITDA for each of the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
<i>(in thousands, except percentages)</i>				
Reconciliation of net income (loss) to Adjusted EBITDA				
Net income (loss)	\$ 1,395	\$ (12,743)	\$ (963)	\$ (38,496)
Interest (income) expense, net	(2,153)	(29)	(3,734)	24
Provision for (benefit from) income taxes	6,127	(639)	9,964	(1,559)
Depreciation and amortization	5,837	5,539	11,406	10,933
Other (income) expense, net	(624)	2,022	(1,318)	3,566
Stock-based compensation	18,956	22,847	35,423	44,712
Transaction-related expenses	—	92	—	122
Restructuring costs ⁽¹⁾	107	991	735	991
Legal expenses	—	—	—	40
Adjusted EBITDA	\$ 29,645	\$ 18,080	\$ 51,513	\$ 20,333
Net income (loss) margin	1 %	(8 %)	— %	(12 %)
Adjusted EBITDA margin	18 %	11 %	15 %	6 %

- (1) For 2023, restructuring expenses related to the reduction of our U.K. headcount, which is expected to be substantially complete by December 31, 2023. During the quarter ended June 30, 2022, restructuring expenses related to a one-time severance event to reduce the U.S. headcount. Restructuring expenses include salary and benefits for the impacted employees and are included in general and administrative expenses in the accompanying unaudited condensed consolidated statements of operations.

Adjusted EBITDA increased from \$18.1 million for the three months ended June 30, 2022 to \$29.6 million for the three months ended June 30, 2023. The increase of \$11.6 million resulted primarily from an increase in revenue of \$6.2 million and a reduction in operating expenses, excluding non-cash and non-recurring items, of \$12.0 million, partially offset by an increase in cost of revenue of \$6.6 million.

Adjusted EBITDA increased from \$20.3 million for the six months ended June 30, 2022 to \$51.5 million for the six months ended June 30, 2023. The increase of \$31.2 million resulted primarily from an increase in revenue of \$16.7 million and a reduction in operating expenses, excluding non-cash and non-recurring items, of \$25.3 million, partially offset by an increase in cost of revenue of \$10.8 million.

We expect our Adjusted EBITDA to increase in absolute dollars in the longer term, although the rate at which our Adjusted EBITDA may grow could vary based upon the interplay of the foregoing factors.

Free cash flow

Free cash flow is a liquidity measure used by management in evaluating the cash generated by our operations after purchases of property and equipment including capitalized internal-use software. We consider free cash flow to be an important measure because it provides useful information to management and investors about the amount of cash generated by our business that can be used for strategic opportunities, including investing in our business and strengthening our balance sheet. Once our business needs and obligations are met, cash can be used to maintain a strong balance sheet and invest in future growth. The usefulness of free cash flow as an analytical tool has limitations because it excludes certain items that are settled in cash, does not represent residual cash flow available for discretionary expenses, does not reflect our future contractual commitments, and may be calculated differently by other companies in our industry. Accordingly, it should not be considered in isolation or as a substitute for analysis of other GAAP financial measures, such as net cash used in or provided by operating activities.

The following table presents a reconciliation of net cash provided by operating activities, the most directly comparable GAAP measure, to free cash flow:

	Six Months Ended June 30,	
	2023	2022
	(Restated)	
	<i>(in thousands)</i>	
Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow		
Net cash provided by operating activities	\$ 74,373	\$ 24,757
Purchase of property and equipment	(15,227)	(10,379)
Free cash flow	<u>\$ 59,146</u>	<u>\$ 14,378</u>

We experienced an increase in our free cash flow from \$14.4 million for the six months ended June 30, 2022 to \$59.1 million for the six months ended June 30, 2023, primarily due to a \$49.6 million increase in net cash provided by operating activities. The increase in net cash provided by operating activities resulted from a \$33.7 million increase in net income after adjusting for stock-based compensation and other non-cash items, and from a \$15.9 million favorable change in our operating assets and liabilities primarily due to the timing of our accounts payable payments. Free cash flow was also impacted by higher capital expenditures for the purchase of property and equipment, including capitalization of internal-use software.

We expect our free cash flow to increase in absolute dollars over the longer term, although the rate at which our free cash flow may grow could vary based upon the interplay of the factors discussed above.

Critical Accounting Estimates

During the three and six months ended June 30, 2023, there were no significant changes to our critical accounting estimates compared with those disclosed described under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates" in our 2022 Annual Report on Form 10-K.

Recent Accounting Pronouncements

Refer to Note 3 to our unaudited condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q for further information on certain accounting standards adopted in the period ended June 30, 2023 and recent accounting announcements that have not yet been required to be implemented and may be applicable to our future operations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have operations both within the U.S. and, to a lesser extent, in the U.K., and we are exposed to market risks in the ordinary course of our business. These risks include primarily interest rate fluctuations and foreign currency exchange risks, and to a lesser extent, inflation risk.

Interest rate fluctuation risk

At June 30, 2023 and December 31, 2022, we had cash and cash equivalents of \$238.9 million and \$189.1 million, respectively, which consisted of cash on deposit with banks and short-term highly-liquid money market funds. Interest-earning instruments carry a degree of interest rate risk. To date, fluctuations in interest income have not been significant.

We had no outstanding debt subject to interest rate risk as of June 30, 2023 and December 31, 2022 and, as a result, we do not expect to be exposed to fluctuations in interest rates for the foreseeable future. However, we would be subject to fluctuation in interest rates if we draw down under our 2021 Revolving Facility, including issuance of any letters of credit.

Foreign currency exchange risk

We have foreign currency risks related to our revenue and expenses denominated in currencies other than our functional currency, the U.S. Dollar, principally GBP. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. We have experienced and will continue to experience fluctuations in our net (loss) income as a result of transaction gains and losses related to translating certain cash balances, trade accounts receivable and payable balances and intercompany loans that are denominated in currencies other than the U.S. Dollar. We recognized foreign currency gains of \$1.1 million during the six months ended June 30, 2023. A 10% adverse change in foreign exchange rates on foreign-denominated accounts for the six months ended June 30, 2023, including intercompany balances, would have resulted in a \$0.4 million decrease in our reported foreign currency gain for the six months ended June 30, 2023. In the event our non-U.S. Dollar-denominated sales and expenses increase, our results of operations may be more greatly affected by fluctuations in the exchange rates of the currencies in which we do business. At this time, we do not, but we may in the future, enter into derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk. It is difficult to predict the impact hedging activities could have on our results of operations.

Inflation risk

We do not believe that inflation has had a material effect on our business, financial condition, results of operations or future prospects. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition, results of operations and future prospects. Further, if current inflationary pressures are sustained for a prolonged period of time, the success of existing small businesses and the formation of new small businesses could continue to be adversely impacted, which could harm our business, results of operations, financial condition or future prospects.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, because of the material weaknesses in our internal control over financial reporting described below, our principal executive officer and principal financial officer concluded that, as of June 30, 2023, our disclosure controls and procedures were not effective at the reasonable assurance level.

Material weaknesses

We have identified material weaknesses in our internal control over financial reporting, and these material weaknesses continued to exist as of June 30, 2023. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

The material weaknesses we identified are as follows:

- We did not maintain an effective control environment. Specifically, we did not maintain sufficient accounting resources commensurate with our structure and financial reporting requirements. This material weakness contributed to the additional material weaknesses described below:
- We did not design and maintain effective controls to address the initial application of complex accounting standards and accounting of non-routine, unusual or complex events and transactions.
- We did not design and maintain effective controls over our financial statement close process. Specifically, we did not design and maintain effective controls over the income tax provision and certain account analyses and account reconciliations.

The material weakness related to the income tax provision resulted in the restatement of our unaudited condensed consolidated financial statements for the quarters and year-to-date periods ended March 31, 2022, June 30, 2022 and September 30, 2022. The material weaknesses related to the control environment, the initial application of complex accounting standards and accounting of non-routine, unusual or complex events and transactions and certain account reconciliations and account analyses resulted in adjustments to our 2018 financial statements primarily related to debt extinguishment costs, goodwill, revenue, accounts receivable, foreign exchange expense and deferred revenue. Additionally, these material weaknesses could result in a misstatement of any account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

Remediation plan

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

- We have hired and are planning to continue to hire additional experienced accounting, financial reporting and internal control personnel and refined our key control roles and responsibilities;
- We provided and are planning to provide additional internal control training programs to all accounting personnel;
- During the three months ended June 30, 2023, we designed and implemented controls to address the identification, accounting for, and review of non-routine, unusual or complex and initial applications of complex accounting standards, including the continued engagement of external consultants to provide support and to assist us in our evaluation of such transactions; and
- We have designed and implemented and continue to design and implement the relevant controls to enable effective and timely review of the income tax provision and certain account analyses and account reconciliations, including the identification of relevant supporting documentation, assessment of the reliability of reports and spreadsheets used, and retention of sufficient detailed evidence of review procedures performed.

We have made progress to remediate the material weaknesses, and we believe our remediation plan to be sufficient to remediate the identified material weaknesses. However, the implementation of these remediation measures requires validation and testing of the design and operating effectiveness of internal control over a sustained period of financial reporting prior to reaching a determination that the material weaknesses have been remediated. As we continue to validate and test our internal control over financial reporting, we may determine that additional measures or modifications to the remediation plan are necessary or appropriate. If the steps we take do not remediate the material weaknesses in a timely manner, there could continue to be a reasonable possibility that these control deficiencies or others could result in a material misstatement of account balances or disclosures that would result in a material misstatement of our annual or interim financial statements that would not be prevented or detected on a timely basis. This, in turn, could jeopardize our ability to comply with our reporting obligations, limit our ability to access the capital markets or adversely impact our stock price.

Changes in internal control over financial reporting

The remediation activities described above for the three months ended June 30, 2023 are changes in our internal control over financial reporting during the three months ended June 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on effectiveness of controls and procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Part II

Item 1. Legal Proceedings

From time to time, we may become subject to legal proceedings, claims and litigation arising in the ordinary course of business. We are not currently a party to any material legal proceedings, nor are we aware of any pending or threatened litigation that could have a material adverse effect on our results of operations, cash flows, and financial condition, should such litigation be resolved unfavorably.

Item 1A. Risk Factors

Our business involves significant risks, and the material factors that make an investment in us risky or speculative are described below. You should carefully consider the risks and uncertainties described below, together with all of the other information in this Quarterly Report on Form 10-Q, including our unaudited condensed consolidated financial statements and related notes thereto. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that we are unaware of or that we deem immaterial may also become important factors that adversely affect our business. The realization of any of these risks and uncertainties could have a material adverse effect on our reputation, business, financial condition, results of operations, growth and future prospects, as well as our ability to accomplish our strategic objectives. In that event, the market price of our common stock could decline and you could lose part or all of your investment.

Risks Relating to Our Business and Industry

Our recent growth may not be indicative of our future growth and, if we continue to grow, we may not be able to manage our growth effectively

We have experienced growth in operations and headcount, which has placed, and will continue to place, significant demands on our management team and our administrative, operational and financial infrastructure. We have also significantly increased the size of our customer base over the last several years. Our success will depend in part on our ability to manage this growth effectively. To manage the growth of our operations and personnel, we will need to continue to improve our operational, financial and management controls and our reporting systems and procedures. As we grow, we must also effectively integrate, develop and motivate our employees, and maintain the beneficial aspects of our corporate culture. Failure to effectively manage our growth could result in difficulty or delays in providing services to customers, declines in service quality or customer satisfaction, increases in costs, difficulties in introducing new features or other operational difficulties. Any of these difficulties could adversely impact our brand and reputation, business, results of operations, financial condition or future prospects.

Our growth also makes it difficult to evaluate future prospects. Our ability to forecast our future operating results is subject to a number of uncertainties, including our ability to plan for and model future growth. If the assumptions regarding these uncertainties, which we use to plan our business, are incorrect or change in reaction to changes in our markets, our results of operations and financial condition could differ materially from our expectations, our business could suffer and the trading price of our stock may decline.

Our business primarily depends on business formations

Our success significantly depends on business formations. The majority of our transaction revenue is generated by providing formation services to guide our customers through the transition from being aspiring business owners to launching their entities. In 2022 and the first six months of 2023, business formations represented the largest share of our total transaction orders. The number of business formations on our platform is subject to unpredictable declines or fluctuations as a result of a number of factors, many of which are out of our control, including an overall decline in the number of U.S. business formations, an economic slowing or downturn, increased competition, compliance or operating costs (including wage and benefit pressures), regulatory obstacles, changes in law (including changes in tax laws and regulations), changes in the business environment from inflation, interest rates, government assistance or other factors, and dissatisfaction with our services. Declines in the overall number of business formations or the number of business formations on our platform have adversely affected, and may in the future adversely affect, our business, results of operations, financial condition or future prospects. To the extent the growth rate of new business formations declines, these impacts can be expected to intensify.

Our business depends substantially on converting our transactional customers to subscribers and our subscribers renewing their subscriptions with us and expanding their use of our platform

For the past few years, a significant amount of our revenue has been derived from our subscriptions for small businesses and individuals. In 2022 and the first six months of 2023, approximately 58% and 60%, respectively, of our revenue came from subscriptions. Subscriptions have primarily originated from

transactional customers who opted to become subscribers. For us to maintain or improve our operating results, it is important that we convert transactional customers into subscribers, we retain our existing subscribers and that our subscribers renew their subscriptions with us when the existing subscription term expires. However, subscriptions may be terminated at any time, and the willingness of transactional customers to subscribe is impacted by numerous factors, including cost, the helpfulness of our services over time, and our ability to continue to evolve with the growing business needs of our subscribers. As a result, we cannot accurately predict subscription renewal rates, whether a sufficient number of our existing or new customers will subscribe to our registered agent services, legal plans or other subscription services, or whether they will continue to subscribe at the same rate as they have historically. The rate at which we retain our subscribers may decline or fluctuate as a result of a number of factors, including subscribers' satisfaction or dissatisfaction with our platform, the effectiveness of our customer support services, the quality and perceived quality of the services provided by our tax professionals and the independent attorneys who participate in our legal plan network, our pricing and the pricing of competing products or services, the lifecycle of our customers' businesses and their evolving needs, and the effects of global economic conditions, regulatory changes and reductions in subscribers' discretionary income and spending levels. If we are unable to continue to convert our transactional customers to subscribers, retain our existing subscribers or our existing subscribers do not expand the use of our platform, our business, results of operations, financial condition and future prospects would be adversely affected. If the growth of our subscription business falls below the expectations of the public market, securities analysts or investors, the price of our common stock could also be harmed.

Our future quarterly results of operations may fluctuate significantly due to a wide range of factors, which makes our future results difficult to predict

Our revenue and results of operations have historically varied from period to period, and we expect that they will continue to do so as a result of a number of factors, many of which are outside of our control, including, but not limited to the risks and uncertainties discussed herein and the following:

- the number of business formations and the rate of failure of small businesses;
- the level of demand for our services;
- the rate of renewal of subscriptions by, and extent of sales of additional subscriptions to, existing customers;
- the size, timing and terms of our subscription agreements with existing and new customers;
- changes to our product offerings, including pricing changes and the offering of free or even lower cost products, and our testing of new product line-ups;
- the mix of subscriptions and services sold during a period;
- changes in stock-based compensation expense;
- the introduction of new products and product enhancements by existing competitors or new entrants into our markets, and changes in pricing for solutions offered by us or our competitors;
- seasonal variations, including those related to orders placed, sales and marketing and other activities or other seasonal fluctuations in our results of operations that are out of our control;
- our ability to attract new customers or retain existing customers;
- our ability to increase, retain and incentivize the strategic partners that market and sell our platform;
- our ability to control costs, including our operating expenses;
- changes in governmental or other regulations affecting our business;
- changes to government agency practices, staffing and their websites, which may cause delay or disruptions in our business, including the processing of business formations or Employer Identification Numbers, or EINs;
- adverse global macroeconomic and market conditions, including economic conditions specifically affecting industries in which our customers operate; and
- general geopolitical events and conditions, both domestically and internationally (such as the conflict in Ukraine).

Fluctuations in our quarterly operating results and the price of our common stock may be particularly pronounced in the current global macroeconomic environment, including due to uncertainty caused by recessionary fears, inflation and rising interest rates and their respective impacts on consumer spending patterns, the success of existing small businesses and the formation of new small businesses. In addition,

fluctuations in our quarterly operating results may cause those results to fall below our financial guidance or other projections, or the expectations of analysts or investors, which could cause the price of our common stock to decline. Fluctuations in our results could also cause a number of other problems. For example, analysts or investors may change their models for valuing our common stock, we could experience short-term liquidity issues, our ability to retain or attract key personnel may diminish, and other unanticipated issues may arise.

Our quarterly operating results may vary in the future and period-to-period comparisons of our operating results may not be meaningful. In addition, the seasonality of our business may change or become more pronounced over time, which could also cause our operating results to fluctuate. You should not rely on the results of any given quarter as an indication of future performance.

We have a history of net losses, we anticipate increasing expenses in the future, and we may not be able to maintain profitability

Since inception, we have incurred an accumulated deficit and may incur net losses in the foreseeable future. At June 30, 2023, we had an accumulated deficit of \$902.6 million.

We will need to generate and sustain increased revenue levels in future periods in order to maintain or increase our level of profitability. We expect our cost of revenue and operating expenses to increase as we continue to invest in enhancing our customer experience and in new product development, including expert-assisted offerings for our tax and attorney-assisted legal offerings. If our revenue and gross profit do not grow at a greater rate than our operating expenses, we will not be able to maintain or increase profitability and our business may be harmed. We may incur significant losses in the future for a number of reasons, including due to, among other things, the risks and uncertainties described herein. Even if we are profitable, we may not be able to sustain or increase profitability on a quarterly or annual basis. Our failure to achieve sustained profitability would depress the value of our company and could impair our ability to raise capital, expand our business, diversify our product offerings, market our current and planned products, or continue our operations.

If we fail to provide high-quality services, customer care and customer experience and add new services that meet our customers' expectations, we may not be able to attract and retain customers

In order to increase revenue and maintain profitability, we must attract new customers and retain existing customers. The rate at which new and existing customers purchase and renew subscriptions to our services depends on a number of factors, many of which are outside of our control. The quality and value of our services, customer care and customer experience, as well as the quality and accuracy of the services provided by our accountants and the independent attorneys who participate in our and our partner's networks, are critical to our ability to attract and retain customers.

We intend to continue to add new services and enhance our existing product and services, which will require us to devote significant resources before we know whether such products or services will be successful. We have in the past invested resources and introduced new services that have failed to produce the customer interest that we expected. We may fail to attract new customers or lose existing customers if current or future development efforts or services fail to meet customer expectations on a timely basis if at all. For example, in October 2020, we introduced LZ Tax, a LegalZoom fulfilled tax advisory and preparation service, and in 2022, we began our first cycle of preparing tax filings at scale. We could fail to attract or retain existing customers if the independent attorneys who participate in our legal services plan or the tax experts who complete the tax preparation services fail to provide accurate, high-quality services, customer care and customer experience. In addition, larger enterprises may demand more support services and features, which puts additional pressure on us to satisfy the increased support required for these customers. If we are unable to continue offering innovative solutions or if new or enhanced solutions fail to engage our customers, we may be unable to attract additional customers or retain our current customers, which may adversely affect our business, results of operations, financial condition or future prospects.

If we do not continue to innovate and provide a platform that is useful to our customers, we may not remain competitive, and our results of operations could suffer

Our success depends on continued innovation to provide features that make our platform useful for existing and prospective customers. We have invested and intend to continue to invest resources in technology and development in order to continue improving the simplicity and effectiveness of our platform, and there is no assurance that our past or future investments will provide us with the benefits we expect. In addition, we have and may continue to introduce significant changes to our product offerings, including the offering of free or even lower cost products, or changes to our platform, or develop and introduce new and unproven services, including using technologies with which we have little or no prior development or operating experience, such as generative artificial intelligence, or AI.

We also offer many forms of documents on our platform, such as business formations and wills, which must comply with the latest local jurisdiction requirements. If there is a defect in any of our forms, or if we

fail to timely update our forms to comply with new or modified jurisdiction requirements, this could result in negative consequences to our customers, legal liability, or harm our brand, which could adversely affect our business, results of operations, financial condition and future prospects.

In addition, because our platform is available over the internet or on mobile networks, we need to regularly modify and enhance our platform to keep pace with changes in internet-related hardware, software, communications and database technologies and standards. If we are unable to respond in a timely and cost-effective manner to these rapid technological developments and changes in standards, our platform may become less marketable, less competitive or obsolete, and our business, results of operations, financial condition and future prospects would be harmed. If new technologies emerge that are able to deliver competitive services at lower prices, more efficiently, more conveniently or more securely, such technologies could adversely impact our ability to compete. Our platform must also integrate with a variety of network, hardware, mobile, and software platforms and technologies, and we need to frequently modify and enhance our services to adapt to changes and innovation in these technologies. Any failure of our platform to operate effectively with future infrastructure platforms and technologies could reduce the demand for our platform. If we are unable to respond to these changes in a cost-effective manner, our platform may become less marketable, less competitive or obsolete, and our business, results of operations, financial condition and future prospects may be adversely affected.

The legal solutions market is highly competitive

We operate in a very competitive industry. We face intense competition from law firms and solo attorneys, online legal document services, legal plans, secretaries of state, tax preparation companies and other service providers. The online legal solutions market is evolving rapidly and is becoming increasingly competitive, and new market entrants that provide technologies that improve the delivery of legal solutions, such as generative AI and machine learning, could also increase the level of competition in the market. Other companies that focus on the online legal document services market or business formations and law firms that may elect to pursue the online legal document services market, can and do directly compete with us. Law firms and solo attorneys, who provide in-person consultations and are able to provide direct legal advice that we generally cannot offer due to laws and regulations regarding the unauthorized practice of law, or UPL, compete with us offline and have developed and may continue to develop competing online legal services. We compete in the registered agent services business with several companies that target small businesses, and these competitors have extensive experience in this market. In addition, if U.S. state agencies increase their offerings of free and easy-to-use business formation services, such as LLC formations and other document filings, or filing portals to the public, it could have a significant adverse effect on our business, financial condition or results of operations. For example, certain U.S. states, including Nevada, California and Louisiana, offer online portals where consumers may file their articles of organization for free, other than filing fees. We also compete in the tax advisory and preparation services business with several companies. To the extent we are unable to compete, our business, results of operations, financial condition or future prospects may be harmed.

Any of our existing competitors, or other potential competitors that have not yet entered the market, may also develop innovative and cost-effective services, including automated corporate formation document processing, that target our existing and potential customers. We expect to face increasing competition from offline and online legal services providers in our market, including through their use of generative AI, and our failure to effectively compete with these providers could result in revenue reductions, reduced margins, or loss of market share, any of which could materially and adversely affect our business, results of operations, financial condition and future prospects.

Our business depends on our brand and reputation, which could be adversely affected by numerous factors

We believe our brand has contributed to the success of our business and we have made substantial investments to build and strengthen our brand and reputation. Maintaining and enhancing the LegalZoom brand and our reputation is critical to growing and retaining our customer base. Regulatory proceedings, consumer claims, litigation, customer complaints or negative publicity through word-of-mouth, social media outlets, blogs, the Better Business Bureau and other sources related to our business practices, as well as customer care, data privacy and security issues, or reputation of our endorsers, irrespective of their validity, could diminish confidence in our services and adversely affect our brand and reputation and our ability to attract and retain customers.

In addition, our services, as well as those of our competitors, are regularly reviewed and commented upon by online and social media sources. Negative reviews, or reviews in which our competitors' services are rated more highly than ours, irrespective of their accuracy, could negatively affect our brand and reputation. We have in the past received negative reviews wherein our customers expressed dissatisfaction with our services, including dissatisfaction with our customer support, our billing policies and the way our subscriptions operate, and we may receive similar reviews in the future. If we do not handle customer complaints effectively, our brand and reputation may suffer. We may lose our customers' confidence, they may choose

not to renew their subscriptions or purchase additional services from us, and we may fail to attract new customers. In addition, maintaining and enhancing our brand and reputation may require us to incur significant expenses and make substantial investments, which may not be successful. If we fail to successfully promote and maintain our brand and reputation, or if we incur excessive expenses in doing so, our business, results of operations, financial condition and future prospects may be adversely affected.

Furthermore, our brand and reputation are in part reliant on third-parties, including the independent attorneys and accountants who participate in our and our partners' networks. The failure or perceived failure of these attorneys and accountants to satisfy customer expectations could negatively impact our brand and reputation.

We are incorporating generative AI into some of our products, which may present both compliance risks and reputational risks

We have incorporated and intend to continue incorporating a number of generative AI features into our products. This technology, which is a new and emerging technology that is in its early stages of commercial use, presents a number of risks inherent in its use. Generative AI technologies can create accuracy issues, unintended biases and discriminatory outcomes. If the recommendations, forecasts, content, or analyses that AI applications assist in producing are or are alleged to be deficient or inaccurate, we could be subjected to competitive harm, potential legal liability, and brand or reputational harm. Some AI scenarios may also present ethical issues. Though measures have been taken to address algorithmic bias, if we enable or offer AI solutions that are controversial because of their perceived or real impact on human rights, privacy, employment, or other social issues, we may experience brand or reputational harm. Additionally, potential government regulation related to AI use and ethics may expose us to legal liability and/or increase the burden and cost of research and development in this area, and failure to properly remediate AI usage or ethics issues may cause public confidence in AI to be undermined, which could slow adoption of AI in our solution.

If our marketing efforts are unsuccessful, our ability to attract new customers or retain existing customers may be adversely affected, which may adversely affect our business, results of operations, financial condition and future prospects

Our ability to attract new customers and retain existing customers depends in large part on the success of our marketing channels. Our primary marketing channels that generate traffic for our websites include search engine marketing, television, radio and our inside sales team.

We rely on both algorithmic and paid listing internet search results to drive customer traffic to our websites. Algorithmic listings are determined and displayed solely by a set of formulas designed by internet search engine companies. Paid listings can be purchased and then are displayed if particular words or terms are included in a customer's internet search. Our ability to maintain or increase customer traffic to our websites from internet search engines is not entirely within our control. For example, internet search engines sometimes revise their algorithms to optimize their search result listings or maintain their internal standards and strategies, which could cause our websites to receive less favorable placement and reduce traffic to our websites. In addition, we bid for paid listings against our competitors and third-parties that may outbid us for preferred placement, which could adversely impact advertising efficiency and customer acquisition efforts. If competition for paid listings increases, we may be required to increase our marketing expenses or reduce the number or prominence of these paid listings. If we reduce our internet search engine advertising, the number of customers who visit our websites could decline significantly. Additionally, changes in regulations or the business practices of third-parties could limit our ability and the ability of search engines and social media platforms, including but not limited to Google and Meta Platforms, to collect data from users and engage in targeted advertising, making them less effective in disseminating our advertisements to our target customers. The regulation of the use of cookies and other current online tracking and advertising practices or a loss in our ability to make effective use of services that employ such practices could adversely affect our business.

A reduction or loss of any of our advertising channels may adversely affect our ability to attract new customers, which could adversely affect our business, results of operations, financial condition and future prospects.

We depend on top talent, including our senior management team, to grow and operate our business, and if we are unable to hire, retain or motivate our employees, we may not be able to grow or operate effectively, which may adversely affect our business and future prospects

Our future success will depend upon our continued ability to identify, hire, develop, motivate and retain top talent. Competition for such talent is intense, particularly within the technology industry. To attract top talent, we have had to offer, and believe we will need to continue to offer, highly competitive compensation and benefit packages before we can validate the productivity of those employees, a practice which may not be sustainable and, even if sustainable, can be costly. We have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate

qualifications which may, among other things, impede our ability to execute our growth strategies or continue to operate our business in a satisfactory manner. In addition, our Remote First work policy, which results in a predominantly remote workforce, has made it difficult to orient, train, develop, motivate, and engage with our employees and embed them into the LegalZoom culture. If we are not able to effectively attract or retain quality employees and manage our workforce, including, for example, if employee relations deteriorate or a portion of our employees were to become unionized, disruptions to the business will occur, our costs will increase, our ability to achieve our strategic objectives will be adversely impacted, our brand or reputation could suffer, and our business may be adversely affected. In addition, we have in the past, and may in the future, conduct reduction in workforce actions, which can lead to the elimination of roles causing unexpected adverse impacts on the growth and operation of our business.

In addition, if we cannot attract additional, qualified independent attorneys to participate in our legal plan network to service the needs of our legal plan subscribers, attorneys to support our attorney assisted legal offerings, and qualified certified public accountants, enrolled agents, and tax professionals to service the needs of our subscribers, or if these attorneys, accountants and tax professionals encounter regulatory issues that prevent them from being able to service the needs of our customers, we may not be able to grow and maintain our legal plan subscription business, other assisted legal solutions or tax offerings effectively and our business, revenue, results of operations and future prospects may be adversely affected.

Our business and success depend in part on our strategic relationships with third-parties, including our partner ecosystem, and our business may be harmed if we fail to maintain or expand these relationships

We depend on, and anticipate we will continue to depend on, various third-party relationships to sustain and grow our business. For example, we currently partner with a variety of third-parties to provide business license services, website development, credit card and banking services, productivity tools and business insurance, among others. Our sales and our customers' user experience are dependent on our ability to connect and integrate easily to such third-party solutions. We have in the past and may in the future determine to exit certain partnership relationships, and we may also fail to retain and expand partnership relationships for many reasons, including third-parties' failure to maintain, support, or secure their technology platforms in general, restrictions imposed by regulatory compliance, and our integrations in particular. Any such termination of a partnership relationship, whether voluntary or involuntary, could harm our relationship with our customers, our reputation and brand, our business and results of operations, and our future prospects.

As we seek to add different types of partners to our partner ecosystem, it is uncertain whether these third-parties will be successful in building integrations, co-marketing our solutions to provide a significant volume and quality of lead referrals and orders, or continuing to work with us as their own products evolve. Identifying and negotiating new and expanded partner relationships requires significant resources and we cannot guarantee that the parties with which we have relationships can and will continue to devote the resources necessary to operate and expand our platform. In addition, integrating third-party technology can be complex, costly and time-consuming. Third-parties may be unwilling to build integrations, and we may be required to devote additional resources to develop integrations for business applications on our own. The contracts applicable to third-party development tools may be unfavorable and add costs or risks to our business or may require us to push additional contract terms to our customers that affect our relationship with our customers. Third-parties we partner with, including providers of business applications with which we have integrations, may decide to compete with us or enter into arrangements with our competitors, resulting in such providers withdrawing support for our integrations. If we are unsuccessful in establishing or maintaining our relationships with third-parties, our ability to compete or our revenue, results of operations and future prospects may be adversely affected. Even if we are successful in establishing and maintaining these relationships with third-parties, we cannot ensure that these relationships will result in increased usage of our platform or increased revenue. In addition, any failure of our solutions to operate effectively with these business applications could reduce the demand for our solutions and harm to our business and we may also be held responsible for obligations that arise from the actions or omissions of third-parties. If we are unable to respond to these failures in a cost-effective manner, our solutions may become less marketable, less competitive or obsolete, and our results of operations may be negatively impacted.

If we are unable to effectively manage and minimize errors, failures, interruptions or delays caused by third-parties, or if our third-party service providers cease to do business with us, our ability to deliver services to our customers and our business, brand, reputation and results of operations may be adversely affected

We rely on third-parties to fulfill portions of the services we offer and to support our operations. For example, we rely on government agencies, including secretary of state offices, the U.S. Internal Revenue Service and the U.S. Patent and Trademark Office, to process business formation documents, tax filings and intellectual property applications. These agencies have in the past and may in the future be unable or refuse to process submissions in a timely manner, including as a result of any government shutdowns, slowdowns or staffing shortages. To the extent we are unable to process submissions or filings in a timely manner, our brand

and reputation may be adversely affected, or customers may seek other avenues for their business formation, tax or intellectual property needs. We also utilize other third-parties in connection with the fulfillment and distribution of our services, including the independent attorneys in our legal plan network, as well as accountants and tax professionals through our subscription plans, and a third-party to support our registered agent subscription services. Our platform also interoperates with certain third-party sites. As a result, our results may be affected by the performance of those parties and the interoperability of our platform with other sites. If certain third-parties limit certain integration functionality, change their treatment of our services at any time, or experience quality issues, such as bugs and defects, our revenue, results of operations and future prospects may be adversely affected.

We also utilize various types of data, technology, intellectual property and services licensed or otherwise obtained from unaffiliated third-parties in order to provide certain elements of our solutions. For example, we rely on cloud computing infrastructure, particularly from Amazon Web Services, or AWS, to host our platform and support our operations. We exercise limited, if any, control over these third-parties, including AWS, which increases our vulnerability to problems with the services they provide for us and to security incidents or breaches affecting the data and information they hold or process on our behalf. Any errors or defects in any third-party data or other technology could result in errors in our solutions that could harm our business, damage our reputation and result in losses in revenue, and we could be required to undertake substantial additional research and expend significant development resources to fix any problems that arise. In addition, such licensed data, technology, intellectual property and services may not continue to be available on commercially reasonable terms, or at all. Any loss of the right to use any of these services on commercially reasonable terms, or at all, could result in delays in producing or delivering our solutions until equivalent data, technology, intellectual property or services are identified and integrated, which delays could harm our business. In this situation we would be required to either redesign our solutions to function with such equivalent data, technology, intellectual property or services available from other parties or to develop these components or services ourselves, which would result in increased costs and potential delays in service. Furthermore, we might be forced to limit the features available in our current or future solutions. If we fail to maintain or renegotiate any of these data, technology or intellectual property licenses or services, we could face significant delays and diversion of resources in attempting to develop similar or replacement technology, or to license and integrate a functional equivalent of the relevant data, technology, intellectual property or service. The occurrence of any of these events may have an adverse effect on our business, financial condition, results of operations and future prospects.

Our failure to successfully address the evolving market for transactions on mobile devices and to build mobile products could harm our business

The number of people who access our platform through mobile devices, including smartphones and handheld tablets or computers, has increased significantly in the past few years and is expected to continue to increase. If we are not able to provide customers with the experience, solutions and functionality they want on mobile devices, we may not be able to attract or retain customers or convert our website traffic into customers and our business may be harmed. In addition, we face different fraud risks and regulatory risks from transactions sent from mobile devices than we do from personal computers. If we are unable to effectively anticipate and manage these risks, our business, results of operations, financial condition and future prospects may be harmed.

We may acquire or invest in companies, which may divert our management's attention and result in additional dilution to our stockholders

We have in the past acquired or invested in businesses, products or technologies that we believed could complement or expand our current platform, enhance our technical capabilities or otherwise offer growth opportunities. As part of our business strategy, we may in the future continue to seek to acquire or invest in businesses, products or technologies that we believe could complement or expand our services, enhance our technical capabilities or otherwise offer growth opportunities. The risks we face in connection with such acquisitions or investments, whether or not they are consummated, include, but are not limited to:

- an acquisition may negatively affect our results of operations because it may require us to incur charges or assume substantial debt or other liabilities, may cause adverse tax consequences, may expose us to claims and disputes by stockholders and third-parties, including intellectual property claims and disputes, or may not generate sufficient financial return to offset additional costs and expenses related to the acquisition;
- we may encounter difficulties or unforeseen expenditures in integrating the business, technologies, products, personnel or operations of any company that we acquire, particularly if key personnel of the acquired company decide not to work for us;
- we may not be able to realize anticipated synergies on a timely basis, if at all;

- an acquisition or investment may disrupt our ongoing business, divert resources, increase our expenses and distract our management;
- an acquisition or investment may result in a delay or reduction of customer purchases for both us and the company acquired due to customer uncertainty about continuity and effectiveness of service from either company;
- we may encounter challenges integrating the employees of the acquired company into our company culture;
- our use of cash to pay for acquisitions or other investments would limit other potential uses for our cash;
- if we incur debt to fund any acquisitions, such debt may subject us to material restrictions on our ability to conduct our business due to new financial maintenance and other covenants; and
- if we issue a significant amount of equity securities in connection with any future acquisitions, existing stockholders may be diluted and earnings per share may decrease.

We have in the past faced difficulties in connection with integrating some of our acquisitions and expect to face similar difficulties in the future. These difficulties can range from lost productivity to legal proceedings, and we cannot know in advance the extent of the issues that may be involved with a particular acquisition or investment. We may also decide to restructure, divest or sell businesses, products or technologies that we have acquired or invested in previously. The occurrence of any of the foregoing risks could have an adverse effect on our business, results of operations, financial condition and future prospects and could adversely affect the market price of our common stock.

If we are unable to sustain our revenue growth rate, we may not maintain profitability in the future

Our revenue growth rate may decline despite our increased revenue growth rate in certain recent periods, even if our revenue increases in the future to higher levels on an absolute basis. As we grow our business, our revenue growth rate may slow in future periods due to a number of reasons. Any success that we may experience in the future will depend in large part on our ability to, among other things:

- maintain and expand our customer base;
- increase revenue from existing customers through increased or broader use of our services;
- provide high-quality services to customers;
- improve the performance and capabilities of our services through research and development;
- develop new services;
- maintain and/or increase the rate at which customers purchase our subscriptions;
- identify and acquire or invest in new businesses, products or technologies that we believe could complement or expand our platform;
- continue to successfully expand our business; and
- successfully compete with other companies.

If we are unable to maintain consistent revenue or revenue growth, our stock price could be volatile, and it may be difficult to maintain profitability. You should not rely on our revenue for any prior quarterly or annual periods as any indication of our future revenue or revenue growth.

Our focus on the long-term best interests of our company and our consideration of our stakeholders, more broadly, including our stockholders, customers, employees, and other stakeholders that we may identify from time to time, may conflict with short- or medium-term financial interests and business performance, which may negatively impact the value of our common stock

We believe that focusing on the long-term best interests of our company and our consideration of our stakeholders more broadly, including our stockholders, customers, employees, partners, the communities in which we operate, and other stakeholders we may identify from time to time, is essential to the long-term success of our company and to long-term stockholder value. Therefore, we have made decisions, and may in the future make decisions, that we believe are in the long-term best interests of our company and our stockholders, even if such decisions may negatively impact the short- or medium-term performance of our business, results of operations, and financial condition or the short- or medium-term performance of our common stock. Our commitment to pursuing long-term value for our company and our stockholders, potentially at the expense of short- or medium-term performance, may materially adversely affect the trading price of our common stock, including by making owning our common stock less appealing to investors who are

focused on returns over a shorter time horizon. Our decisions and actions in pursuit of long-term success and long-term stockholder value, which may include changes to our platform to enhance the experience of our customers, partners and the communities in which we operate, including by improving the trust and safety of our platform, enabling equitable access to legal and compliance services, investing in our relationships with our customers, partners, and employees, investing in and introducing new services, or changing our approach to working with local or national jurisdictions on laws and regulations governing our business, may not result in the long-term benefits that we expect, in which case our business, results of operations, and financial condition, as well as the trading price of our common stock, could be materially adversely affected.

Further, the independent attorneys who participate in our legal plans and attorneys who fulfill our attorney assisted legal offerings have duties both to the courts and their clients. These duties, including the associated responsibilities, such as confidentiality and the rules relating to the attorney-client and attorney work product privileges, are paramount. There could be circumstances in which the attorneys who participate in our network and fulfill the attorney assisted legal offerings believe that in order to comply with these duties they may have to act against the interests of our stockholders and the short-term profitability of our business.

We may not effectively ensure that online services and physical locations are protected from significant outages, denial or degradation of service attacks, natural disasters, including adverse weather conditions, and other disruptions, any of which could adversely affect our brand and reputation, business, results of operations, financial condition and future prospects

A key element of our business operations and continued growth is the ability of our customers to access our websites and mobile applications and our ability to fulfill orders placed through such platforms. Our systems may not be adequately designed with the necessary reliability to avoid performance delays, disruptions or outages that could be harmful to our business. We have experienced, and may in the future experience, website disruptions, outages and other performance problems due to a variety of factors, including infrastructure maintenance, human or software errors, ransomware attacks, capacity constraints, denial or degradation of service, fraud or security attacks. In some instances, the steps we have taken to try to prevent these attacks and disruptions and mitigate their potential impact on our systems and operations may be expensive and may not be successful in preventing system failures. In addition, dependence upon automated systems may further increase the risk that operational system flaws, employee error or tampering, or manipulation of those systems will result in defects or efforts that are difficult to detect. We may not be able to identify the cause or causes of any website or mobile application performance problems within an acceptable period of time. It may become increasingly difficult to maintain and improve our website or mobile application performance, especially during peak usage times, if the number of online services we offer increases, our services become more complex, or our customer traffic grows. If our websites or mobile applications are unavailable when customers attempt to access them, our customers may seek other solutions to address their needs and may not return to our websites or mobile applications in the future. In addition, if our customers are unable to access the information they store on our platform for even limited periods of time, data protection laws may require us to notify regulators and affected individuals, which may increase the likelihood of regulatory investigations into our data protection practices. Any failure to maintain performance, reliability, security or availability of our legal document services and online technology platform to the satisfaction of our customers may harm our brand and reputation, as well as our ability to retain existing customers and attract new customers, which could adversely affect our business, results of operations, financial condition and future prospects. In addition, to the extent that we do not effectively address future capacity constraints, upgrade and protect our systems, and continually develop our online legal platform to accommodate actual and anticipated technology changes, our brand and reputation, business, results of operations, financial condition and future prospects could be adversely affected.

Our operations and online services also rely on the continued functioning and accessibility of certain physical locations, including product fulfillment locations and data centers operated by AWS or other service providers. These physical locations are vulnerable to damage or interruption from natural disasters, adverse weather conditions, power losses, telecommunication failures, terrorist attacks, human errors, break-ins and similar events. The occurrence of any of the foregoing events or other unanticipated problems at our facilities could result in lengthy interruptions in our services. We may not be able to efficiently relocate our fulfillment and delivery operations due to disruptions in service if one of these events occurs, and our insurance coverage may be insufficient to compensate us for such losses. Because the Los Angeles area, where our corporate and executive headquarters is located, is in an earthquake fault zone and because both the Los Angeles area and Austin, Texas, where our operational headquarters is currently located, are subject to the increased risk of wildfires, tornadoes and power outages, we are particularly sensitive to the risk of damage to, or total destruction of, our primary offices and two key fulfillment and delivery centers. Our insurance limits against any certain losses or expenses that may result from a disruption to our business due to earthquakes or wildfires may not be sufficient to cover all such losses or expenses, and the occurrence of either of these events could adversely affect our business, results of operations, financial condition and future prospects.

We may from time to time become involved in litigation, arbitration or government investigation matters that are expensive and time consuming and, if resolved adversely, could harm our brand and reputation, business, results of operations, financial condition or future prospects

We have been or could become involved in lawsuits and other actions brought by customers, purported competitors, regulators, and other parties alleging that we engage in the unauthorized practice of law, unfairly compete or otherwise violate the law. We could also be subject to claims, lawsuits, arbitration, regulatory actions, or other legal proceedings involving a litany of issues, including patent, trademark, trade secret and other intellectual property matters, taxes, labor and employment, competition and antitrust, privacy, data use, data protection, data security, network security, consumer protection, unfair business practices, breach of contract and other matters. We anticipate that we will continue to be a target for such lawsuits in the future.

The plaintiffs in these actions generally seek monetary damages, penalties, and/or injunctive relief. We cannot predict the outcome of such proceedings or the amount of time and expense that will be required to resolve such proceedings. If such claims are made against us, there can be no assurances that favorable final outcomes will be obtained; if such claims were to be determined adversely to our interests, or if we were forced to settle such matters for a significant amount, such resolutions or settlements may result in changes to or discontinuance of some of our services, potential liabilities or additional costs. Defending these claims is also costly and can impose a significant burden on management and employees, and we may receive unfavorable preliminary or interim rulings in the course of litigation. Any litigation to which we are currently or may in the future be a party may result in an onerous or unfavorable judgment that may not be reversed upon appeal, or we may decide to settle lawsuits on unfavorable terms. Any such negative outcome could result in payments of substantial monetary damages or fines, injunctive relief, adverse effects on the market price of our common stock or changes to our products or business practices, and accordingly, our brand and reputation, business, results of operations, financial condition or future prospects could be materially and adversely affected.

We also may encounter future claims. For example, our U.K. subsidiary previously operated as an alternative business structure, or ABS, which allows corporate entities to become licensed providers of reserved legal activities in that jurisdiction. Similarly, our U.S. subsidiary, LZ Legal Services, LLC, was licensed in September 2021 as an Arizona ABS and became operational in July 2022. As a result, these subsidiaries may be susceptible to potential claims from clients, such as breach of contract, product liability, negligence or other claims. Any such claims could result in reputational damage or an adverse effect on our results of operations. The professional liability insurance held by these subsidiaries and limiting their respective liability in accordance with engagement letters with clients may not insure or protect against all potential claims or sufficiently indemnify us or either subsidiary for all liability that may be incurred. Any such liability, inclusive of the costs and expenses that may be incurred in defending any such claims, that exceeds the insurance coverage could have a material adverse effect on our business, results of operations, financial condition, or future prospects.

We are subject to risks related to accepting credit and debit card payments that may harm our business or expose us to additional costs and liabilities

We accept payments from our customers primarily through credit and debit card transactions. Our customers generally pay for transactions in advance by credit or debit card except for certain services provided under installment plans where we allow customers to pay for their order in two or three equal payments. Acceptance and processing of credit and debit cards requires that we pay interchange and other fees. In addition, we rely on third-parties to provide payment processing services, including the processing of our credit and debit card transactions, and to provide payment collection services. To the extent there are increases in payment processing fees, material changes in the payment ecosystem, such as large re-issuances of payment cards, delays in receiving payments from payment processors, loss of payment partners and/or disruptions or failures in our payment processing systems, including products we use to update payment information, our revenue, operating expenses and results of operation could be adversely impacted. For example, if our processing vendors have problems with our billing software or the billing software malfunctions, we could lose customers who subscribe to our legal plans, registered agent services and other subscription services, which could decrease our revenue. In addition, if our billing software fails to work properly and, as a result, we do not automatically charge our subscribers' credit cards on a timely basis or at all, our revenue could be adversely affected.

We are also subject to payment card industry rules, certification requirements and rules governing electronic funds transfer, any of which could change or be reinterpreted to make it more difficult for us to comply. Our failure to comply fully with these rules or requirements may subject us to fines, higher transaction fees, penalties, damages, and civil liability and may result in the loss of our ability to accept credit and debit card payments, which could have a material adverse effect on our business, results of operations, financial condition and future prospects.

Risks Relating to Our Financial Condition, Indebtedness and Capital Requirements

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

We recognize revenue from paid subscriptions to our services over the respective term of the subscription period. After a short introductory trial period, if any, most paying subscribers make a one-year subscription commitment, with the upcoming annual subscription fee paid upon subscribing. As a result, much of our revenue is generated from the recognition of deferred revenue relating to subscriptions entered into during previous quarters. Consequently, a shortfall in demand for our services or a decline in new or renewed subscriptions in any one quarter may have a small impact on the revenue that we recognize for that quarter but could negatively affect our revenue in future quarters. Accordingly, the effect of significant downturns in sales and potential changes in our pricing policies or rate of customer expansion or retention may not be fully reflected in our results of operations until future periods. In addition, a significant majority of our costs are expensed as incurred, while revenue is recognized over the life of the subscription agreement. As a result, growth in the number of customers could continue to result in our recognition of higher costs and lower revenue in the earlier periods of our subscription agreements. Finally, our subscription-based revenue model also makes it difficult for us to rapidly increase our revenue through additional sales in any period, as revenue from new customers and significant increases in the size of subscriptions with existing customers must be recognized over the applicable subscription term.

We track certain financial and operating metrics with internal systems and tools and do not independently verify such metrics. Certain of our financial and operating metrics are subject to inherent challenges in measurement, and real or perceived inaccuracies in such metrics may harm our reputation and negatively affect our business

We track certain financial and operating metrics, including key business metrics such as number of transactions, number of subscription units and average revenue per customer, with internal company data, systems and tools that are not independently verified by any third-party. Our internal systems and tools have a number of limitations, and our methodologies for tracking these metrics may change over time, which could result in unexpected changes to our metrics, including the metrics we publicly disclose. If the internal systems and tools we use to track these metrics under count or over count performance or contain algorithmic or other technical errors, the data we report may not be accurate. While these numbers are based on what we believe to be reasonable estimates of our metrics for the applicable period of measurement, there are inherent challenges in measuring how our services are used across large populations globally. For example, there are customers who have multiple subscriptions, which we treat as multiple subscription units for purposes of calculating our subscription units.

In addition, limitations or errors with respect to how we measure data or with respect to the data that we measure may affect our understanding of certain details of our business, which could affect our long-term strategies. If our financial and operating metrics are not accurate representations of our business, or if we discover material inaccuracies in our metrics, our reputation may be harmed, and our business, results of operations, financial condition and future prospects could be adversely affected.

We are in the process of implementing an Enterprise Resource Planning, or ERP, software system and challenges with the implementation of the system may impact our business and operations

We implemented the initial phase of our new ERP software system and related infrastructure in the first quarter of 2022. We will continue the process of implementing the ERP on a company-wide basis to support future growth and to integrate our processes. The continued implementation efforts of the ERP software program may prove to be more difficult, costly, or time consuming than expected, and it is possible that the system will not yield the benefits anticipated. Any disruptions, delays or deficiencies in the design and implementation of our new ERP software program could materially impact our operations and adversely affect our ability to process orders, fulfill contractual obligations or otherwise operate our business.

The restatement of our prior quarterly financial statements may affect investor confidence and raise reputational issues and may subject us to additional risks and uncertainties, including increased professional costs and the increased possibility of legal proceedings and regulatory inquiries

As previously disclosed, we determined to restate our unaudited condensed consolidated financial statements as of and for the three months ended March 31, 2022, three and six months ended June 30, 2022 and three and nine months ended September 30, 2022 after we identified an error within our income tax provision relating to the identification of named executive officers subject to limitation on the deductibility of executive compensation under Internal Revenue Code Section 162(m). As a result of this error and the resulting restatement of our unaudited condensed consolidated financial statements for the impacted periods, we have incurred, and may continue to incur, unanticipated costs for accounting and legal fees in connection

with or related to the restatement, and have become subject to a number of additional risks and uncertainties, including the increased possibility of litigation and regulatory inquiries. Any of the foregoing may affect investor confidence in the accuracy of our financial disclosures and may raise reputational risks for our business, both of which could harm our business and financial results.

We have identified material weaknesses in our internal control over financial reporting and, if we fail to remediate these material weaknesses, we may not be able to accurately or timely report our financial condition or results of operations, which may adversely affect investor confidence and the price of our common stock

As disclosed in Part II, Item 4, "Controls and Procedures" in this Quarterly Report on Form 10-Q, we identified the following material weaknesses as of June 30, 2023:

- We did not maintain an effective control environment. Specifically, we did not maintain sufficient accounting resources commensurate with our structure and financial reporting requirements. This material weakness contributed to the additional material weaknesses described below.
- We did not design and maintain effective controls to address the initial application of complex accounting standards and accounting of non-routine, unusual or complex events and transactions.
- We did not design and maintain effective controls over our financial statement close process. Specifically, we did not design and maintain effective controls over the income tax provision and certain account analyses and account reconciliations.

The material weakness related to the income tax provision resulted in the restatement of our unaudited condensed consolidated financial statements for the quarters and year-to-date periods ended March 31, 2022, June 30, 2022 and September 30, 2022. The material weaknesses related to the control environment, the initial application of complex accounting standards and accounting of non-routine, unusual or complex events or transactions and certain account reconciliations and certain account analyses resulted in adjustments to our 2018 financial statements primarily related to debt extinguishment costs, goodwill, revenue, accounts receivable, foreign exchange expense and deferred revenue. Additionally, these material weaknesses could result in a misstatement of any account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

As a result of the foregoing material weaknesses, management concluded that our disclosure controls and procedures were not effective as of June 30, 2023. We have designed and implemented a plan to remediate the material weaknesses identified. See Part II, Item 4, "Controls and Procedures" in this Quarterly Report on Form 10-Q for additional information regarding our remediation plan. We cannot assure you that these measures will significantly improve or remediate the material weaknesses described above on a timely basis, if at all. The implementation of these remediation measures will require validation and testing of the design and operating effectiveness of internal control over a sustained period of financial reporting cycles. If the steps we have taken do not remediate the material weaknesses in a timely manner, there could continue to be a reasonable possibility that these control deficiencies or others would result in an additional material misstatement of our annual or interim financial statements that would not be prevented or detected on a timely basis. If this occurs, it could adversely impact the accuracy and timing of our financial reporting and our stock price which, in turn, could jeopardize our ability to comply with our reporting obligations, limit our ability to access the capital markets and adversely impact our stock price. In addition, investors' perceptions that our internal control over financial reporting is inadequate or that we are unable to produce accurate financial statements on a timely basis may make it more difficult for us to effectively market and sell our services to new and existing customers.

If we are unable to implement and maintain effective internal control over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our common stock may decline

We are required to maintain internal control over financial reporting and to report any material weaknesses in such internal control. On an annual basis, we are required to furnish a report by management on the effectiveness of our internal control over financial reporting pursuant to Section 404 and our independent registered public accounting firm is required to attest to the effectiveness of our internal control over financial reporting.

Compiling the system and processing documentation necessary to perform the evaluation needed to comply with Section 404 is costly and challenging. Our compliance with Section 404 requires that we incur substantial accounting expense and expend significant management efforts. We have hired and may need to continue to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge and compile the system and process documentation necessary to maintain effective internal control over financial reporting.

During the evaluation and testing process of our internal control over financial reporting, we identified material weaknesses in our internal control over financial reporting as of June 30, 2023. We cannot assure you that there will not be additional material weaknesses in our internal control over financial reporting in the future. Any failure to maintain internal control over financial reporting could severely inhibit our ability to accurately report our financial condition or results of operations. As a result of our material weaknesses in internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of our common stock could be negatively affected, and we could be subject to sanctions or investigations by the stock exchange on which our securities are listed, the SEC or other regulatory authorities, which would also require additional financial and management resources. Failure to remedy the material weaknesses in our internal control over financial reporting on a timely basis, if at all, or to implement or maintain other effective control systems required of public companies could also restrict our future access to the capital markets.

The agreement governing our 2021 Revolving Facility requires us to meet certain operating and financial covenants and places restrictions on our operating and financial flexibility. If we raise additional capital through debt financing, the terms of any new debt could further restrict our ability to operate our business

The revolving facility that we entered into in July 2021, or the 2021 Revolving Facility, contains affirmative and negative covenants, indemnification provisions and events of default. The affirmative covenants include, among others, administrative, reporting and legal covenants, in each case subject to certain exceptions. The negative covenants include, among others, limitations on our and certain of our subsidiaries' abilities to carry out the following, in each case subject to certain exceptions:

- incur additional indebtedness and guarantee indebtedness;
- create or incur liens;
- pay dividends and distributions or repurchase capital stock;
- merge, liquidate and make asset sales;
- change lines of business;
- change our fiscal year;
- incur restrictions on our subsidiaries' ability to make distributions and create liens;
- modify our organizational documents;
- make investments, loans and advances; and
- enter into certain transactions with affiliates.

The 2021 Revolving Facility also contains a financial covenant that requires us to maintain a total net first lien leverage ratio of 4.50:1.00 on the last day of any fiscal quarter during which our 2021 Revolving Facility usage exceeds 35% of the 2021 Revolving Facility capacity. As a result of the restrictions described above, we will be limited as to how we conduct our business and we may be unable to raise additional debt or equity financing to take advantage of new business opportunities. The terms of any future indebtedness we may incur could include more restrictive covenants. We cannot assure you that we will be able to maintain compliance with these covenants in the future and, if we fail to do so, that we will be able to obtain waivers from the lenders or amend the covenants.

Our ability to comply with the covenants and restrictions contained in the 2021 Revolving Facility may be affected by economic, financial and industry conditions beyond our control. The restrictions in the 2021 Revolving Facility may prevent us from taking actions that we believe would be in the best interests of our business and may make it difficult for us to execute our business strategy successfully or effectively compete with companies that are not similarly restricted. Our failure to comply with the restrictive covenants and other terms of our indebtedness could result in an event of default, which, if not cured or waived, could result in the lenders declaring all obligations, together with accrued and unpaid interest, immediately due and payable and take control of the collateral, potentially requiring us to renegotiate the 2021 Revolving Facility on terms less favorable to us and could also trigger cross-default provisions in other contracts, potentially resulting in serious consequences to our business, results of operations, financial condition and future prospects, including bankruptcy or insolvency. Even if the 2021 Revolving Facility is terminated, any additional debt that we incur in the future could subject us to similar or additional covenants.

In addition, the 2021 Revolving Facility also permits borrowings denominated in Euros, British pound sterling and other alternative currencies that may be approved by the administrative agent and revolving lenders. Such non-U.S. dollar-denominated debt may not necessarily correspond to the cash flow we generate in such currencies.

We are subject to fluctuations in interest rates

Any borrowings under the 2021 Revolving Facility will be subject to variable rates of interest and expose us to interest rate risk. Sharp changes in interest rates, such as the current rising interest rate environment, including the U.S. Federal Reserve's recent increases in interest rates, could adversely affect us if amounts are outstanding under the 2021 Revolving Facility. Further, if future rates based upon SOFR are higher or more volatile than USD LIBOR rates as historically determined, we may experience potential increases in interest rates on any variable rate debt, which could adversely impact our interest expense, results of operations and cash flows. In the future, we may enter into contractual arrangements designed to hedge our exposure to changes in interest rates. If we enter into derivative financial instruments to mitigate interest rate risk in the future, we may not maintain interest rate swaps, caps or other applicable financial instruments with respect to all of our indebtedness, and any financial instrument we enter into may not fully mitigate our interest rate risk, may prove disadvantageous or may create additional risks. If these hedging arrangements are unsuccessful, we may experience an adverse effect on our business, results of operations, financial condition and future prospects.

Changes in tax laws or tax rulings could affect our financial condition, results of operations, and cash flows

The tax regimes we are subject to or operate under, including income and non-income taxes, are unsettled and may be subject to significant change. Changes in tax laws, regulations or rulings, or changes in interpretations of existing laws and regulations, could affect our financial condition, results of operations and cash flows. For example, the 2017 Tax Cuts and Jobs Act, or Tax Act, made broad and complex changes to the U.S. tax code, including changes to U.S. federal tax rates, additional limitations on the deductibility of interest, both positive and negative changes to the utilization of net operating loss, or NOL carryforwards, allowing for the expensing of certain capital expenditures, and putting into effect the migration from a "worldwide" system of taxation to a largely territorial system. Under the Tax Cuts and Jobs Act of 2017, research and development costs are no longer fully deductible and are required to be capitalized and amortized for U.S. tax purposes effective January 1, 2022. The mandatory capitalization requirement could have an impact on our deferred tax assets and cash tax liabilities.

The issuance of additional regulatory or accounting guidance related to the Tax Act could affect our tax obligations and effective tax rate in the period issued. In addition, many countries in Europe, as well as a number of other countries and organizations, have recently proposed or recommended changes to existing tax laws or have enacted new laws that could significantly increase our tax obligations in the countries where we do business or require us to change the manner in which we operate our business.

In addition, the Inflation Reduction Act of 2022, enacted in August 2022, imposed a 1% excise tax on net repurchases of shares by domestic corporations whose stock is traded on an established securities market. The excise tax has been imposed on repurchases that occur after December 31, 2022. The imposition of the excise tax on repurchases of our shares could increase the cost to us of making repurchases and could cause management to reduce the number of shares repurchased pursuant to our stock repurchase program.

The Organization for Economic Cooperation and Development has been working on a Base Erosion and Profit Shifting Project, and issued a report in 2015, an interim report in 2018, and is expected to continue to issue guidelines and proposals that may change various aspects of the existing framework under which our tax obligations are determined in many of the countries in which we do business. Similarly, the European Commission and several countries have issued proposals that would change various aspects of the current tax framework under which we are taxed. These proposals include changes to the existing framework to calculate income tax, as well as proposals to change or impose new types of non-income taxes, including taxes based on a percentage of revenue. For example, several countries have proposed or enacted taxes applicable to digital services, which could apply to our business.

Our ability to use our NOL carryforwards may be limited

We have incurred substantial losses during our history and may not be able to maintain profitability. Unused U.S. federal net operating losses, or NOLs, for taxable years beginning before January 1, 2018, may be carried forward to offset future taxable income, if any, until such unused NOLs expire. Under the Tax Act, as modified by the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, U.S. federal NOLs incurred in taxable years beginning after December 31, 2017, can be carried forward indefinitely and are limited to 80% of taxable income. For U.S. federal NOLs incurred in taxable years 2018, 2019, and 2020 may be carried back 5 years and carried forward indefinitely and are limited to 80% of taxable income if utilized after December 31, 2020.

In addition, under Section 382 of the Code and corresponding provisions of state law, if a corporation undergoes an "ownership change," which is generally defined as a greater than 50 percentage point change (by value) in its equity ownership over a three-year period, the corporation's ability to use its pre-change NOL carryforwards to offset its post-change income or taxes may be limited. We have completed a Section 382

study and have determined that none of our net operating losses will expire solely due to Section 382 limitations. However, we may experience ownership changes in the future as a result of shifts in our stock ownership, some of which may be outside of our control. This could limit the amount of NOLs that we can utilize annually to offset future taxable income or tax liabilities. Subsequent ownership changes and changes to the U.S. tax rules in respect of the utilization of NOLs may further affect the limitation in future years. In addition, at the state level, there may be periods during which the use of NOLs is suspended or otherwise limited, which could accelerate or permanently increase state taxes owed.

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

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

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

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

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

Changes in tax laws or regulations that are applied adversely to us or our customers may have a material adverse effect on our business, cash flow, financial condition or results of operations

New income, sales, use, or other tax laws, statutes, rules, regulations or ordinances could be enacted at any time, which could adversely affect our business operations and financial performance. Further, existing tax laws, statutes, rules, regulations or ordinances could be interpreted, changed, modified, or applied adversely to us. For example, the Tax Act enacted many significant changes to the U.S. tax laws. Future guidance from the Internal Revenue Service and other tax authorities with respect to the Tax Act may affect us, and certain aspects of the Tax Act could be repealed or modified in future legislation. Changes in our business operations, acquisitions, investments, new geographies and intercompany transactions may affect our tax expense and liabilities as well as the realization of net deferred tax assets. All of the items above as well as future reform legislation could potentially have a material impact on the value of our deferred tax assets, could result in significant one-time charges, and could increase our future U.S. tax expense.

Risks Relating to Legal, Compliance and Regulatory Matters

Our business and services subject us to complex and evolving U.S. and foreign laws and regulations regarding the unauthorized practice of law, legal document processing, legal plans and other related matters

Our business involves providing services that meet the legal and accounting needs of our customers and, as a result, is subject to a variety of complex and evolving U.S. and foreign laws and regulations, including the following:

- Our business model includes the provision of services that represent an alternative to traditional legal services, which subjects us to allegations of UPL. UPL generally refers to an entity or person giving legal advice that is not licensed to practice law or advertising their services as the practice of law. However, laws and regulations defining UPL, and the governing bodies that enforce UPL rules, differ among the various jurisdictions in which we operate and are often vague.
- In the U.S., we are generally unable to hire attorneys as employees to provide legal advice directly to our customers, because we do not meet certain regulatory requirements, such as being exclusively owned by licensed attorneys. In addition, we are currently unable to acquire a license to practice law in most U.S. states, laws, regulations and professional responsibility rules impose limitations on

business transactions between attorneys and persons who are not licensed attorneys, including those related to the ethics of attorney fee-splitting and CPL.

- Regulation of legal document processing services and registered agent services varies among the jurisdictions in which we conduct business.
- Regulation of our legal plans varies considerably among the insurance departments, bar associations, Supreme Courts and attorneys general of each U.S. state. In addition, some U.S. states and federal agencies may seek to regulate our legal plans or other subscription plans.

Our business operations also subject us to laws and regulations relating to general business practices, and the manner in which we offer our services to customers subjects us to various consumer laws and regulations, including false advertising, payment laws, telephone sales, email marketing, automatic contract or subscription renewal, and deceptive trade practices.

The scope of these laws and regulations are often vague and broad, and their applications and interpretations are often uncertain and conflicting. Compliance with these disparate laws and regulations requires us to structure our business and services differently in certain jurisdictions. Additionally, these laws and regulations are evolving, and changes in such laws could require us to significantly change the ways we structure our business and services. These laws and regulations could also make it more difficult for us to convert our transactional customers to subscribers or attract new subscribers to grow our subscription services. We dedicate significant management time and expense to dealing with these issues and expect that these issues will continue to be a significant focus as we expand into other services and jurisdictions.

In addition, any failure or perceived failure by us to comply with applicable laws and regulations may subject us to regulatory inquiries, claims, suits and prosecutions. We have also incurred in the past, and expect to incur in the future, costs associated with responding to, defending, resolving, and/or settling proceedings, particularly those related to UPL, competitor claims and the provision of our services more generally. We can give no assurance that we will prevail in such regulatory inquiries, claims, suits and prosecutions on commercially reasonable terms or at all. Responding to, defending and/or settling regulatory inquiries, claims, suits and prosecutions may be time-consuming and divert management and financial resources or have other adverse effects on our business. A negative outcome in any of these proceedings may result in claims, changes to or discontinuance of some of our services, potential liabilities or additional costs that could have a material adverse effect on our business, results of operations, financial condition, future prospects and brand.

Our Arizona subsidiary, which is licensed as an ABS, may not insulate us from claims of the unauthorized practice of law and is subject to restrictions under Arizona Code of Judicial Administration

Arizona currently permits non-lawyers to co-own law firms and other legal service operations. In September 2021, we applied for and received our license to operate our Arizona ABS, which employs and contracts with licensed attorneys to provide limited scope legal services to U.S.-based consumers who purchase such services on our websites. Our U.S. subsidiary, LZ Legal Services, LLC, which holds the license to operate the Arizona ABS, may be susceptible to potential claims from clients, such as breach of contract, product liability, negligence or other claims. Any such claims could result in reputational damage or an adverse effect on our results of operations. In addition, this structure is generally untested in U.S. courts and we cannot assure you that it will insulate us from claims of CPL or UPL. The professional liability insurance held by our U.S. subsidiary and limiting its liability in accordance with its engagement letters with clients, may not insure or protect against all potential claims or sufficiently indemnify us or our U.S. subsidiary for all liability that may be incurred. Any such liability, inclusive of the costs and expenses that may be incurred in defending any such claims, that exceeds the insurance coverage could have a material adverse effect on our business, results of operations, financial condition, or future prospects.

In addition, under Section 7-209 of the Arizona Code of Judicial Administration, or ACJA, there are restrictions on the holding of an interest of 10% or more in the issued share capital of a licensed ABS or the parent company of such licensed ABS. As our wholly owned Arizona subsidiary is a licensed ABS for the purposes of the ACJA, these restrictions apply to any holder(s) of 10% or more of our common stock. Each "authorized person", as defined in ACJA 702-9, including the members of our Board could be required to file an ABS Authorized Person application with the Arizona Supreme Court when determined to be seeking a restricted interest. The Arizona Supreme Court may attach conditions to any authorization granted in respect to holding of a restricted interest.

The Arizona Supreme Court can force any person who acquires a restricted interest in contravention of the applicable rules, whether knowingly or unknowingly, to divest its share ownership in the licensed ABS or its parent company. The Arizona Supreme Court also has the ability to suspend or revoke our Arizona subsidiary's licensed ABS status in the event any such contravention occurs. Any suspension or revocation of our Arizona subsidiary's licensed ABS status would have a serious detrimental impact on our business, and, in

such circumstances, we would seek to collaborate with the Arizona Supreme Court to minimize any resultant business disruption.

If the independent professionals who participate in our or our partners' networks, or otherwise work with LegalZoom as a consultant or contractor, are characterized as employees, we would be subject to employment and withholding liabilities and regulatory risks

We structure our relationships with the independent attorneys and independent accountants who participate in our and our partners' networks in a manner that we believe results in an independent contractor relationship, not an employee relationship. On the other hand, some of our LZ Tax offerings as well as our intellectual property offerings are fulfilled by our or subsidiary's own employee accountants, tax professionals, lawyers and fulfillment staff. We also use contractors, temporary employees and/or consultants as part of our operations. An independent contractor is generally distinguished from an employee by his or her degree of autonomy and independence in providing services. A high degree of autonomy and independence is generally indicative of a contractor relationship, while a high degree of control is generally indicative of an employment relationship. Tax or other regulatory authorities may in the future challenge our characterization of the independent attorneys who participate in our and our partners' networks of these relationships, or the other contractors and consultants used by us. If such regulatory authorities or state, federal or foreign courts were to determine that these attorneys, accountants or other contractors and consultants are employees, and not independent contractors, we would be required to withhold income taxes, to withhold and pay social security, Medicare and similar taxes, to pay unemployment and other related payroll taxes and could face allegations of UPL or CPL. We would also be liable for unpaid past taxes and subject to penalties. As a result, any determination that these individuals are our employees could have a material adverse effect on our business, results of operations, financial condition and future prospects. It is also possible that we could face claims of joint employment from the independent professionals who participate in our partner networks or from individuals working as a consultant, temporary employee, or contractor, if they were to pursue employment claims against LegalZoom. If a joint employment relationship is found to exist, joint liability for any successful claims would also likely exist.

Compliance with U.S. and global privacy and data security requirements could result in additional costs and liabilities to us or inhibit our ability to collect and store data, and the failure to comply with such requirements could subject us to significant fines and penalties, which could adversely affect our business, financial condition and reputation

In the ordinary course of business, we collect and process information supplied by our customers, which may include personal information and other data. As a result, aspects of our business are subject to laws, rules and regulations in the U.S. and in other countries relating to privacy and the collection, use and security of personal information, including but not limited to the General Data Protection Regulation, or GDPR, the California Consumer Privacy Act of 2018, or CCPA, and the California Privacy Rights Act, or CRPA. We are also subject to the terms of our privacy policies and obligations to third-parties related to privacy, data protection and information security. Any actual or perceived failure by us or third-parties working on our behalf to comply with applicable privacy and data security laws, rules and regulations, including the GDPR and the CCPA/CPRA or related contractual or other obligations, or any perceived privacy rights violation, could lead to investigations, claims, and proceedings by governmental entities and private parties, damages for contract breach, additional reporting obligations and other significant costs, penalties, and other liabilities, as well as harm to our reputation and market position. In addition, the global regulatory framework for privacy and data security issues is rapidly evolving and privacy and data security laws have been and may in the future be enacted by other U.S. states and countries in which we do business. As a result, interpretation of applicable privacy and data security laws, rules and regulations is ongoing, may not be fully determined at this time and may conflict across jurisdictions. In our efforts to meet the various data privacy regulations that apply to us, we have made and continue to make certain operational changes to our products and business practices. Preparing for and complying with these laws, rules and regulations requires significant time and resources and may necessitate further changes to our information technologies, systems, and practices and to those of our customers, and of any third-parties that process personal data on our behalf. In addition, these obligations may require us to change our business model.

In addition, a growing number of legislative and regulatory bodies have adopted consumer notification and other requirements in the event that consumer information is accessed by unauthorized persons, and additional regulations regarding the use, access, accuracy, and security of such data are possible. In the U.S., state laws provide for disparate notification regimes. If our practices are deemed to be an invasion of privacy, whether or not consistent with current or future regulations and industry practices, we may be subject to public criticism, private class actions, reputational harm, or claims by regulators, which could disrupt our business and expose us to increased liability. Our failure to comply with these laws, or any future laws or regulations of a similar nature, could result in substantial regulatory penalties, litigation expense, and loss of revenue.

Further, certain jurisdictions have enacted data localization laws and cross-border personal data transfer laws, which may make it more difficult for us to transfer personal data across jurisdictions (such as transferring or receiving personal data that originates in the EU or in other foreign jurisdictions). Existing mechanisms that facilitate cross-border personal data transfers may change or be invalidated. For example, the GDPR generally prohibits the transfer of personal information to countries outside of the European Economic Area that the European Commission does not consider to provide an adequate level of privacy and data security, such as the U.S., absent appropriate safeguards. In addition, certain countries outside Europe have also passed or are considering laws requiring local data residency or otherwise impeding the transfer of personal data across borders, any of which could increase the cost and complexity of doing business. If we cannot implement a valid compliance mechanism for cross-border data transfers, we may face increased exposure to regulatory actions, substantial fines, and injunctions against processing personal data from Europe or other foreign jurisdictions. The inability to import personal data to the U.S. could significantly and negatively impact our business operations, limit our ability to collaborate with parties that are subject to cross-border data transfer or localization laws, or require us to increase our data processing capabilities and infrastructure in foreign jurisdictions at significant expense.

Breaches and other types of security incidents of our networks or systems, or those of our third-party service providers, could negatively impact our ability to conduct our business, our brand and reputation, our ability to retain existing customers and attract new customers, and may cause us to incur significant liabilities and adversely affect our business, results of operations, financial condition and future prospects

We collect, use, store, transmit and process data and information about our customers, employees and others, some of which may be sensitive, personal or confidential. Any actual or perceived breach of our security measures or those of our third-party service providers could adversely affect our business, operations and future prospects. A third-party that is able to circumvent our security measures or those of our third-party service providers may access, misappropriate, delete, alter, publish or modify this information, which could cause interruptions in our business and operations, fraud or loss to third-parties, regulatory enforcement actions, litigation, indemnity obligations and other possible liabilities, as well as negative publicity. Widespread negative publicity may also result from real, threatened or perceived security compromises affecting our industry, competitors and customers. Concerns regarding data privacy and security could cause some of our customers to stop using our services and fail to renew their subscriptions. This discontinuance in use and failure to renew could harm our business, results of operations, financial condition and future prospects.

Our internal computer systems, cloud-based computing services, and those of our current and any future third-party service providers are vulnerable to a variety of evolving threats. Cyberattacks and other malicious internet-based activity, such as computer malware, hacking and phishing attempts, continue to increase. In addition to traditional computer "hackers," malicious code (such as viruses, worms and ransomware), social engineering, cyber extortion and personnel theft or misuse, sophisticated nation-state and nation-state supported actors now engage in similar attacks (including advanced persistent threat intrusions). Extortion payments may alleviate the negative impact of a ransomware attack, but we may be unwilling or unable to make such payments due to, for example, applicable laws or regulations prohibiting such payments.

We have adopted a remote-first policy, which permits all employees to work remotely or virtually indefinitely unless the nature of the employee's job requires their in-office presence. This policy, which results in a predominantly remote workforce, may pose additional data security risks to our information technology systems and data, as more of our employees work from home and utilize network connections outside our premises. Additionally, future or past business transactions (such as acquisitions or integrations) could expose us to additional cybersecurity risks and vulnerabilities, as our systems could be negatively affected by vulnerabilities present in acquired or integrated entities' systems and technologies. Any of the previously identified or similar threats could cause a security breach or other interruption. A security breach or other interruption could result in unauthorized, unlawful, or accidental acquisition, modification, destruction, loss, alteration, encryption, disclosure of, or access to our sensitive information.

We may expend significant resources or modify our business activities to try to protect against security breaches. In addition, certain data privacy and security obligations have required and may in the future require us to implement and maintain specific security measures, industry-standard or reasonable security measures to protect our information technology systems and sensitive information, including contractually. We cannot guarantee that our security measures to protect customer information and prevent data loss and other security breaches will be sufficient to protect against unauthorized access to, or other compromise of, personal information confidential or proprietary information. The techniques used to sabotage or to obtain unauthorized access to our platform, systems, networks and/or physical facilities in which data is stored or through which data is transmitted change frequently, and we have not always been able in the past and may be unable in the future to anticipate such techniques or implement adequate preventative measures or stop security breaches that may arise from such techniques. As a result, our safeguards and preventive measures may not be adequate to prevent past, current or future cyberattacks and security breaches, including security

breaches that may remain undetected for extended periods of time, which can substantially increase the potential for a material adverse impact resulting from the breach. Further, we may experience delays in developing and deploying remedial measures designed to address any such identified vulnerabilities.

Like many companies, we rely on third-party service providers to operate critical business systems to process sensitive information in a variety of contexts, including, without limitation, third-party providers of cloud-based infrastructure, employee email, and other functions. We may share or receive sensitive information with or from third-parties. Our ability to monitor these third-parties' information security practices is limited, and these third-parties may not have adequate information security measures in place.

If we, or third-parties upon which we rely, experience or are perceived to have experienced (in the past or future) a security breach, we may experience adverse consequences. Applicable data privacy and security obligations may require us to notify relevant stakeholders, which may include affected individuals, regulatory authorities, or customers of security breaches. We operate in an industry that is prone to cyberattacks. We have experienced security breaches for which we were legally required to notify individuals, customers, regulators, the media and others. Data breach notification disclosures are costly, and could lead to adverse consequences. In addition, the costs to respond to a cybersecurity event or to mitigate any security vulnerabilities that may be identified could be significant, including costs for remediating the effects of such an event, paying a ransom, restoring data from backups and conducting data analysis to determine what data may have been affected by the breach. In addition, our efforts to contain or remediate a security breach or any vulnerability exploited to cause a breach may be unsuccessful, and efforts and any related failures to contain or remediate them could result in interruptions, delays, loss in customer trust, harm to our reputation and increases to our insurance coverage.

Our contracts may not contain limitations of liability, and even where they do, there can be no assurance that limitations of liability in our contracts are sufficient to protect us from liabilities, damages, or claims related to our data privacy and security obligations, including under the recently expanded private right of action in the CPRA. We may not have adequate insurance coverage for security incidents or breaches, including fines, judgments, settlements, penalties, costs, attorney fees and other impacts that arise out of such breaches. We cannot assure you that our cyber liability insurance coverage will be adequate to cover liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. The successful assertion of one or more large claims against us that exceeds our available insurance coverage, or results in changes to our insurance policies (including premium increases or the imposition of large deductible or co-insurance requirements), could have an adverse effect on our business. Our risks are likely to increase as we continue to expand, grow our customer base, and process, increasingly large amounts of sensitive information.

Increasing and changing government regulation of our business may harm our operating results

We are subject to federal, state, local and international laws and regulations that affect our and our customers' activities, including, without limitation, labor, advertising and marketing, tax, financial services, electronic funds transfer, consumer protection, real estate, e-commerce, promotions, intellectual property ownership and infringement, import and export requirements, anti-bribery and anti-corruption, insurance, foreign exchange controls and cash repatriation restrictions, anti-competition, environmental, health and safety, and other regulated activities. There have been significant new regulations and heightened focus by the government on many of these areas. As we expand our products and services and evolve our business models, we may become subject to additional government regulation or increased regulatory scrutiny. Further, regulators (both in the U.S. and in other jurisdictions in which we operate) may adopt new laws or regulations, change existing regulations, or their interpretation of existing laws or regulations may differ from ours.

In addition, new legislation, regulation, public policy considerations, litigation by the government or private entities, changes to or new interpretations of existing laws may restrict the types of products and services that we can offer or the prices we can charge, or otherwise cause us to change the way we operate our businesses or offer our products and services. We may not be able to respond quickly to such regulatory, legislative and other developments, and these changes may in turn increase our cost of doing business and limit our revenue opportunities. In addition, if our practices are not consistent with new interpretations of existing laws, we may become subject to lawsuits, penalties, and other liabilities that did not previously apply.

Changes in state-imposed requirements by one or more of the states, including the required use of specific technologies or technology standards, may also significantly increase the costs of providing those services to our customers and may prevent us from delivering a quality product to our customers in a timely manner.

Risks Relating to Intellectual Property

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

Certain of the technologies we currently use incorporate open source software, or OSS, and we expect to continue to utilize OSS in the future. OSS is licensed by its authors under a variety of license types. Some of these licenses (often called "hereditary" or "viral" licenses) contain requirements that could cause us to make available the source code of the modifications or derivative works that we create based upon the licensed OSS, and that we license such modifications or derivative works under the terms of a particular open source license granting third-parties certain rights of further use. By the terms of such open source licenses, we also could be required to release the source code of our proprietary (closed-source) software, and to make our proprietary software available under open source licenses, if we combine and/or distribute our proprietary software with such open source software in a manner that triggers the obligation of the license. We cannot be sure that all OSS and their associated licenses are reviewed prior to use in our proprietary software, that our programmers have not incorporated open source software into our proprietary software in a manner triggering such adverse licensing obligations, or that they will not do so in the future. Additionally, the terms of many open source licenses have not been interpreted by U.S. or other courts, and these licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to commercialize our products. We may face claims from others claiming ownership of open source software or patents reading on that software, rights to our intellectual property or breach of open source license terms, including a demand for release of material portions of our source code or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation, which could be costly to defend, require us to purchase a costly license (such as a commercial version of an open source license), require us to establish additional specific open source compliance procedures or require us to devote additional research and development resources to remove open source elements from or otherwise change our solutions, any of which would have a negative effect on our business, results of operations, financial condition and future prospects. Any of the foregoing could disrupt and harm our business, results of operations, financial condition and future prospects.

If we are unable to adequately protect our intellectual property to prevent unauthorized use or appropriation, the value of our brand and other intangible assets, as well as our business, results of operations, financial condition and future prospects may be adversely affected

We rely and expect to continue to rely on confidentiality and license agreements with our employees, consultants and third-parties, and on trademark, copyright, trade secret and domain name protection laws, to protect our proprietary rights. Third-parties may knowingly or unknowingly infringe on or challenge our proprietary rights, and pending and future trademark or other intellectual property applications may not be approved. In addition, effective intellectual property protection may not be available in every country in which we operate or intend to operate our business. In these cases, we may expend significant time and expense to prevent infringement and enforce our rights. We cannot assure you that others will not offer services or concepts that are substantially similar to ours and compete with our business. If the protection of our proprietary rights is inadequate to prevent unauthorized use or appropriation, the value of our brand and other intangible assets may be diminished and competitors may be able to more effectively mimic our services, business practices or operations, which may have an adverse effect on our business, results of operations, financial condition and future prospects.

Risks Relating to Ownership of Our Common Stock

The market price of our common stock may be volatile or may decline regardless of our operating performance, resulting in substantial losses for our investors

The market price of our common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our revenue and results of operations;
- the operating and financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- variance in our financial performance from expectations of securities analysts;
- increase or loss of customers;
- fluctuations in product sales mix;
- changes in our pricing strategy or those of our competitors;

- developments in new legislation and pending lawsuits or regulatory actions, including interim or final rulings by judicial or regulatory bodies;
- our involvement in any litigation;
- actual or anticipated changes in our growth rate relative to those of our competitors;
- announcements of technological innovations or new services offered by us or our competitors;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital-raising activities or commitments;
- additions or departures of key personnel;
- actions of securities analysts who initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or investor expectations;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- technical factors in the public trading market for our common stock that may produce price movements that may or may not comport with macro, industry or company-specific fundamentals, including, without limitation, the sentiment of retail investors (including as may be expressed on financial trading and other social media sites), the amount and status of short interest in our common stock, access to margin debt, and trading in options and other derivatives on our common stock;
- additional shares of our common stock or other securities being sold into the market by us or our existing stockholders or the anticipation of such sales;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;
- other events or factors, including those resulting from war or incidents of terrorism, or responses to these events; and
- general macroeconomic, political, regulatory and market conditions, such as those related to recessionary fears, the current inflationary and rising interest rate environment.

In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could adversely affect our business, results of operations, financial condition and future prospects.

A significant portion of our total outstanding shares may be sold into the market in the near future, which could cause the market price of our common stock to drop significantly, even if our business is performing well

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that such sales may have on the prevailing market price of our common stock. The holders of approximately 110 million shares of our common stock, are entitled to rights pursuant to an investors' rights agreement, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. If one or more of these holders of our common stock sells a large number of shares by exercising their registration rights, it could adversely affect the market price for our common stock. In addition, if we file a registration statement for the purposes of selling additional shares to raise capital and are required to include shares held by these holders pursuant to the exercise of their registration rights, our ability to raise capital may be impaired.

Concentration of ownership of our common stock among our existing executive officers, directors and principal stockholders may prevent new investors from influencing significant corporate decisions

Based upon our shares of our common stock outstanding as of June 30, 2023, our executive officers, directors and stockholders who owned more than 5% of our outstanding common stock, in the aggregate, beneficially own shares representing approximately 52% of our outstanding common stock. If our executive officers, directors and stockholders who owned more than 5% of our outstanding common stock acted together, they may be able to significantly influence all matters requiring stockholder approval, including the election and removal of directors and approval of any merger, consolidation or sale of all or substantially all of our assets. The concentration of voting power and transfer restrictions could delay or prevent an acquisition of

our company on terms that other stockholders may desire or result in the management of our company in ways with which other stockholders disagree.

In addition, pursuant to a director nomination agreement entered into between us and each of (i) LucasZoom, LLC (collectively with its affiliated investment entities, Permira) and (ii) FPLZ I, L.P. and FPLZ II, L.P. (together with FPLZ I, L.P. and their affiliated investment entities, or FP, and together with Permira, the Lead Sponsors), we will have the obligation to support the nomination of, and to cause our board of directors to include in the slate of nominees recommended to our stockholders for election, a number of designees equal to at least: (i) two individuals for so long as each Lead Sponsor continuously beneficially owns shares of common stock representing at least 50% of the shares of common stock owned by such Lead Sponsor immediately following our IPO and (ii) one individual for so long as each Lead Sponsor continuously beneficially owns shares of common stock representing at least 25%, but less than 50% of the shares of common stock, owned by such Lead Sponsor immediately following the completion of our IPO. Each of Permira and FP, and their respective affiliates, may therefore have influence over management and control over matters requiring stockholder approval, including the annual election of directors and significant corporate transactions.

Provisions in our corporate charter documents and provisions under Delaware law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management

Provisions in our corporate charter and our bylaws may discourage, delay or prevent a merger, acquisition or other change in control of us that stockholders may consider favorable, including transactions in which you might otherwise receive a premium for your shares. These provisions also could limit the price that investors might be willing to pay in the future for shares of our common stock, thereby depressing the market price of our common stock. In addition, because our board of directors is responsible for appointing the members of our management team, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors. Among other things, these provisions:

- establish a classified board of directors such that not all members of the board are elected at one time;
- allow the authorized number of our directors to be changed only by resolution of our board of directors;
- limit the manner in which stockholders can remove directors from the board;
- establish advance notice requirements for stockholder proposals that can be acted on at stockholder meetings and nominations to our board of directors;
- require that stockholder actions must be effected at a duly called stockholder meeting and prohibit actions by our stockholders by written consent;
- limit who may call stockholder meetings;
- authorize our board of directors to issue preferred stock without stockholder approval, which could be used to institute a stockholder rights plan, or so-called "poison pill," that would work to dilute the stock ownership of a potential hostile acquirer, effectively preventing acquisitions that have not been approved by our board of directors; and
- require the approval of the holders of at least 66 2/3% of the votes that all our stockholders would be entitled to cast to amend or repeal certain provisions of our charter or bylaws.

Moreover, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which prohibits a person who owns 15% or more of our outstanding voting stock from merging or combining with us for a period of three years after the date of the transaction in which the person acquired 15% or more of our outstanding voting stock, unless the merger or combination is approved in a prescribed manner. These provisions could discourage potential acquisition proposals and could delay or prevent a change in control transaction. They could also have the effect of discouraging others from making tender offers for our common stock, including transactions that may be in your best interests. These provisions may also prevent changes in our management or limit the price that investors are willing to pay for our stock.

Our amended and restated certificate of incorporation provides that the doctrine of "corporate opportunity" will not apply with respect to certain stockholders

The doctrine of corporate opportunity generally provides that a corporate fiduciary may not develop an opportunity using corporate resources, acquire an interest adverse to that of the corporation or acquire property that is reasonably incident to the present or prospective business of the corporation or in which the corporation has a present or expectancy interest, unless that opportunity is first presented to the corporation

and the corporation chooses not to pursue that opportunity. The doctrine of corporate opportunity is intended to preclude officers or directors or other fiduciaries from personally benefiting from opportunities that belong to the corporation. Our amended and restated certificate of incorporation provides that the doctrine of "corporate opportunity" will not apply with respect to certain parties to our investors' rights agreement, in each case together with their respective affiliates, and its and their affiliates' directors, partners, principals, officers, members, managers and/or employees. LucasZoom, LLC, Permira Advisers LLC, FPLZ I, L.P., FPLZ II, L.P., GPI Capital Gemini Holdco, LP, TCV IX, L.P., TCV IX (A), L.P., TCV IX (B), L.P., TCV Member Fund, L.P., TCV IX (A) Opportunities, L.P., Bryant Stibel Growth, LLC and Bryant-Stibel Fund, I LLC or their affiliates will, therefore, have no duty to communicate or present corporate opportunities to us, and will have the right to either hold any corporate opportunity for their (and their affiliates') own account and benefit or to recommend, assign or otherwise transfer such corporate opportunity to persons other than us. As a result, certain of our stockholders, directors and their respective affiliates will not be prohibited from operating or investing in competing businesses. We, therefore, may find ourselves in competition with certain of our stockholders, directors or their respective affiliates, and we may not have knowledge of, or be able to pursue, transactions that could potentially be beneficial to us. Accordingly, we may lose a corporate opportunity or suffer competitive harm, which could negatively impact our business, operating results, financial condition and future prospects.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware and the federal district courts of the United States of America will be the exclusive forums for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers, or employees

Our amended and restated certificate of incorporation, provides that unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or, if and only if the Court of Chancery of the State of Delaware lacks subject matter jurisdiction, any state court located within the State of Delaware or, if and only if all such state courts lack subject matter jurisdiction, the federal district court for the District of Delaware) and any appellate court thereof shall be the exclusive forum for certain claims or causes of actions under Delaware statutory or common law.

The provisions would not apply to suits brought to enforce a duty or liability created by the Securities Exchange Act of 1934, as amended, or the Exchange Act. Furthermore, Section 22 of the Securities Act of 1933, as amended, or the Securities Act, creates concurrent jurisdiction for federal and state courts over all such Securities Act actions. Accordingly, both state and federal courts have jurisdiction to entertain such claims. To prevent having to litigate claims in multiple jurisdictions and the threat of inconsistent or contrary rulings by different courts, among other considerations, our amended and restated certificate of incorporation further provides that the federal district courts of the U.S. will be the exclusive forum for resolving any complaint asserting a cause or causes of action arising under the Securities Act, including all causes of action asserted against any defendant to such complaint.

While the Delaware courts have determined that such choice of forum provisions are facially valid, a stockholder may nevertheless seek to bring a claim in a venue other than those designated in the exclusive forum provisions. In such instance, we would expect to vigorously assert the validity and enforceability of the exclusive forum provisions of our amended and restated certificate of incorporation. This may require significant additional costs associated with resolving such action in other jurisdictions and there can be no assurance that the provisions will be enforced by a court in those other jurisdictions.

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

General Risk Factors

We maintain cash deposits in excess of federally insured limits. Adverse developments affecting financial institutions, including bank failures, could adversely affect our liquidity and financial performance.

Adverse developments that affect financial institutions, such as events involving liquidity that are rumored or actual, have in the past and may in the future lead to bank failures and market-wide liquidity problems. For example, on March 10, 2023, Silicon Valley Bank, or SVB, failed and was taken into receivership by the Federal Deposit Insurance Corporation, or FDIC, and on May 1, 2023, the FDIC seized First Republic Bank and sold its assets to JPMorgan Chase & Co. While we have not experienced any adverse impact to our liquidity or to our current and projected business operations, financial condition or results of operations as a result of the matters relating to SVB and First Republic Bank, uncertainty remains over liquidity concerns in

the broader financial services industry, and our business may be adversely impacted in ways that we cannot predict at this time.

We maintain the majority of our cash and cash equivalents in accounts at banking institutions in the United States that we believe are of high quality. Cash held in these accounts often exceed the FDIC insurance limits. There can be no assurance that our deposits in excess of FDIC insurance limits will be backstopped by the U.S. government, or that any bank or financial institution with which we do business will be able to obtain needed liquidity from other banks, government institutions or by acquisition in the event of a failure or liquidity crisis. In the event of failure of any of the financial institutions where we maintain our cash and cash equivalents, there can be no assurance that we would be able to access uninsured funds in a timely manner or at all. Any inability to access or delay in accessing these funds could adversely affect our business, liquidity and financial position.

Our business is subject to risks arising from epidemic diseases or pandemics, such as the ongoing COVID-19 pandemic

The COVID-19 pandemic caused economic instability and uncertainty globally, which impacted and, in some cases continues to impact, consumer spending patterns, the success of small businesses and the formation of new small businesses. Since the onset of the pandemic, these factors contributed to variation in our operating results relative to historical and seasonal trends. For example, during its initial phase in the first quarter of 2020, the pandemic had a temporary negative impact on our business as demand for our products and services decreased with the onset of government shelter-in-place directives. By the second quarter of 2020, we began to experience tailwinds from the pandemic as individuals and small businesses turned to online services given the relative inaccessibility of offline alternatives as well as due to the availability of government stimulus checks. These tailwinds subsided in the back half of 2021 due to the easing of government stimulus supporting individuals and small businesses impacted by the pandemic.

In the future, direct and indirect impacts of the COVID-19 pandemic or any future public health pandemic or epidemic may cause significant reductions or volatility in demand for our services, as well as the temporary inability of customers to purchase our products due to illness, quarantine or financial hardship, shifts in demand away from one or more of our products, or decreased consumer confidence and spending, any of which may negatively impact our results, including as a result of an increased difficulty in planning for operations. The fluid nature of epidemic diseases or pandemics, including the COVID-19 pandemic, and uncertainties regarding the related economic impact may result in market turmoil, which could also have an adverse effect on our business, financial condition, results of operations and future prospects.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities

On March 1, 2022, our board of directors approved a stock repurchase program authorizing us to repurchase up to \$150.0 million of our common stock, with no fixed expiration. Stock repurchases under this program may be made through any manner, including open market transactions, accelerated share repurchase agreements, or privately negotiated transactions with third parties, and in such amounts as management deems appropriate. Open market repurchases will be structured to occur in accordance with applicable federal securities laws, including within the pricing and volume requirements of Rule 10b-18 under the Securities Exchange Act of 1934, as amended. We may also, from time to time, enter into Rule 10b5-1 plans to facilitate repurchases of our shares of common stock under this authorization. This program does not obligate us to acquire any particular amount of common stock and may be modified, suspended or terminated at any time at the discretion of our board of directors.

Stock repurchase activity during the three months ended June 30, 2023 were as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans
April 1, 2023 through April 30, 2023	50,786	\$ 8.99	50,786	\$ 47,649,2
May 1, 2023 through May 31, 2023	327,577	\$ 7.89	327,577	\$ 45,064,1
June 1, 2023 through June 30, 2023	—	\$ —	—	\$ 45,064,1
Total	378,363	\$ 8.04	378,363	

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information*Rule 10b5-1 Trading Arrangements*

On May 24, 2023, Noel Watson, our Chief Financial Officer, entered into a trading plan, or the Watson 10b5-1 Sales Plan, intended to satisfy the affirmative defense of Rule 10b5-1(c) under the Exchange Act. The Watson 10b5-1 Sales Plan, which was entered into during an open trading window under the Company's insider trading policy, will be in effect until the earlier of (1) May 16, 2024, and (2) the date on which an aggregate of 50,000 shares of the Company's common stock have been sold under such Watson 10b5-1 Sales Plan.

On May 31, 2023, Rich Preece, our Chief Operating Officer, entered into a trading plan, or the Preece 10b5-1 Sales Plan, intended to satisfy the affirmative defense of Rule 10b5-1(c) under the Exchange Act. The Preece 10b5-1 Sales Plan, which was entered into during an open trading window under the Company's insider trading policy, will be in effect until the earlier of (1) August 29, 2024, and (2) the date on which an aggregate of 462,060 shares of the Company's common stock have been sold under such Preece 10b5-1 Sales Plan.

On May 31, 2023, Shrishya Radhakrishna, our Chief Technology Officer and Chief Product Officer, entered into a trading plan, or the Radhakrishna 10b5-1 Sales Plan, intended to satisfy the affirmative defense of Rule 10b5-1(c) under the Exchange Act. The Radhakrishna 10b5-1 Sales Plan, which was entered into during an open trading window under the Company's insider trading policy, will be in effect until the earlier of (1) August 29, 2024, and (2) the date on which an aggregate of 191,740 shares of the Company's common stock have been sold under such Radhakrishna 10b5-1 Sales Plan.

Item 6. Exhibits

The exhibits listed below are filed or furnished as part of this Quarterly Report:

Exhibit Number	Description of Exhibit
3.1	Amended and Restated Certificate of Incorporation of LegalZoom.com, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on July 2, 2021).
3.2	Amended and Restated Bylaws of LegalZoom.com, Inc. (incorporated by reference to Exhibit 3.4 to Amendment No. 1 to the Company's Registration Statement on Form S-1 filed with the SEC on June 21, 2021).
10.1	Amendment No. 1, dated as of May 5, 2023, by and between the Company, as borrower, the guarantors party thereto and JPMorgan Chase Bank, N.A., as administrative agent, relating to the Amended and Restated Credit and Guaranty Agreement, dated as of July 2, 2021, among the Company, the guarantors party thereto, the lenders and issuing lenders party thereto, and JPMorgan Chase Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 filed with the SEC on May 9, 2023).
10.2	Form of RSU Grant Notice (C-team) (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 filed with the SEC on May 9, 2023).
10.3	Form of Option Grant Notice (C-team) (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2023 filed with the SEC on May 9, 2023).
31.1 *	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) .
31.2 *	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) .
32.1 **	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 .
101	The following financial statements from our Quarterly Report on Form 10-Q for the three and six months ended June 30, 2023 were formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Loss, (iv) Condensed Consolidated Statement of Stockholders' Equity, (v) Condensed Consolidated Statements of Cash Flows.
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101).

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

Date: August 8, 2023

LegalZoom.Com, Inc.

By: /s/ Dan Wernikoff
Dan Wernikoff
Chief Executive Officer
(Principal Executive Officer)

Date: August 8, 2023

/s/ Noel Watson
Noel Watson
Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATIONS

I, Dan Wernikoff, certify that:

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

LegalZoom.com, Inc.

Date: August 8, 2023

By: _____
/s/ Dan Wernikoff
Dan Wernikoff
Chief Executive Officer

CERTIFICATIONS

I, Noel Watson, certify that:

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

LegalZoom.com, Inc.

Date: August 8, 2023

By: _____
/s/ Noel Watson
Noel Watson
Chief Financial Officer

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Dan Wernikoff, Chief Executive Officer of LegalZoom.com, Inc. (the "Company"), and Noel Watson, Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2023, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 8th day of August 2023.

LegalZoom.com, Inc.

Date: August 8, 2023

By: _____
Dan Wernikoff
Chief Executive Officer
(Principal Executive Officer)

Date: August 8, 2023

By: _____
Noel Watson
Chief Financial Officer
(Principal Financial and Accounting Officer)

This certification shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of Section 18 of the Exchange Act. Such certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.