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 September 30, 2024

OR

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

For the transition period from to

Commission file number 001-35618

LegalZoom.com, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**95-4752856**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

954 Villa Street,
Mountain View, California 94041

(Address of Principal Executive Offices, including Zip code)

(323) 962-8600

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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	☒	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

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 November 1, 2024, the registrant had outstanding 172,822,210 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 factors 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 business primarily depends on business formations.
- Our business depends substantially on our customers expanding their use of our platform, including converting our transactional customers to subscribers and our subscribers renewing their subscriptions with us.
- Failure to effectively manage our growth could adversely impact our business.
- 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 and we may not be able to maintain profitability.
- If we fail to provide high-quality products and 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 effectively 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.
- We are incorporating generative artificial intelligence into some of our products, which may present compliance risks and reputational risks.
- If our marketing efforts are unsuccessful, our business, results of operations, financial condition and future prospects may be adversely affected.
- 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 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.
- Our reliance on third party providers could adversely affect our business.
- If we are unable to 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.
- Our business and services subject us to complex and evolving U.S. and foreign laws and regulations 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 independent third-party 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. 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)

	September 30, 2024	December 31, 2023
Assets		
Current assets:		
Cash and cash equivalents	$ 112,477	$ 225,719
Accounts receivable, net of allowances of $3,015 and $4,906, respectively	11,518	11,738
Prepaid expenses and other current assets	20,491	15,159
Current assets held for sale	22,722	22,722
Total current assets	167,208	275,338
Property and equipment, net	59,692	48,232
Goodwill	63,318	63,318
Intangible assets, net	9,919	13,735
Operating lease right-of-use assets	7,352	8,518
Deferred income taxes	31,734	29,015
Available-for-sale debt securities	1,386	1,159
Other assets	8,232	8,503
Total assets	$ 348,841	$ 447,818
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 27,922	$ 32,282
Accrued expenses and other current liabilities	57,027	61,678
Deferred revenue	185,795	167,951
Operating lease liabilities	1,876	2,052
Total current liabilities	272,620	263,963
Operating lease liabilities, non-current	6,171	6,966
Deferred revenue	427	490
Other liabilities	9,485	7,565
Total liabilities	$ 288,703	$ 278,984
Commitments and contingencies (Note 6)		
Stockholders' equity:		
Preferred stock, $0.001 par value; 100,000 shares authorized at September 30, 2024 and December 31, 2023, none issued or outstanding at September 30, 2024 and December 31, 2023	—	—
Common stock, $0.001 par value; 1,000,000 shares authorized; 173,174 shares and 188,538 shares issued and outstanding at September 30, 2024 and December 31, 2023, respectively	174	189
Additional paid-in capital	1,140,852	1,101,474
Accumulated deficit	(1,079,917)	(933,061)
Accumulated other comprehensive (loss) income	(971)	232
Total stockholders' equity	60,138	168,834
Total liabilities and stockholders' equity	$ 348,841	$ 447,818

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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenue	$ 168,599	$ 167,274	$ 520,175	$ 502,064
Cost of revenue	54,715	59,213	186,708	183,356
Gross profit	113,884	108,061	333,467	318,708
Operating expenses:				
Sales and marketing	46,287	51,071	160,170	164,746
Technology and development	23,179	21,491	72,934	61,074
General and administrative	28,149	25,243	77,893	78,683
Total operating expenses	97,615	97,805	310,997	304,503
Income from operations	16,269	10,256	22,470	14,205
Interest expense	(72)	(68)	(245)	(239)
Interest income	1,345	2,691	6,547	6,596
Other income (expense), net	1,741	(882)	1,845	436
Income before income taxes	19,283	11,997	30,617	20,998
Provision for income taxes	8,232	4,463	13,508	14,427
Net income	$ 11,051	$ 7,534	$ 17,109	$ 6,571
Net income per share — basic:	$ 0.06	$ 0.04	$ 0.09	$ 0.03
Net income per share — diluted:	$ 0.06	$ 0.04	$ 0.09	$ 0.03
Weighted-average shares used to compute net income per share — basic:	174,862	191,033	182,551	191,222
Weighted-average shares used to compute net income per share — diluted:	176,353	197,454	185,374	194,953

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 September 30,		Nine Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
Net income	$ 11,051	$ 7,534	$ 17,109	$ 6,571
Other comprehensive (loss) income, net of tax:				
Change in foreign currency translation adjustments	(1,649)	980	(1,357)	(187)
Change in available-for-sale debt securities due to unrealized gains	—	173	154	173
Total other comprehensive (loss) income	(1,649)	1,153	(1,203)	(14)
Total comprehensive income	$ 9,402	$ 8,687	$ 15,906	$ 6,557

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 (Loss) Income	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2023	188,538	$ 189	$ 1,101,474	$ (933,061)	$ 232	$ 168,834
Issuance of common stock upon exercise of stock options	161	—	82	—	—	82
Issuance of common stock upon vesting of restricted stock awards	2,236	2	(2)	—	—	—
Shares surrendered for settlement of minimum statutory tax withholdings	(888)	—	(9,564)	—	—	(9,564)
Stock-based compensation	—	—	16,273	—	—	16,273
Repurchased common stock	(1,172)	(1)	—	(12,758)	—	(12,759)
Other comprehensive income	—	—	—	—	296	296
Net income	—	—	—	4,744	—	4,744
Balance at March 31, 2024	188,875	$ 190	$ 1,108,263	$ (941,075)	$ 528	$ 167,906
Issuance of common stock upon exercise of stock options and ESPP	309	—	1,733	—	—	1,733
Issuance of common stock upon vesting of restricted stock awards	1,338	1	(1)	—	—	—
Shares surrendered for settlement of minimum statutory tax withholdings	(485)	—	(4,595)	—	—	(4,595)
Stock-based compensation	—	—	20,542	—	—	20,542
Repurchased common stock	(13,929)	(14)	—	(125,185)	—	(125,199)
Stock repurchase excise tax	—	—	—	(1,089)	—	(1,089)
Other comprehensive income	—	—	—	—	150	150
Net income	—	—	—	1,314	—	1,314
Balance at June 30, 2024	176,108	$ 177	$ 1,125,942	$ (1,066,035)	$ 678	$ 60,762
Issuance of common stock upon exercise of stock options	97	—	47	—	—	47
Issuance of common stock upon vesting of restricted stock awards	1,159	1	(1)	—	—	—
Shares surrendered for settlement of minimum statutory tax withholdings	(421)	—	(2,387)	—	—	(2,387)
Stock-based compensation	—	—	17,251	—	—	17,251
Repurchased common stock	(3,769)	(4)	—	(24,727)	—	(24,731)
Stock repurchase excise tax	—	—	—	(206)	—	(206)
Other comprehensive loss	—	—	—	—	(1,649)	(1,649)
Net income	—	—	—	11,051	—	11,051
Balance at September 30, 2024	173,174	$ 174	$ 1,140,852	$ (1,079,917)	$ (971)	$ 60,138

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) 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
Issuance of common stock upon exercise of stock options	326	—	3,011	—	—	3,011
Issuance of common stock upon vesting of restricted stock awards	824	1	(1)	—	—	—
Shares surrendered for settlement of minimum statutory tax withholdings	(312)	—	(3,884)	—	—	(3,884)
Stock-based compensation	—	—	16,635	—	—	16,635
Repurchased common stock	(4,719)	(5)	—	(45,159)	—	(45,164)
Stock repurchase excise tax	—	—	—	(292)	—	(292)
Other comprehensive income	—	—	—	—	1,153	1,153
Net income	—	—	—	7,534	—	7,534
Balance at September 30, 2023	187,776	$ 187	$ 1,086,222	$ (940,550)	$ 1,483	$ 147,342

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)

	Nine Months Ended September 30,	
	2024	2023
Cash flows from operating activities		
Net income	$ 17,109	$ 6,571
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,291	18,061
Amortization of right-of-use assets	1,848	2,011
Amortization of debt issuance costs	170	170
Stock-based compensation	49,486	51,005
Deferred income taxes	(741)	10,818
Change in fair value of contingent consideration	—	(836)
Unrealized foreign exchange (gain) loss	(1,277)	(179)
Other	49	(39)
Changes in operating assets and liabilities:		
Accounts receivable	220	(946)
Prepaid expenses and other current assets	(5,321)	(785)
Other assets	58	345
Accounts payable	(3,736)	5,992
Accrued expenses and other liabilities	(6,175)	(992)
Operating lease liabilities	(1,654)	(1,723)
Income tax payable	(52)	16
Deferred revenue	17,778	12,325
Net cash provided by operating activities	93,053	101,814
Cash flows from investing activities		
Purchase of property and equipment	(28,989)	(23,220)
Other	—	38
Net cash used in investing activities	(28,989)	(23,182)
Cash flows from financing activities		
Repayment of capital lease obligations	(19)	(27)
Repurchase of common stock	(161,959)	(54,873)
Shares surrendered for settlement of minimum statutory tax withholding	(17,216)	(6,353)
Proceeds from issuance of stock under employee stock plans	1,862	5,690
Net cash used in financing activities	(177,332)	(55,563)
Effect of exchange rate changes on cash and cash equivalents	26	(4)
Net (decrease) increase in cash and cash equivalents	(113,242)	23,065
Cash and cash equivalents, at beginning of the period	225,719	189,082
Cash and cash equivalents, at end of the period	$ 112,477	$ 212,147
Non-cash operating, investing, and financing activities:		
Accrued stock repurchase excise tax	$ 1,295	$ 292
Receivable from issuance of stock under employee stock plans	—	295
Accrued stock repurchase costs	754	—
Purchase of property and equipment included in accounts payable and accrued expenses and other current liabilities	1,971	1,548
Capitalized stock-based compensation	4,580	3,039
Right-of-use assets under operating leases	682	—

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, 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 business formation, our offerings include ongoing compliance, business licenses, accounting, 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. 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, 2023. The December 31, 2023 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 nine months ended September 30, 2024 from those disclosed in the audited consolidated financial statements for the year ended December 31, 2023 and the related notes, except as noted below under *Recently Adopted Accounting Pronouncements*.

The operating results for the three and nine months ended September 30, 2024 are not necessarily indicative of the results expected for the full year ending December 31, 2024.

Beginning in the fourth quarter of 2023, we include partner revenue in transaction and subscription revenue to conform with how we evaluate our performance. This change had no impact on total revenue. Prior period disaggregated revenue disclosures have been conformed to the current period presentation.

Certain other reclassifications have been made to prior periods amounts to conform to the current period presentation.

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, however 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, valuation of assets and liabilities acquired in business combinations, valuation of assets in asset acquisitions, and fair value of 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, 2023.

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 nine months ended September 30, 2024 and 2023. Our property and equipment and right-of-use, or ROU, assets located outside of the U.S. were immaterial as of September 30, 2024 and December 31, 2023.

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 our total revenue for the three and nine months ended September 30, 2024 and 2023. At September 30, 2024 and December 31, 2023, 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 September 30, 2024 and December 31, 2023 the allowance for credit losses was not material.

Investments in Other Equity Securities

We hold an equity investment in LawPath, Pty Ltd, or LawPath, an Australian proprietary limited company that provides an online legal platform to individuals and small and medium sized businesses. At both September 30, 2024 and December 31, 2023, the carrying amount of our investment in LawPath was $4.4 million. The investment in LawPath does not have a readily determinable fair value.

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. Tax preparation services are recognized at the point in time when the customer’s tax return is filed and accepted by the applicable government authority. We also earn fees from third-party providers from leads generated to such providers through our online legal platform.

Subscription revenue—Subscription revenue is generated primarily from subscriptions to our registered agent, compliance packages, attorney advice, legal forms, tax and accounting, virtual mail and e-signature services, and software-as-a-service, or SaaS, accounting solution subscriptions and 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.

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.

Our transaction and subscription revenue is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
Transaction	$ 57,879	$ 61,967	$ 192,733	$ 195,857
Subscription	110,720	105,307	327,442	306,207
Total revenue	$ 168,599	$ 167,274	$ 520,175	$ 502,064

Recently Adopted Accounting Pronouncements

In September 2022, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Update, or ASU 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 consolidated financial statements.

In March 2023, the FASB issued ASU 2023-01, *Leases (Topic 842): Common Control Arrangements,* which amends certain provisions of Accounting Standard Codification, or 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 consolidated financial statements.

In March 2023, the FASB issued ASU 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 consolidated financial statements.

In July 2023, the FASB issued ASU 2023-03 to amend various paragraphs in ASC 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 consolidated financial statements.

In March 2024, the FASB issued ASU 2024-01, which clarifies how an entity determines whether a profits interest or similar award is a share-based payment arrangement that is within the scope of ASC 718, *Compensation - Stock Compensation*. This accounting standard is effective for fiscal years beginning after December 15, 2024, including interim periods within those years, and early adoption is permitted. ASU 2024-01 can be applied retrospectively to all prior periods presented in the financial statements or prospectively to profits interest and similar awards granted or modified on or after the date at which the entity first applies this accounting standard. We early adopted ASU 2024-01 effective January 1, 2024 and will apply the amendments prospectively to profits interest and similar awards granted or modified on or after January 1, 2024. The adoption of this accounting standard did not have a material impact on our consolidated financial statements.

In March 2024, the FASB issued ASU 2024-02, *Codification Improvements* to amend a variety of topics in the accounting codification by removing references to various FASB concepts statements. This accounting standard is effective for fiscal years beginning after December 15, 2024, and early adoption is permitted. ASU 2024-02 can be applied retrospectively to the beginning of the earliest comparative period presented in which the amendments were first applied or prospectively to all new transactions recognized on or after the date that the entity first applies the amendments. We early adopted ASU 2024-02 effective January 1, 2024 and will apply the amendments prospectively to all new transactions recognized on or after January 1, 2024. The adoption of this accounting standard did not have a material impact on our consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

In November 2023, the FASB issued ASU 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which requires public entities to disclose information about their reportable segments' significant expenses on an interim and annual basis. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Entities must adopt the changes to the segment reporting guidance on a retrospective basis, and early adoption is permitted. We are currently evaluating the impact of the adoption on our consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures,* which requires entities to disclose more detailed information in the reconciliation of their statutory tax rate to their effective tax rate. This accounting standard is effective for fiscal years beginning after December 15, 2024, and interim periods within fiscal years beginning after December 15, 2025. ASU 2023-09 will be applied prospectively with an option for retroactive application to each period in the financial statements, and early adoption is permitted. We are currently evaluating the impact of the adoption on our consolidated financial statements.

Note 3. Other Financial Statement Information

Accounts Receivable

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Beginning balance	$ 3,776	$ 5,734	$ 4,906	$ 4,730
Add: amounts recognized as a reduction of revenue	2,010	1,271	5,298	7,349
Add: allowance for credit losses recognized in general and administrative expense	23	493	5	981
Less: write-offs, net of recoveries	(2,794)	(1,795)	(7,194)	(7,357)
Ending balance	$ 3,015	$ 5,703	$ 3,015	$ 5,703

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):

	September 30, 2024	December 31, 2023
Prepaid expenses	$ 8,683	$ 10,423
Deferred cost of revenue	2,827	1,678
Capitalized cloud computing development costs	1,467	1,085
Income tax receivable	5,815	35
Other current assets	1,699	1,938
Total prepaid expenses and other current assets	$ 20,491	$ 15,159

Accrued Expenses and Other Current Liabilities

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

	September 30, 2024	December 31, 2023
Accrued payroll and related expenses	$ 26,343	$ 33,635
Accrued vendor payables	15,561	11,223
Sales allowances	2,890	3,412
Accrued sales, use and business taxes	6,103	9,795
Other	6,130	3,613
Total accrued expenses and other current liabilities	$ 57,027	$ 61,678

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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Cost of revenue	$ 4,828	$ 3,307	$ 13,913	$ 8,940
Sales and marketing	960	1,400	2,648	4,011
Technology and development	2,150	1,168	5,468	2,867
General and administrative	1,257	780	3,262	2,243
Total depreciation and amortization expense	$ 9,195	$ 6,655	$ 25,291	$ 18,061

Deferred revenue

Deferred revenue as of September 30, 2024 and December 31, 2023 was $186.2 million and $168.4 million, respectively. Revenue recognized in the three months ended September 30, 2024 and 2023 that was included in deferred revenue as of June 30, 2024 and 2023 was $90.4 million and $86.5 million, respectively. Revenue recognized in the nine months ended September 30, 2024 and 2023 that was included in deferred revenue as of December 31, 2023 and 2022 was $159.1 million and $154.6 million, respectively.

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

Note 4. 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 September 30, 2024, the total carrying value of the assets held for sale remains at $22.7 million as follows (in thousands):

	September 30, 2024
Land	$ 6,400
Building and building improvements	16,322
Total assets held for sale	$ 22,722

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 September 30, 2024.

Note 5. 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.

In May 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 is secured by a first-priority security interest in substantially all of our assets, 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 not to exceed 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.

At September 30, 2024 and December 31, 2023, 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 6. Commitments and Contingencies

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 7. Stockholders' Equity

Stock Repurchase Program

In October 2023, our board of directors approved a stock repurchase program authorizing repurchases of up to $100.0 million of our common stock, with no fixed expiration. In May 2024, our board of directors approved a $75.0 million increase in the stock repurchase program, bringing the aggregate amount authorized to $175.0 million. In November 2024, our board of directors approved an additional $40.0 million increase in the stock repurchase program, bringing the aggregate amount authorized to $215.0 million. Under this program, we are authorized to repurchase our common stock 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 may 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 repurchase any particular amount of common stock and may be modified, suspended or terminated at any time at the discretion of our board of directors. Shares repurchased under our stock repurchase program are purchased for immediate retirement.

During the three months ended September 30, 2024, using Rule 10b5-1 plans, we repurchased a total of 3.8 million shares of our common stock through open market purchases at an average per share price of $6.56 for a total repurchase of $24.7 million including broker commissions. During the nine months ended September 30, 2024, using Rule 10b5-1 plans, we repurchased a total of 18.9 million shares of our common stock through open market purchases at an average per share price of $8.62 for a total repurchase of $162.7 million including broker commissions. The repurchases were recorded as a reduction to stockholders' equity. Prior to the increase in the stock repurchase authorization in November 2024, approximately $12.3 million remained available for future repurchases under the stock repurchase program as of September 30, 2024.

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 shares of stock repurchased pursuant to our stock repurchase program beginning in 2023 and represents a cost of the repurchases of our common stock. We have recognized a $1.3 million excise tax liability as of September 30, 2024 because the fair market value of stock repurchases exceeded the fair market value of stock issuances during the nine months ended September 30, 2024.

Note 8. 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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Cost of revenue	$ 1,165	$ 1,115	$ 4,505	$ 3,094
Sales and marketing	1,864	1,623	5,349	4,602
Technology and development	6,179	4,706	18,407	13,901
General and administrative	6,507	8,138	21,225	29,408
Total stock-based compensation expense	15,715	15,582	49,486	51,005
Amount capitalized to internal-use software	1,536	1,054	4,580	3,039
Total stock-based compensation	$ 17,251	$ 16,636	$ 54,066	$ 54,044

Restricted and Performance Stock Units

During the nine months ended September 30, 2024, we granted 8.8 million restricted stock units, or RSUs, with a total grant date fair value of $94.6 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 nine months ended September 30, 2024, we granted 2.5 million RSUs with a performance condition, 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 a predefined profitability target 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 two hundred percent (200%) of the target award. If the performance criteria are achieved, one third 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 awards will vest quarterly thereafter through February 2027. These PSU awards also include a modifier to the total number of shares earned based on the Company's total shareholder return, or TSR, compared to the TSR of the Nasdaq Composite Index during the performance period. The total number of shares issued pursuant to the PSU award may be increased, decreased, or remain unchanged based on the TSR modifier. The TSR modifier applicable to the PSUs is considered a market condition and therefore is reflected in the respective grant-date fair values of the awards. A Monte Carlo simulation was used to account for this market condition in the grant-date fair value of the awards. Expense related to the PSUs is recognized 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 $2.9 million and $6.4 million in stock-based compensation expense during the three and nine months ended September 30, 2024, respectively, related to these awards.

The assumptions that were used to calculate the grant-date fair value of our PSU grants during the nine months ended September 30, 2024 using a Monte Carlo simulation model were as follows:

	Nine Months Ended September 30,
	2024
Expected life (years)	0.4-0.8
Risk-free interest rate	5.2%-5.4%
Expected volatility	47.4%-66.1%
Expected dividend yield	—

In July 2024, we granted 2.7 million RSUs with a market vesting condition. Vesting of this award is contingent upon the recipient's continuous employment over the requisite service period and is subject to achievement of predetermined stock price targets during a five-year performance period. Achievement of the predetermined stock price targets is measured based on a 45-trading day volume weighted-average closing price of our common stock, subject to a 44-day extension in certain circumstances. The number of RSUs subject to vesting during the performance period may equal zero percent (0%) to two hundred percent (200%) of the target award. Upon the achievement of a stock price target during the performance period, one-half of the eligible RSUs will vest on the date the compensation committee of the board of directors certifies achievement of the stock price target and the other half will vest one year from such date, subject to the recipient's continued employment through the vesting date. We recognized $2.4 million in stock-based compensation expense during the three and nine months ended September 30, 2024 related to these awards.

The assumptions that were used to calculate the grant-date fair value of the RSUs with a market vesting condition during the nine months ended September 30, 2024 using a Monte Carlo simulation model were as follows:

	Nine Months Ended September 30,
	2024
Expected life (years)	5
Risk-free interest rate	4.2 %
Expected volatility	59.4 %
Expected dividend yield	—

Note 9. Income Taxes

We recorded a provision for income taxes of $8.2 million and $13.5 million for the three and nine months ended September 30, 2024, respectively. We recorded a provision for income taxes of $4.5 million and $14.4 million for the three and nine months ended September 30, 2023, respectively. The effective tax rate for the three months ended September 30, 2024 and 2023 was 43% and 37%, respectively. The effective tax rate for the nine months ended September 30, 2024 and 2023 was 44% and 69%, 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 $13.0 million and $11.5 million as of September 30, 2024 and December 31, 2023, respectively. The gross unrecognized tax benefits, if recognized by us, will result in a reduction of approximately $13.0 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 two states which are not expected to have an impact on our results of operations, cash flows and financial condition.

Note 10. Net Income Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Numerator:				
Net income	$ 11,051	$ 7,534	$ 17,109	$ 6,571
Denominator:				
Weighted-average common stock used in computing net income per share — basic	174,862	191,033	182,551	191,222
Effect of potentially dilutive securities				
Options to purchase common stock	114	2,699	986	1,347
RSUs	1,377	3,702	1,827	2,372
Employee stock purchase plan	—	20	10	12
Weighted-average common stock used in computing net income per share — diluted	176,353	197,454	185,374	194,953
Net income per share — basic	$ 0.06	$ 0.04	$ 0.09	$ 0.03
Net income per share — diluted	$ 0.06	$ 0.04	$ 0.09	$ 0.03

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

	Three Months Ended September 30,		Nine Months Ended September 3	
	2024	2023	2024	2023
Options to purchase common stock	17,443	3,661	10,308	11,
RSUs	17,224	3,873	10,798	6,
Employee stock purchase plan	108	—	48	
Total	34,775	7,534	21,154	18,

Note 11. 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. In August 2024, we committed to a restructuring plan resulting in a reduction of our global workforce. During the three months ended September 30, 2024, we incurred $5.2 million in severance and other termination benefits in conjunction with the foregoing restructuring plan, which was substantially complete by September 30, 2024. During the three and nine months ended September 30, 2023, we incurred $0.1 million and $0.8 million, respectively, in severance costs related to the reduction of our U.K. headcount, which was 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 12. 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 September 30, 2024 and December 31, 2023, our financial assets recorded at fair value on a recurring basis consist of cash equivalents and available-for-sale debt securities. 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.

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 September 30, 2024		
	Level 1	Level 2	Level 3
Available-for-sale debt securities	$ —	$ —	$ 1,386
Money market funds	95,485	—	—
Total assets	$ 95,485	$ —	$ 1,386

	As of December 31, 2023		
	Level 1	Level 2	Level 3
Available-for-sale debt securities	$ —	$ —	$ 1,159
Money market funds	208,970	—	—
Total assets	$ 208,970	$ —	$ 1,159

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 2023 Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on February 29, 2024 and our other filings with the SEC. 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 U.S. 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. Driven by a mission to unleash entrepreneurship, we deliver comprehensive legal, accounting and compliance products and expertise for small business owners through easy-to-use technology. We operate across all 50 states and in over 3,000 counties in the U.S., with over two decades of experience in simplifying the legal and compliance process for our customers and empowering entrepreneurs to make their dream a reality.

Updates to Strategic Execution Priorities

We are focused on three priority areas in the near term as we continue to execute on our strategic pillars of scaling the business, building the ecosystem and integrating experts. We believe that this focus will increase the predictability of our business, improve operational efficiencies and margins, and help us accelerate and sustain growth at scale.

Optimizing Our Subscription Business. We intend to prioritize our subscription products over our transaction products in order to focus on customer lifetime value and to help accelerate and sustain our subscription revenue over the long term. Our goal is for customers to grow their use of our platform as their businesses evolve and that, in turn, customers increase their cumulative spend with us over time. Our subscription revenue growth rate has decelerated in recent periods. As a result, we are evaluating ways to better reorient our products towards subscription offerings, including revisiting certain of our historical transaction offerings, such as our business license offering and our free business formation, as we have in the past experienced soft retention rates from our freemium customers. We are also continuing to optimize our product line-up with the goal of improving the quality of our subscriber base as we seek to increase customer lifetime value. This includes enhancing the value of our subscription products and increasing the price of our offerings to better reflect the value we believe we provide.

Reorienting Our Go-to-Market Strategy. We will be diversifying our customer acquisition strategy, which will include testing a mix of marketing channels with the goal of balancing our marketing investments across product categories versus our historical focus on business formations. We are also reinvesting in our consumer channel, improving on cross-selling, up-selling, bundling, and packaging to our businesses during their lifecycle, and revisiting our partnership strategy, which may include adding new partners into our ecosystem.

We are continuing to evaluate the ways we commercialize and deliver our tax and bookkeeping solutions. While we continue to serve our existing tax subscribers, we have paused offering our tax solutions to new subscribers. We expect this shift in our tax strategy to result in a subscription revenue headwind throughout the remainder of 2024 and into 2025.

Leveraging Artificial Intelligence to Deliver Expertise to Our Customers. We will further invest in artificial intelligence to offer additional legal services to our customers and to improve our customer experience. In particular, we aim to better leverage artificial intelligence into our expert solutions.

Key Factors Affecting Our Performance

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

- ***Macroeconomic factors.*** Adverse changes in general macroeconomic, political, regulatory and market conditions can negatively impact consumer spending patterns, the success of existing small businesses and the rate of new small business formations. We believe downward macroeconomic pressure contributed to the increase in corporate dissolutions and the deceleration in business formations that we experienced in the nine months ended September 30, 2024, which, in turn, negatively impacted our ability to upsell and retain our customers. While we continue to actively monitor the impacts of the evolving macroeconomic environment on all aspects of our business, we expect the macroeconomic environment to remain challenging throughout the remainder of 2024.

- ***Our share of business formations.*** In the three and nine months ended September 30, 2024 and 2023, business formations represented the largest share of our total transaction orders. Business formations act as an entrance point for many customers to the LegalZoom ecosystem, where they then often purchase a mix of transaction and subscription offerings alongside and after the initial formation transaction. As a result, our operating results depend on the continuation of new business formations in the U.S. and even more so, on our ability to increase our share of these formations.
- ***Ability to enhance customer lifetime value.*** Our future performance depends on our ability to integrate new products and services into our LegalZoom ecosystem and to increase recurring revenue through subscription offerings. As we continue to test new and existing products and services in order to optimize our core product line-up, including converting certain transaction offerings to subscription offerings and testing various commercialization strategies for those offerings, we have experienced and we expect to continue to experience increased volatility across our key business metrics. In addition, in an effort to enhance customer lifetime value, we intend to continue to invest in improving our customer experience, which includes investments in our educational content and improving our website and mobile experience.
- ***Ability to integrate experts.*** We believe that our expert offerings significantly expand our addressable market. We aim to increase the consumption of our higher-cost expert offerings through targeted cross-selling and promotion of our products, as well as by improving the platforms through which our customers and experts interact. The extent to which we are able to integrate experts into our LegalZoom ecosystem and increase the consumption of our expert offerings by new and existing customers will impact our future results of operations.

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. 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 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 nine months ended September 30, 2024 and 2023:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(in thousands)			
Number of business formations	113	137	386	468

We experienced an 18% decrease in business formation transactions during the three months ended September 30, 2024 compared to the three months ended September 30, 2023 due to a combination of a challenging macroeconomic environment and a reduction in customer acquisition marketing spend. For the nine months ended September 30, 2024, we experienced an 18% year-over-year decrease in business formation transactions, primarily driven by a challenging macroeconomic environment and the exit of certain partner channel relationships in the third quarter of 2023. Overall U.S. business formations declined by 9% and 5%, respectively, during the three and nine months ended September 30, 2024, compared to the three and nine months ended September 30, 2023 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 revenue.

The below table sets forth the number of transactions for the three and nine months ended September 30, 2024 and 2023:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(in thousands)			
Number of transactions	255	237	883	828

We experienced an 8% and 7% increase in the number of transactions during the three and nine months ended September 30, 2024, respectively, compared to the three and nine months ended September 30, 2023. The increase in the number of transactions during both the three and nine months ended September 30, 2024 resulted primarily from the introduction of our beneficial ownership information report product in December 2023, and to a lesser extent an increase in other small business related transactions, including annual reports and corporate dissolutions. These increases were partially offset by the decreases in business formations discussed above.

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 that it indicates how much customers are spending on average on our platform per transaction.

The below table sets forth the average order value for the three and nine months ended September 30, 2024 and 2023:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Average order value	$ 227	$ 262	$ 218	$ 236

Average order value decreased 13% and 8% for the three and nine months ended September 30, 2024, respectively, compared to the three and nine months ended September 30, 2023. The decreases in average order value were primarily driven by a higher mix of lower priced small business related transactions, including beneficial ownership information reports, and a reduction in fees earned from third-party providers from leads generated for such providers through our online platform.

Number of subscription units

We define the number of subscription units in a given period as the number of 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 continue to innovate our product line-up, including by testing varying price points for our products and evaluating our commercialization strategy, 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 efforts 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 September 30, 2024 and 2023:

	As of September 30,	
	2024	**2023**
	(in thousands)	
Number of subscription units	1,717	1,568

We achieved 10% growth in subscription units from September 30, 2023 to September 30, 2024, primarily driven by an increase in forms and e-signature and accounting solutions subscriptions resulting from bundling of these products into certain business formation offerings, as well as an increase in virtual mail subscriptions and commercializing our business licenses product as a subscription. This growth in subscription units as of September 30, 2024 was partially offset by a decline in registered agent and compliance subscriptions driven by the exit of certain channel partner relationships in the third quarter of 2023.

On a sequential basis, the number of subscription units as of September 30, 2024 increased 7% from 1,609 thousand units as of June 30, 2024.

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 September 30, 2024 and 2023:

	As of September 30,	
	2024	**2023**
Average revenue per subscription unit	$ 264	$ 267

ARPU declined 1% as of September 30, 2024 compared to September 30, 2023 driven primarily by pricing changes to our compliance related subscriptions and virtual mail subscription. ARPU as of September 30, 2024 decreased 3% sequentially compared to June 30, 2024.

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, our tax solution, 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 prior 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 September 30, 2024 was approximately 64%.

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. 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 Components of our Results of Operations

Revenue

We generate revenue from the sources identified below. Beginning in the fourth quarter of 2023, we no longer present partner revenue on a standalone basis and partner revenue is now included within transaction and subscription revenue. This change had no impact on total revenue. Prior period disclosures and amounts have been conformed to the current period presentation.

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. Tax preparation services are recognized at the point in time when the customer's tax return is filed and accepted by the applicable government authority. We also earn fees from third-party providers from leads generated to such providers through our online legal platform.

Subscription revenue—Subscription revenue is generated primarily from subscriptions to our registered agent, compliance packages, attorney advice, legal forms, tax and accounting, virtual mail and e-signature services, and software-as-a-service, or SaaS, accounting solution subscriptions and 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.

See the section titled "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates—Revenue Recognition*" in our 2023 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, including the cost of credentialed professionals for tax, and payroll services, and related benefits, including stock-based compensation, and 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.

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 and subscription 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 past, and any such future acquisitions could have a similar effect. 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 social media 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.

Technology and development

Technology and development expenses consist primarily of personnel costs and related benefits, including stock-based compensation for technology and development personnel, 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.

We expect our technology and development expenses to remain relatively consistent as a percentage of our revenue for the foreseeable future, 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 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 expense

Interest expense consists primarily of amortization of debt issuance costs related to our Amended and Restated Credit and Guaranty Agreement, or 2021 Revolving Facility.

We expect interest expense 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.

Interest income

Interest income consists primarily of interest income generated from our investment in money market funds.

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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(in thousands)			
Revenue	$ 168,599	$ 167,274	$ 520,175	$ 502,064
Cost of revenue(1)(2)	54,715	59,213	186,708	183,356
Gross profit	113,884	108,061	333,467	318,708
Operating expenses:				
Sales and marketing(1)(2)	46,287	51,071	160,170	164,746
Technology and development(1)(2)	23,179	21,491	72,934	61,074
General and administrative(1)(2)	28,149	25,243	77,893	78,683
Total operating expenses	97,615	97,805	310,997	304,503
Income from operations	16,269	10,256	22,470	14,205
Interest expense	(72)	(68)	(245)	(239)
Interest income	1,345	2,691	6,547	6,596
Other income (expense), net	1,741	(882)	1,845	436
Income before income taxes	19,283	11,997	30,617	20,998
Provision for income taxes	8,232	4,463	13,508	14,427
Net income	$ 11,051	$ 7,534	$ 17,109	$ 6,571

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(in thousands)			
Cost of revenue	$ 1,165	$ 1,115	$ 4,505	$ 3,094
Sales and marketing	1,864	1,623	5,349	4,602
Technology and development	6,179	4,706	18,407	13,901
General and administrative	6,507	8,138	21,225	29,408
Total stock-based compensation expense	$ 15,715	$ 15,582	$ 49,486	$ 51,005

For additional information regarding stock-based compensation, refer to Note 8 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 September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(in thousands)			
Cost of revenue	$ 4,828	$ 3,307	$ 13,913	$ 8,940
Sales and marketing	960	1,400	2,648	4,011
Technology and development	2,150	1,168	5,468	2,867
General and administrative	1,257	780	3,262	2,243
Total depreciation and amortization expense	$ 9,195	$ 6,655	$ 25,291	$ 18,061

Comparison of the Three Months Ended September 30, 2024 and 2023

Revenue

	Three Months Ended September 30,			
	2024	2023	$ change	% change
	(in thousands, except percentages)			
Revenue by type[1]				
Transaction	$ 57,879	$ 61,967	$ (4,088)	(7 %)
Subscription	110,720	105,307	5,413	5 %
Total revenue	$ 168,599	$ 167,274	$ 1,325	1 %

(1) Beginning in the fourth quarter of 2023, we no longer present partner revenue on a standalone basis and partner revenue is now included within transaction and subscription revenue. This change had no impact on total revenue. Prior period disclosures and amounts have been conformed to the current period presentation.

The increase in total revenue for the three months ended September 30, 2024 was primarily driven by an increase in subscription revenue. Subscription revenue was 66% and 63% of total revenue for the three months ended September 30, 2024 and 2023, respectively, and transaction revenue was 34% and 37% of total revenue for the three months ended September 30, 2024 and 2023, respectively.

Transaction revenue declined 7% year-over-year for the three months ended September 30, 2024 primarily due to an 18% decline in business formations, partially offset by the introduction of our beneficial ownership information report product.

Subscription revenue increased 5% year-over-year for the three months ended September 30, 2024 primarily due to our compliance related subscriptions and legal advisory subscriptions, partially offset by the pausing of new customer acquisition for our tax offering and the exit of certain channel partner relationships.

Cost of revenue

	Three Months Ended September 30,			
	2024	2023	$ change	% change
	(in thousands, except percentages)			
Cost of revenue	$ 54,715	$ 59,213	$ (4,498)	(8 %)

Cost of revenue for the three months ended September 30, 2024 decreased by $4.5 million mainly due to a $5.2 million reduction in filing fees and a $1.5 million decrease in payroll and related benefits, partially offset by a $1.5 million increase in depreciation and amortization expense. The decrease in filing fees was primarily driven by the decrease in business formations during the three months ended September 30, 2024 compared to the same period in 2023.

Gross profit

	Three Months Ended September 30,			
	2024	2023	$ change	% change
	(in thousands, except percentages)			
Gross profit	$ 113,884	$ 108,061	$ 5,823	5 %

Gross profit for the three months ended September 30, 2024 increased by $5.8 million compared to three months ended September 30, 2023 due to a $1.3 million increase in revenue and a $4.5 million reduction in cost of revenue.

Sales and marketing

	Three Months Ended September 30,			
	2024	2023	$ change	% change
	(in thousands, except percentages)			
Sales and marketing	$ 46,287	$ 51,071	$ (4,784)	(9 %)

Sales and marketing expenses for the three months ended September 30, 2024 decreased by $4.8 million primarily due to a $4.0 million decrease in payroll and related benefits largely due to a reduction in sales and marketing headcount and a $1.5 million decrease in customer acquisition marketing spend. Customer acquisition marketing spend was $34.0 million and $35.4 million for the three months ended September 30, 2024 and 2023, respectively.

Technology and development

	Three Months Ended September 30,			
	2024	2023	$ change	% change
	(in thousands, except percentages)			
Technology and development	$ 23,179	$ 21,491	$ 1,688	8 %

Technology and development expenses for the three months ended September 30, 2024 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 September 30,			
	2024	2023	$ change	% change
	(in thousands, except percentages)			
General and administrative	$ 28,149	$ 25,243	$ 2,906	12 %

General and administrative expenses for the three months ended September 30, 2024 increased by $2.9 million mainly due to a $5.8 million increase in restructuring costs primarily related to the reduction of our U.S. headcount in August 2024, partially offset by a $1.6 million decrease in stock-based compensation expense and a $0.7 million decrease in consulting costs compared to the three months ended September 30, 2023.

Interest expense

	Three Months Ended September 30,			
	2024	2023	$ change	% change
	(in thousands, except percentages)			
Interest expense	$ (72)	$ (68)	$ (4)	6 %

Interest expense consists primarily of amortization of debt issuance costs related to our 2021 Revolving Facility.

Interest income

	Three Months Ended September 30,			
	2024	2023	$ change	% change
	(in thousands, except percentages)			
Interest income	$ 1,345	$ 2,691	$ (1,346)	(50 %)

The change in interest income was primarily due to interest income generated from our money market investments during the three months ended September 30, 2024.

Other income (expense), net

	Three Months Ended September 30,			
	2024	2023	$ change	% change
	(in thousands, except percentages)			
Other income (expense), net	$ 1,741	$ (882)	$ 2,623	297 %

The change in other (expense) income, net, between 2024 and 2023 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 income taxes

	Three Months Ended September 30,			
	2024	2023	$ change	% change
	(in thousands, except percentages)			
Provision for income taxes	$ 8,232	$ 4,463	$ 3,769	84 %
Effective tax rate	43 %	37 %		

There was a $3.8 million unfavorable change in the provision for income taxes for the three months ended September 30, 2024 compared to the three months ended September 30, 2023. The change was primarily due to an increase in pretax book income for the three months ended September 30, 2024.

Comparison of the Nine Months Ended September 30, 2024 and 2023

Revenue

	Nine Months Ended September 30,			
	2024	2023	$ change	% change
	(in thousands, except percentages)			
Revenue by type[(1)]				
Transaction	$ 192,733	$ 195,857	$ (3,124)	(2 %)
Subscription	327,442	306,207	$ 21,235	7 %
Total revenue	$ 520,175	$ 502,064	$ 18,111	4 %

(1) Beginning in the fourth quarter of 2023, we no longer present partner revenue on a standalone basis and partner revenue is now included within transaction and subscription revenue. This change had no impact on total revenue. Prior period disclosures and amounts have been conformed to the current period presentation.

The increase in total revenue for the nine months ended September 30, 2024 was primarily driven by an increase in subscription revenue. Subscription revenue was 63% and 61% of total revenue for the nine months ended September 30, 2024 and 2023, respectively, and transaction revenue was 37% and 39% of total revenue for the nine months ended September 30, 2024 and 2023, respectively.

Transaction revenue decreased 2% year-over-year for the nine months ended September 30, 2024 primarily due to an 18% decline in business formations and reduction in fees earned from third-party providers from leads generated from such providers through our online platform, partially offset by the introduction of our beneficial ownership information report product and an increase in other small business related transactions including annual reports and dissolutions.

Subscription revenue increased 7% year-over-year for the nine months ended September 30, 2024 primarily due to our compliance related subscriptions and legal advisory subscriptions, partially offset by the discontinuation of new customer acquisition for our tax offering and the exit of certain channel partner relationships.

Cost of revenue

	Nine Months Ended September 30,			
	2024	2023	$ change	% change
	(in thousands, except percentages)			
Cost of revenue	$ 186,708	$ 183,356	$ 3,352	2 %

Cost of revenue for the nine months ended September 30, 2024 increased by $3.4 million mainly due to a $5.0 million increase in depreciation and amortization expense, a $3.9 million increase in payroll and related benefits, and a $1.4 million increase in stock-based compensation expense, partially offset by a $3.9 million decrease in filing fees and $3.9 million decrease in third-party staffing fees. The decrease in filing fees was primarily driven by the decrease in business formations during the nine months ended September 30, 2024 compared to the same period in 2023.

Gross profit

	Nine Months Ended September 30,			
	2024	2023	$ change	% change
	(in thousands, except percentages)			
Gross profit	$ 333,467	$ 318,708	$ 14,759	5 %

The increase in gross profit was driven by an $18.1 million increase in revenue partially offset by a $3.4 million increase in cost of revenue.

Sales and marketing

	Nine Months Ended September 30,			
	2024	2023	$ change	% change
	(in thousands, except percentages)			
Sales and marketing	$ 160,170	$ 164,746	$ (4,576)	(3 %)

Sales and marketing expenses for the nine months ended September 30, 2024 decreased by $4.6 million primarily due to a $14.3 million reduction in payroll and related benefits due to a reduction in sales and marketing headcount, partially offset by a $9.4 million increase in customer acquisition marketing spend. Customer acquisition marketing spend was $121.7 million and $112.2 million for the nine months ended September 30, 2024 and 2023, respectively.

Technology and development

	Nine Months Ended September 30,			
	2024	2023	$ change	% change
	(in thousands, except percentages)			
Technology and development	$ 72,934	$ 61,074	$ 11,860	19 %

Technology and development expenses for the nine months ended September 30, 2024 increased by $11.9 million primarily due to an increase in payroll and related benefits largely due to increased technology and development headcount.

General and administrative

	Nine Months Ended September 30,			
	2024	2023	$ change	% change
	(in thousands, except percentages)			
General and administrative	$ 77,893	$ 78,683	$ (790)	(1 %)

General and administrative expenses for the nine months ended September 30, 2024 decreased by $0.8 million primarily due to a $8.2 million decrease in stock-based compensation expense, partially offset by a $5.9 million increase in restructuring costs, a $1.0 million increase in depreciation and amortization expense, and a $0.6 million increase in consulting costs compared to the nine months ended September 30, 2023.

Interest expense

	Nine Months Ended September 30,			
	2024	2023	$ change	% change
	(in thousands, except percentages)			
Interest expense	$ (245)	$ (239)	$ (6)	3 %

Interest expense consists primarily of amortization of debt issuance costs related to our 2021 Revolving Facility.

Interest income, net

	Nine Months Ended September 30,			
	2024	2023	$ change	% change
	(in thousands, except percentages)			
Interest income	$ 6,547	$ 6,596	$ (49)	(1 %)

The change in interest income, net, was primarily due to interest income generated from our money market investments during the nine months ended September 30, 2024.

Other income (expense), net

	Nine Months Ended September 30,			
	2024	2023	$ change	% change
	(in thousands, except percentages)			
Other income (expense), net	$ 1,845	$ 436	$ 1,409	323 %

The change in other (expense) income, net, between 2024 and 2023 was primarily due to changes in foreign currency movements related to our intercompany loans which were denominated in GBP.

Provision for income taxes

	Nine Months Ended September 30,			
	2024	2023	$ change	% change
	(in thousands, except percentages)			
Provision for income taxes	$ 13,508	$ 14,427	$ (919)	(6 %)
Effective tax rate	44 %	69 %		

There was a $0.9 million favorable change in the provision for income taxes for the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023. The change was primarily due to lower nondeductible stock-based compensation for the nine months ended September 30, 2024. This resulted in a lower effective tax rate.

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 September 30, 2024, our principal sources of liquidity were cash and cash equivalents of $112.5 million, which consisted of cash on deposit with banks and money market funds, of which approximately $2.1 million related to our foreign subsidiaries. Our cash and cash equivalents decreased by $113.2 million from December 31, 2023 to September 30, 2024, primarily as a result of stock repurchases and purchases of property and equipment, partially offset by cash provided by operating activities during the nine months ended September 30, 2024.

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 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 4 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

In August 2024, we committed to a restructuring plan resulting in a reduction of our global workforce. As of September 30, 2024, we incurred $5.2 million in severance and other termination benefits in conjunction with the foregoing restructuring plan, which was substantially complete by September 30, 2024.

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 unremitting 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.

In October 2023, our board of directors approved a new stock repurchase program, pursuant to which our management is authorized to repurchase up to $100.0 million of shares of our common stock from time to time. In May 2024, our board of directors approved a $75.0 million increase in the stock repurchase program, bringing the aggregate amount authorized to $175.0 million. In November 2024, our board of directors approved an additional $40.0 million increase in the stock repurchase program, bringing the aggregate amount authorized to $215.0 million. Prior to the increase in the stock repurchase authorization in November 2024, approximately $12.3 million remained available for future repurchases of our common stock under the stock repurchase program as of September 30, 2024. For additional information regarding our stock repurchase program, refer to Note 7 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 September 30, 2024, we had no borrowings outstanding and $150.0 million was 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 September 30, 2024, 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 on July 1, 2026.

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 not to exceed 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:

	Nine Months Ended September 30,	
	2024	2023
	(in thousands)	
Net cash provided by operating activities	$ 93,053	$ 101,814
Net cash used in investing activities	(28,989)	(23,182)
Net cash used in financing activities	(177,332)	(55,563)
Effect of exchange rate changes on cash and cash equivalents	26	(4)
Net (decrease) increase in cash and cash equivalents	$ (113,242)	$ 23,065

Net cash provided by operating activities

Our largest source of operating cash is cash collections from our customers for our transaction products 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 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 nine months ended September 30, 2024, cash provided by operating activities was $93.1 million resulting from net income of $17.1 million, adjusted for stock-based compensation and other non-cash expenses of $74.8 million and net cash flows provided by changes in operating assets and liabilities of $1.1 million. The $1.1 million of net cash flows provided from changes in our operating assets and liabilities resulted primarily from a $17.8 million increase in deferred revenue largely due to the growth of our subscription units which are predominantly billed in advance of our revenue recognition, partially offset by an $11.6 million unfavorable change in accounts payable, accrued expenses and other liabilities, including operating leases, and a $5.3 million increase in prepaid and other current assets.

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 nine months ended September 30, 2024, net cash used in investing activities was $29.0 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 restricted stock units, or 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 nine months ended September 30, 2024, net cash used in financing activities was $177.3 million, primarily resulting from $162.0 million in repurchases of our common stock under our stock repurchase program and a $17.2 million settlement of minimum statutory tax withholding upon vesting of RSUs.

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:

Commitments

We have non-cancelable agreements with various vendors, which require us to pay $46.3 million over a four-year period, of which $28.7 million remains to be paid as of September 30, 2024.

Lease Obligations

At September 30, 2024, we had various non-cancelable operating leases for office space, which expire between April 2025 and February 2033. As of September 30, 2024, we had total minimum operating lease maturities of $9.0 million, $0.5 million of which mature within three months. See Note 8 of our consolidated financial statements included in our 2023 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 expense, interest income, provision for (benefit from) income taxes, depreciation and amortization, other expense (income), net, stock-based compensation, impairment of goodwill, long-lived and other assets, restructuring expenses, legal expenses, transaction-related expenses and certain non-recurring income and expenses from time to time. 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 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 or that we believe are not indicative of our underlying operating performance. 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. Some of these limitations include that the non-GAAP financial measure:

- may be calculated differently by other companies in our industry, limiting its usefulness as a comparative measure;
- does not reflect our capital expenditures, future requirements for capital expenditures or contractual commitments;
- excludes depreciation and amortization and, although these are non-cash expenses, the assets being depreciated may be replaced in the future;
- does not reflect changes in, or cash requirements for, our working capital needs;
- 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; and
- does not reflect certain other expenses that we do not consider representative of our underlying operating performance, but that reduce cash available to us.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
	(in thousands, except percentages)			
Reconciliation of net income to Adjusted EBITDA				
Net income	$ 11,051	$ 7,534	$ 17,109	$ 6,571
Interest expense	72	68	245	239
Interest income	(1,345)	(2,691)	(6,547)	(6,596)
Provision for income taxes	8,232	4,463	13,508	14,427
Depreciation and amortization	9,195	6,655	25,291	18,061
Other (income) expense, net	(1,741)	882	(1,845)	(436)
Stock-based compensation	15,715	15,582	49,486	51,005
Restructuring costs(1)	5,917	68	6,663	803
Certain non-recurring expenses(2)	—	1,179	—	1,179
Adjusted EBITDA	$ 47,096	$ 33,740	$ 103,910	$ 85,253
Net income margin	7 %	5 %	3 %	1 %
Adjusted EBITDA margin	28 %	20%	20 %	17%

(1) For 2024, restructuring expenses related to the reduction of our U.S. headcount. For 2023, restructuring expenses related to the reduction of our U.K. headcount, which was substantially complete by December 31, 2023.

(2) For 2023, certain non-recurring expenses included costs incurred in conjunction with the secondary offering of 16,100,000 shares of our common stock by a selling stockholder during the three months ended September 30, 2023.

Adjusted EBITDA increased from $33.7 million for the three months ended September 30, 2023 to $47.1 million for the three months ended September 30, 2024. The increase of $13.4 million resulted primarily from an increase in revenue of $1.3 million, a $6.1 million reduction in cost of revenue, excluding non-cash items, and a decrease in operating expenses, excluding non-cash and non-recurring items, of $6.0 million.

Adjusted EBITDA increased from $85.3 million for the nine months ended September 30, 2023 to $103.9 million for the nine months ended September 30, 2024. The increase of $18.7 million resulted primarily from an increase in revenue of $18.1 million and a $3.0 million reduction in cost of revenue, excluding non-cash items, partially offset by an increase in operating expenses, excluding non-cash and non-recurring items, of $2.5 million.

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:

	Nine Months Ended September 30,	
	2024	**2023**
	(in thousands)	
Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow		
Net cash provided by operating activities	$ 93,053	$ 101,814
Purchase of property and equipment	(28,989)	(23,220)
Free cash flow	$ 64,064	$ 78,594

We experienced a decrease in our free cash flow from $78.6 million for the nine months ended September 30, 2023 to $64.1 million for the nine months ended September 30, 2024, primarily due to a $8.8 million decrease in net cash provided by operating activities. The decrease in net cash provided by operating activities resulted from a $13.1 million unfavorable change in our operating assets and liabilities, partially offset by a $4.4 million increase in net income after adjusting for stock-based compensation and other non-cash items. Free cash flow was also impacted by a $5.8 million increase in capital expenditures for the purchase of property and equipment, including capitalization of internal-use software.

Critical Accounting Estimates

During the three and nine months ended September 30, 2024, 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 2023 Annual Report on Form 10-K.

Recent Accounting Pronouncements

Refer to Note 2 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 September 30, 2024 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 September 30, 2024 and December 31, 2023, we had cash and cash equivalents of $112.5 million and $225.7 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 September 30, 2024 and December 31, 2023 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, expenses, and intercompany balances 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 transaction gain of $1.6 million and $1.3 million, respectively, during the three and nine months ended September 30, 2024. A 10% adverse change in foreign exchange rates on foreign-denominated accounts for the nine months ended September 30, 2024, including intercompany balances, would have resulted in a $0.3 million decrease in our reported foreign currency gain for the nine months ended September 30, 2024. 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

To date, we do not believe that inflation has had a material effect on our business, financial condition, results of operations or future prospects. However, 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, our principal executive officer and principal financial officer concluded that, as of September 30, 2024, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in internal control over financial reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act during the three months ended September 30, 2024 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 business primarily depends on business formations

The majority of our transaction revenue is generated by providing business formation services to guide our customers through the transition from being aspiring business owners to launching their entities. In 2023 and the first nine months of 2024, 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, a public health pandemic or epidemic, increased competition, regulatory obstacles, changes in law (including changes in tax laws and regulations), changes in the business environment from inflation, interest rates, government assistance, increased compliance or operating costs (including wage and benefit pressures) and dissatisfaction with our services. Declines in the overall number of U.S. 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 our customers expanding their use of our platform, including converting our transactional customers to subscribers and our subscribers renewing their subscriptions with us

For the past few years, a significant amount of our revenue has been derived from our subscriptions for small businesses and individuals. In 2023 and the first nine months of 2024, approximately 62% and 63%, 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, including our revenue growth rate, it is important that we convert transactional customers into subscribers, retain our existing subscribers and that our existing subscribers expand the use of our platform. However, subscriptions may be terminated at any time, and 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. As a result, we cannot accurately predict subscription renewal rates or the number of existing or new customers that will subscribe to our subscription services, including whether customers will continue to subscribe at the same rate as they have historically. During the nine months ended September 30, 2024, we experienced a deceleration in our subscription revenue growth rate. If our subscription revenue growth rate does not improve or if we are unable 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, including our subscription revenue growth rate, falls below the expectations of the public market, securities analysts or investors, the price of our common stock could also be harmed.

Failure to effectively manage our growth could adversely impact our business

In the past, we have experienced significant growth in both operations and headcount, which placed increased demands on our management team and our administrative, operational and financial infrastructure. Our management team, including our new Chief Executive Officer, has developed a strategy to continue growing our business. 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. These risks may be accentuated by the restructuring plan we announced in August 2024 and substantially completed in September 2024, which resulted in a 15% reduction in our headcount. Failure to effectively manage our growth could result in declines in service quality or customer satisfaction, increased costs, difficulties or delays in introducing new products or services 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 ability to achieve our growth strategy also impacts our ability to forecast our future operating results. If the assumptions regarding the growth of 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 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:

- our ability to successfully implement our updated strategic execution priorities;
- the number of business formations and the rate of failure of small businesses;
- the level of demand for our services;
- our ability to attract new customers and retain existing customers, including 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 any new or discontinued products, pricing changes, and our testing of new product line-ups;
- the mix of subscriptions and transactional products sold during a period;
- 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;
- changes in stock-based compensation;
- the application of new or changing financial accounting standards or practices;
- 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 staffing and other practices and the functionality of 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 war in Ukraine and the Israel-Hamas conflict.

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 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 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. As of September 30, 2024, we had an accumulated deficit of $1,079.9 million.

We will need to generate and sustain increased revenue levels in future periods in order to maintain or increase our level of profitability. 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 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 products and 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 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 the success of our business and our ability to attract and retain customers. The failure or perceived failure of these independent attorneys and accountants to satisfy customer expectations could impede our ability to attract and retain customers.

In addition, we intend to continue to add new products and services and enhance our existing products and services, both of which will require us to devote significant resources before we know whether such products or services will be successful. For instance, in August 2023 we launched LZ Books, a simple online accounting solution, and in November 2023, we launched a new business license offering. The success of any new products or services or enhancements to existing products or services depends on several factors, including timely completion, competitive pricing, adequate quality testing, introduction, integration with existing products and services, and market awareness and acceptance. We have in the past invested resources and introduced new products and 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. 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. In addition, we have introduced and intend to continue to introduce significant changes to our platform. We have also developed and introduced 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. There is no assurance that our past or future investments in any changes or developments to our platform will provide us with the benefits we expect.

In addition, because our platform is available over the internet and 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 than LegalZoom, 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 current or 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 and our failure to effectively compete successfully could materially and adversely affect our business, results of operations, financial condition and future prospects

We operate in a very competitive industry. We face intense competition from law firms, 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. 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 services market or business formations, including law firms that may elect to pursue the online legal 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 also 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, some U.S. state and federal agencies have increased their offerings to our target customers or otherwise made their offerings more attractive to our target customers, including through free and easy-to-use business formation services or other document filing portals. To the extent U.S. states and federal agencies continue to increase or enhance their offerings to our target customers, it could have a significant adverse effect on our business, financial condition or results of operations. We also compete in the tax advisory and preparation services business with several companies, many of which are larger and more experienced. 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. Some of our competitors and potential competitors are larger and have greater name recognition, longer operating histories, more established customer relationships, larger budgets, and significantly greater resources than we do. As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, or customer requirements. 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 have a material adverse effect on 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, false and misleading advertising 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 or security issues, 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.

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 expect to 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. For instance, in September 2023 we announced the launch of Doc Assist, a document summarization product that uses generative AI to help small businesses review documents. This technology, which is a new and emerging technology that is in its early stages of commercialization, 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, including Doc Assist, 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. 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/or related ethics issues 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 solutions.

If our marketing efforts are unsuccessful, our business, results of operations, financial condition and future prospects may be adversely affected

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

Our ability to maintain or increase customer traffic to our websites from internet search engines is not entirely within our control. 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. Internet search engines periodically revise their algorithms, methodologies and displays or incorporate AI into their platforms in ways that we cannot predict. Such changes have adversely affected, and may continue to adversely affect, the placement of our search result page ranking, which could reduce traffic to our websites. In addition, we can purchase paid listings, which are displayed if particular words or terms are included in a customer's internet search. 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. To the extent competition for paid listings increases or if paid listings prohibit the use of particular words or terms, we have in the past, and may again in the future, 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 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 both our domestic and international 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 our business. These adverse impacts can include attrition beyond the intended reduction in workforce, delays in the development of new products or services due to gaps in knowledge transfer and new employee ramp up time, an increased risk of litigation, the distraction of employees, and reduced employee morale, any of which could also adversely affect our reputation as an employer and make it more difficult for us to hire new employees in the future.

Further, in July 2024, we announced the appointment of Jeff Stibel as our new Chief Executive Officer. If we are unable to manage this leadership transition successfully, our ability to operate our business effectively may be impaired.

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 grow and maintain our legal plan subscription business, other assisted legal solutions or tax offerings and, as a result, 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 website development, credit card and banking services, productivity tools and business insurance, among others. Our sales and our customers' user experience depend 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. 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. Terminations of partnership relationships, whether voluntary or involuntary, have in the past and could again in the future 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 or 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.

Our reliance on third party providers could adversely affect our business

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 our customers may seek other avenues for their business formation, tax or intellectual property needs.

We also utilize third parties in connection with the fulfillment and distribution of our services, including the independent attorneys in our legal plan network, the accountants and tax professionals through our subscription plans, and a third party to support our registered agent subscription services. We also outsource certain operational functions. As a result, we rely on third parties to ensure that our and our customers' needs are sufficiently met. While we select third party providers carefully, we have limited control over their actions. If these third party providers encounter difficulties, or if we have difficulty communicating with them, our business operations could be adversely affected. This reliance on third party providers also subjects us to risks arising from the loss of control over processes, and potentially, termination of these services by the third parties. A failure of our third party providers to perform services in a satisfactory manner may have a significant adverse effect on our business. In addition, our platform 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, defects, bugs or other vulnerabilities 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, 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 additional businesses, products or technologies. 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.

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. For example, we recently announced updated strategic execution priorities which we believe will increase the predictability of our business, improve operational efficiencies and margins, and help us accelerate and sustain growth at scale but which may result in short-term impacts to our business and financial results. 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, 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, financial condition and 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 and service disruptions, outages and other performance problems due to a variety of factors, including infrastructure maintenance, natural disasters, human or software errors, ransomware attacks, capacity constraints, denial or degradation of service, fraud, climate change and extreme weather-related events, terrorism, war, telecommunications and electrical failures, cyberattacks or other security-related incidents. 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 addition, dependence upon information systems (including automated systems) may further increase the risk that operational system flaws, personnel error or malfeasance (including of service providers upon which we rely), 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 or we otherwise experience a compromise in customer information, we may have obligations (under laws, contracts, privacy notices or other commitments) to notify relevant stakeholders (such as 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 or malfeasance, lockdown orders resulting from a public health pandemic or epidemic, 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 are susceptible to various legal claims, lawsuits, arbitration, regulatory action or other proceedings, including those related to the unauthorized practice of law, 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, wiretapping, consumer protection and product liability, unfair business practices, breach of contract and other matters. We have been and may in the future become subject to various claims which, if resolved adversely, could have a material adverse effect on our financial position, results of operations, or cash flows. 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 United Kingdom, or 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. For example, after a short introductory trial period, if any, subscribers can make a subscription commitment, with the upcoming 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, shortfalls in demand for our services or declines in new or renewed subscriptions in any one quarter have in the past had, and may again in the future have, a small impact on the revenue that we recognize for that quarter but 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 subscription unit, 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 implemented a new revenue recognition accounting software system and any challenges with the continued implementation of the system may impact our business and operations

We implemented a new revenue recognition module of our enterprise resource planning system in the first quarter of 2024. The continued implementation efforts of the revenue recognition accounting software 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 revenue accounting software program could materially impact our operations, cause operational difficulties or lead to errors within our financial reporting.

We have in the past identified material weaknesses in our internal control over financial reporting, and if we are unable to 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 of the Sarbanes-Oxley Act 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.

We have found material weaknesses in our internal control over financial reporting in the past and our prior material weakness related to our 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. Although we remediated our material weaknesses and management concluded that our internal control over financial reporting was effective as of December 31, 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. In addition, any future material weaknesses could result in the loss of 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 maintain effective control systems required of public companies could also restrict our future access to the capital markets.

The agreement governing our revolving credit 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 on July 2, 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.

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 for 20 years to offset future taxable income, if any, until such unused NOLs expire. Under the 2017 Tax Cuts and Jobs Act, or 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. In addition, under Section 382 of the Internal Revenue Code of 1986, as amended, 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 NOLs 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 Inflation Reduction Act of 2022, or the IRA, 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 tax laws, statutes, rules, regulations or ordinances could be enacted at any time. Further, existing tax laws, statutes, rules, regulations or ordinances could be interpreted differently, changed, modified, or repealed at any time. Any such enactment, interpretation, change, modification, or repeal could adversely affect us, possibly with retroactive effect. For example, the IRA imposes, among other rules, a 15% minimum tax on the book income of certain large corporations and a 1% excise tax on certain corporate stock repurchases. The imposition of the excise tax could increase the cost to us of making repurchases of our stock and cause us to reduce the number of our shares repurchased pursuant to our stock repurchase program. In addition, for certain research and experimental expenses incurred in taxable years beginning after December 31, 2021, the Tax Act requires the capitalization and amortization of such expenses over five years if incurred in the U.S. and fifteen years if incurred outside the U.S., rather than deducting such expenses currently. Although there have been legislative proposals to repeal or defer such requirement, there can be no assurance that such requirement will be repealed, deferred, or otherwise modified.

In addition, changes in the tax laws of foreign jurisdictions could arise as a result of the global implementation of the Inclusive Framework on Base Erosion and Profit Shifting and Pillar Two Model Rules, announced by The Organization for Economic Cooperation and Development (OECD). This change, or any other changes in foreign tax laws, if enacted, could increase our tax obligations in the countries where we do business or require us to change the manner in which we operate our business.

Changes in corporate tax rates, the realization of net deferred tax assets, the taxation of foreign earnings or any 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 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

Our business involves providing services that meet the legal and accounting needs of our customers and, as a result, we are 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, and 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 the corporate practice of law, or CPL.
- Regulation of legal document processing services and registered agent services varies among the jurisdictions in which we conduct business.
- Regulations regarding virtual mail, including those imposed by the U.S. Postal Service, are new and evolving, are generally untested in U.S. courts, and may be interpreted, applied, created or amended by both federal and state agencies in a manner that could harm our 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.

The scope of the state and federal laws and regulations to which we are subject 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 challenges to, changes in, or new interpretations of, such laws could require us to significantly change the ways we currently structure our business and services. For instance, in March 2024 the U.S. District Court for the Northern District of Alabama declared the Corporate Transparency Act, or the CTA, unconstitutional. While this ruling has since been appealed, the future of the CTA and its mandate to file beneficial ownership information with the Financial Crimes Enforcement Network, as well as our Beneficial Ownership Information Report, remains uncertain and could continue to remain uncertain during the pendency of the litigation. The laws and regulations to which we are subject 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 we 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 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 liability, inclusive of the costs and expenses that may be incurred in defending any such claims, that exceeds our 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 holding an interest of 10% or more in the issued share capital of a licensed ABS or the parent company of a licensed ABS. As our U.S. 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 of directors, 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 U.S. subsidiary’s licensed ABS status in the event any such contravention occurs. Any suspension or revocation of our U.S. 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 tax offerings and our intellectual property offerings are currently fulfilled by our or our subsidiaries' 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 and accountants 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 foreign 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 otherwise process information from and about our customers and others, which may include personal information and other data. As a result, aspects of our business are subject to laws, rules, regulations and other obligations (such as contracts and privacy notices) relating to privacy and the collection, use and security of personal information. In the United States, federal, state and local governments have enacted or introduced comprehensive data privacy laws and regulations, including the California Consumer Privacy Act of 2018, or CCPA. Other U.S. states, such as Virginia, Colorado, Connecticut, and Utah, have similarly enacted comprehensive privacy laws that impose certain obligations on covered businesses, including providing specific disclosures in privacy notices and affording residents with certain rights concerning their personal data. The exercise of these rights may impact our business and ability to provide our products and services. Outside the U.S., an increasing number of laws, regulations and industry standards govern data privacy and security. For example, we are also subject to the European Union's General Data Protection Regulation, or GDPR. In addition, we are 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 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 breaches, 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 obligations 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 obligations 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 information 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 (such as personal information) is actually or reasonably believed to be compromised, and additional regulations regarding the use, access, accuracy, and security of such data are possible. In the U.S., state laws provide for disparate data breach notification regimes. If our practices are deemed to be a violation of applicable data privacy or security obligations, 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 obligations, or any future obligations 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 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 otherwise process data and information about our customers, employees and others, some of which may be sensitive, personal and/or confidential. Any actual or perceived breach of our security measures or those of our service providers could adversely affect our business, operations and future prospects. Circumvention of our security measures or those of our service providers may result in access, misappropriation, deletion, alteration, publication, modification or other compromise of our 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 information systems, cloud-based computing services, and those of our current and any future 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,” sophisticated nation-state and nation-state supported actors now engage in similar attacks (including advanced persistent threat intrusions). Other threats include malicious code (such as viruses, worms and ransomware), social engineering attacks (such as through deep fakes and phishing attacks, cyber extortion, personnel error or malfeasance (including theft and misuse), malware, denial-of-service attacks, supply-chain attacks, software bugs, information systems malfunctions and failures, data loss, and other similar threats are evolving. In particular, severe ransomware attacks are becoming increasingly prevalent and can lead to significant interruptions in our operations, ability to provide our products and services, loss of sensitive data and income, reputational harm, and diversion of funds. 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 personnel to work remotely or virtually indefinitely unless the nature of the personnel’s job requires their in-office presence. This policy, which results in a predominantly remote workforce, poses additional data security risks to our information technology systems and data, as more of our personnel 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, or confidential, proprietary or otherwise sensitive 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 service providers to operate critical business systems to process sensitive information in a variety of contexts, including, without limitation, providers of cloud-based infrastructure, employee email, customer service 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, which could lead to a breach in our information.

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. While we may be entitled to damages if our service providers fail to satisfy their privacy or security-related obligations to us, any award or other recovery may be insufficient to cover our damages.

We implement and maintain security measures designed to protect against security breaches and other compromise. However, there can be no assurance these measures will be effective. For example, we take steps designed to detect, mitigate and remediate vulnerabilities in our information systems (such as our hardware and software, including of third parties upon which we rely). We may not, however, detect and remediate all such vulnerabilities on a timely and effective basis.

We may expend significant resources or modify our business activities to try to protect against security incidents. Certain data privacy and security obligations may require us to implement and maintain specific security measures or industry-standard or reasonable security measures designed to protect our information technology systems and information.

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 (such as unauthorized access to customer information) for which we may have been or were legally required to notify individuals, customers, regulators, the media and others. Data breach notification disclosures are costly, time consuming, 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 CCPA. 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.

In addition to experiencing a security incident, third parties may gather, collect, or infer sensitive information about us from public sources, data brokers, or other means that reveals competitively sensitive details about our organization and could be used to undermine our competitive advantage or market position.

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, sales and marketing, deceptive trade practices, 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, and changes to or new interpretations of existing laws may result in greater oversight of our industry, 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, any of which could have a negative effect on our business, results of operations, financial condition and future prospects.

Changes in state-imposed requirements by one or more states may also significantly increase the costs of providing 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;
- our ability to successfully implement our updated strategic execution priorities;
- the operating and financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- an 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, incidents of terrorism, a public health pandemic or epidemic, bank failures, or responses to these events; and
- general macroeconomic, political, regulatory and market conditions, such as those related to recessionary fears, inflation and the 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. At September 30, 2024, holders of approximately 65 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 has in the past and may in the future 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 other affiliates may prevent new investors from influencing significant corporate decisions

Based upon shares of our common stock outstanding as of September 30, 2024, our executive officers, directors and other affiliates, in the aggregate, own shares representing approximately 21% of our outstanding common stock. If our executive officers, directors and affiliates acted together, they may be able to significantly influence 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, FPLZ I, L.P., FPLZ II, L.P. and their affiliated investment entities, or FP, may have influence over management and control over matters requiring stockholder approval, including the annual election of directors and significant corporate transactions. Pursuant to a director nomination agreement previously entered into with FP, 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 FP continuously beneficially owns shares of common stock representing at least 50% of the shares of common stock owned by FP immediately following our IPO and (ii) one individual for so long as FP continuously beneficially owns shares of common stock representing at least 25%, but less than 50% of the shares of common stock, owned by FP immediately following the completion of our IPO.

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. 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 an 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.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities

Purchases of Equity Securities

In October 2023, our board of directors approved a new stock repurchase program authorizing us to repurchase up to $100.0 million of our common stock, with no fixed expiration. In May 2024, our board of directors approved a $75.0 million increase in the stock repurchase program, bringing the aggregate amount authorized to $175.0 million. In November 2024, our board of directors approved an additional $40.0 million increase in the stock repurchase program, bringing the aggregate amount authorized to $215.0 million. Stock repurchases under this program may be made through any manner, including in open market transactions (including pursuant to Rule 10b5-1 plans), through accelerated stock repurchase agreements, or in privately negotiated transactions with third parties, and in such amounts as management deems appropriate. 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 September 30, 2024 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
July 1, 2024 through July 31, 2024	504,169	$ 8.07	504,169	$ 32,951,049
August 1, 2024 through August 31, 2024	2,031,861	$ 6.25	2,031,861	$ 20,254,159
September 1, 2024 through September 30, 2024	1,232,696	$ 6.46	1,232,696	$ 12,286,935
Total	3,768,726	$ 6.56	3,768,726	

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None

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 3.1 to the Company's Current Report on Form 8-K filed with the SEC on November 6, 2024).
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 nine months ended September 30, 2024 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.

LegalZoom.Com, Inc.

Date: November 6, 2024

By: /s/ Jeffrey Stibel
Jeffrey Stibel
Chief Executive Officer
(Principal Executive Officer)

Date: November 6, 2024

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

Exhibit 31.1

CERTIFICATIONS

I, Jeffrey Stibel, 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: November 6, 2024

By: /s/ Jeffrey Stibel

Jeffrey Stibel
Chief Executive Officer

Exhibit 31.2

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: November 6, 2024

By: /s/ Noel Watson

Noel Watson
Chief Financial Officer

Exhibit 32.1

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), Jeffrey Stibel, 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 September 30, 2024, 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 6th day of November 2024.

LegalZoom.com, Inc.

Date: November 6, 2024

By: /s/ Jeffrey Stibel

Jeffrey Stibel
Chief Executive Officer
(Principal Executive Officer)

Date: November 6, 2024

By: /s/ Noel Watson

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.