

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, 2022

OR

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

For the transition period from to

Commission file number 001-35618

LegalZoom.com, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

95-4752856

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

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

(Address of Principal Executive Offices, including Zip code)

(323) 962-8600

Registrant's telephone number, including area code

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

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

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

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

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

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

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

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

As of November 4, 2022, the registrant had outstanding 192,649,274 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, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act. 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 such risk factors may be amended, updated or superseded from time to time by 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 in this Quarterly Report on Form 10-Q and have filed as exhibits to this Quarterly Report on Form 10-Q with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained in this Quarterly Report on Form 10-Q, whether as a result of any new information, future events or otherwise.

Summary of Risk Factors

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

- Our recent growth may not be indicative of our future growth and, if we continue to grow, we may not be able to manage our growth effectively.
- Our future quarterly results of operations may fluctuate significantly due to a wide range of factors, which makes our future results difficult to predict.
- We have a history of net losses, we anticipate increasing expenses in the future, and we may not be able to maintain profitability.
- If we fail to provide high-quality services, customer care and customer experience and add new services that meet our customers' expectations, we may not be able to attract and retain customers.
- If we do not continue to innovate and provide a platform that is useful to our customers, we may not remain competitive, and our results of operations could suffer.
- Our business primarily depends on business formations and fluctuations or declines in the number of business formations may adversely affect our business.
- Our subscription services are highly dependent upon our transaction products, and if we are unable to maintain or attract subscribers, or convert our transactional customers to subscribers, our business, results of operations, financial condition and future prospects may be adversely affected.
- Our business depends substantially on our subscribers renewing their subscriptions with us and expanding their use of our platform, but we cannot accurately predict renewal or expansion rates.

- Our business depends on our ability to drive additional purchases and cross-sell to paying customers and our business, results of operations, financial condition or future prospects may be harmed if we are not successful.
- The legal solutions market is highly competitive and our failure to compete successfully could materially and adversely affect our business, results of operations, financial condition and future prospects.
- Our business depends on our brand and reputation, which could be adversely affected by numerous factors.
- If our marketing efforts are unsuccessful, our ability to attract new customers or retain existing customers may be adversely affected, which may adversely affect our business, results of operations, financial condition and future prospects.
- We depend on top talent, including our senior management team, to grow and operate our business, and if we are unable to hire, retain or motivate our employees, including as a result of our remote-first workforce policy, we may not be able to grow or operate effectively, which may adversely affect our business and future prospects.
- Our business and success depend in part on our strategic relationships with third parties, including our partner ecosystem, and our business would be harmed if we fail to maintain or expand these relationships.
- We have identified material weaknesses in our internal control over financial reporting and, if we fail to remediate these material weaknesses, we may not be able to accurately or timely report our financial condition or results of operations, which may adversely affect investor confidence and the price of our common stock.
- Our business and services subject us to complex and evolving U.S. and foreign laws and regulations regarding the unauthorized practice of law, legal document processing, legal plans, tax preparation and other related matters, and any failure or perceived failure by us to comply with applicable laws and regulations may subject us to regulatory inquiries, claims, suits, and prosecutions, as well as changes in our service offerings, potential liabilities, or additional costs.

Note Regarding Third-Party Information

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

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Part I

Item 1. Condensed Consolidated Financial Statements (Unaudited)

LegalZoom.com, Inc.

Unaudited Condensed Consolidated Balance Sheets
(In thousands, except par values)

	September 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 211,812	\$ 239,297
Accounts receivable, net	13,578	10,635
Prepaid expenses and other current assets	16,624	16,589
Current assets held for sale	22,722	—
Total current assets	264,736	266,521
Property and equipment, net	29,012	47,013
Goodwill	63,184	59,910
Intangible assets, net	13,552	16,031
Operating lease right-of-use assets	11,796	—
Deferred income taxes	27,473	27,653
Available-for-sale debt securities	1,183	1,122
Other assets	12,877	12,765
Total assets	\$ 423,813	\$ 431,015
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 25,805	\$ 31,788
Accrued expenses and other current liabilities	59,916	50,817
Deferred revenue	168,705	146,364
Operating lease liabilities	2,054	—
Total current liabilities	256,480	228,969
Operating lease liabilities, non-current	9,568	—
Deferred revenue	1,013	1,554
Other liabilities	2,926	2,941
Total liabilities	269,987	233,464
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 100,000 shares authorized at September 30, 2022, none issued or outstanding at September 30, 2022 and December 31, 2021	—	—
Common stock, \$0.001 par value; 1,000,000 shares authorized; 193,848 shares and 198,084 shares issued and outstanding at September 30, 2022 and December 31, 2021, respectively	193	198
Additional paid-in capital	1,015,068	947,160
Accumulated deficit	(865,933)	(748,012)
Accumulated other comprehensive income (loss)	4,498	(1,795)
Total stockholders' equity	153,826	197,551
Total liabilities and stockholders' equity	\$ 423,813	\$ 431,015

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,	
	2022	2021	2022	2021
Revenue	\$ 154,416	\$ 147,879	\$ 472,492	\$ 432,943
Cost of revenue	50,050	47,267	163,383	141,086
Gross profit	104,366	100,612	309,109	291,857
Operating expenses:				
Sales and marketing	66,145	72,572	215,964	209,364
Technology and development	17,457	26,865	51,613	65,790
General and administrative	30,103	28,192	88,560	75,202
Impairment of long-lived and other assets	237	493	237	872
Total operating expenses	113,942	128,122	356,374	351,228
Loss from operations	(9,576)	(27,510)	(47,265)	(59,371)
Interest income (expense), net	535	(9,957)	511	(27,923)
Other (expense) income, net	(2,536)	(368)	(6,102)	300
Loss on debt extinguishment	—	(7,748)	—	(7,748)
Loss before income taxes	(11,577)	(45,583)	(52,856)	(94,742)
(Benefit from) provision for income taxes	(1,469)	(5,908)	1,040	(6,849)
Net loss	\$ (10,108)	\$ (39,675)	\$ (53,896)	\$ (87,893)
Net loss per share attributable to common stockholders—basic and diluted:	(0.05)	(0.20)	(0.27)	(0.59)
Weighted-average shares used to compute net loss per share attributable to common stockholders—basic and diluted:	194,906	196,351	196,984	149,207

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

LegalZoom.com, Inc.

Unaudited Condensed Consolidated Statements of Comprehensive Loss
(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Net loss	\$ (10,108)	\$ (39,675)	\$ (53,896)	\$ (87,893)
Other comprehensive income, net of tax:				
Change in foreign currency translation adjustments	2,644	1,452	6,255	1,101
Change in available-for-sale debt securities due to unrealized gains	—	72	38	44
Change in unrealized gain on cash flow hedges:				
Unrealized (loss) gain on interest rate cap and swaps	—	(903)	—	1,448
Reclassification of prior hedge effectiveness and losses from interest rate cap and swaps to net loss	—	—	—	2,315
Reclassification to net loss upon discontinuance of interest rate swaps and prior hedge effectiveness	—	7,295	—	7,295
Total net changes in cash flow hedges	—	6,392	—	11,058
Total other comprehensive income	2,644	7,916	6,293	12,203
Total comprehensive loss	\$ (7,464)	\$ (31,759)	\$ (47,603)	\$ (75,690)

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

LegalZoom.com, Inc.

Unaudited Condensed Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)
(In thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	Shares	Amount				
Balance at December 31, 2021	198,084	\$ 198	\$ 947,160	\$ (748,012)	\$ (1,795)	\$ 197,551
Issuance of common stock upon exercise of stock options	202	—	225	—	—	225
Issuance of common stock upon vesting of restricted stock awards	392	—	—	—	—	—
Stock-based compensation	—	—	22,346	—	—	22,346
Repurchased common stock	(79)	—	—	(1,102)	—	(1,102)
Other comprehensive income	—	—	—	—	1,440	1,440
Net loss	—	—	—	(30,609)	—	(30,609)
Balance at March 31, 2022	198,599	\$ 198	\$ 969,731	\$ (779,723)	\$ (355)	\$ 189,851
Issuance of common stock upon exercise of stock options and ESPP	174	—	1,262	—	—	1,262
Issuance of common stock upon vesting of restricted stock awards	268	1	(1)	—	—	—
Shares surrendered for settlement of minimum statutory tax withholdings	(1)	—	(30)	—	—	(30)
Stock-based compensation	—	—	23,596	—	—	23,596
Repurchased common stock	(2,961)	(3)	—	(38,050)	—	(38,053)
Other comprehensive income	—	—	—	—	2,209	2,209
Net loss	—	—	—	(13,179)	—	(13,179)
Balance at June 30, 2022	196,079	\$ 196	\$ 994,558	\$ (830,952)	\$ 1,854	\$ 165,656
Issuance of common stock upon exercise of stock options and ESPP	46	—	195	—	—	195
Issuance of common stock upon vesting of restricted stock awards	350	—	—	—	—	—
Shares surrendered for settlement of minimum statutory tax withholdings	(2)	—	(11)	—	—	(11)
Stock-based compensation	—	—	20,326	—	—	20,326
Repurchased common stock	(2,625)	(3)	—	(24,873)	—	(24,876)
Other comprehensive income	—	—	—	—	2,644	2,644
Net loss	—	—	—	(10,108)	—	(10,108)
Balance at September 30, 2022	193,848	\$ 193	\$ 1,015,068	\$ (865,933)	\$ 4,498	\$ 153,826

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

LegalZoom.com, Inc.

Unaudited Condensed Consolidated Statements of Redeemable Convertible Preferred Stock and Stockholders' Equity (Deficit)(continued)
(In thousands)

	Series A Redeemable Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' (Deficit) Equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2020	23,081	\$ 70,906	125,037	\$ 126	\$ 102,417	\$ (639,348)	\$ (13,827)	\$ (550,632)
Issuance of common stock upon exercise of stock options	—	—	244	—	151	—	—	151
Issuance of common stock upon vesting of restricted stock awards	—	—	27	—	—	—	—	—
Shares surrendered for settlement of minimum statutory tax withholdings	—	—	(9)	—	(100)	—	—	(100)
Stock-based compensation	—	—	—	—	3,799	—	—	3,799
Net issuance and repayments of full recourse notes receivable	—	—	—	—	44	—	—	44
Special dividends	—	—	—	—	(23)	—	—	(23)
Other comprehensive income	—	—	—	—	—	—	2,964	2,964
Net loss	—	—	—	—	—	(9,823)	—	(9,823)
Balance at March 31, 2021	23,081	\$ 70,906	125,299	\$ 126	\$ 106,288	\$ (649,171)	\$ (10,863)	\$ (553,620)
Issuance of common stock upon exercise of stock options	—	—	213	—	136	—	—	136
Issuance of common stock upon vesting of restricted stock awards	—	—	32	—	—	—	—	—
Shares surrendered for settlement of minimum statutory tax withholdings	—	—	(6)	—	(109)	—	—	(109)
Stock-based compensation	—	—	—	—	44,810	—	—	44,810
Special dividends	—	—	—	—	(16)	—	—	(16)
Other comprehensive income	—	—	—	—	—	—	1,323	1,323
Net loss	—	—	—	—	—	(38,395)	—	(38,395)
Balance at June 30, 2021	23,081	\$ 70,906	125,538	\$ 126	\$ 151,109	\$ (687,566)	\$ (9,540)	\$ (545,871)
Issuance of common stock upon exercise of stock options	—	—	82	—	93	—	—	93
Issuance of common stock upon vesting of restricted stock awards	—	—	112	—	—	—	—	—
Shares surrendered for settlement of minimum statutory tax withholdings	—	—	(49)	—	(1,669)	—	—	(1,669)
Stock-based compensation	—	—	—	—	38,150	—	—	38,150
Conversion of redeemable convertible preferred stock to common stock in connection with initial public offering	(23,081)	(70,906)	46,162	46	70,859	—	—	70,905
Issuance of common stock in connection with initial public offering, net of underwriting discounts and commissions	—	—	21,989	22	581,811	—	—	581,833
Private placement of common stock, net of underwriting discounts and commissions	—	—	3,214	3	85,047	—	—	85,050
Deferred offering costs	—	—	—	—	(5,636)	—	—	(5,636)
Special dividends	—	—	—	—	(52)	—	—	(52)
Other comprehensive income	—	—	—	—	—	—	7,916	7,916
Net loss	—	—	—	—	—	(39,675)	—	(39,675)
Balance at September 30, 2021	—	\$ —	197,048	\$ 197	\$ 919,712	\$ (727,241)	\$ (1,624)	\$ 191,044

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,	
	2022	2021
Cash flows from operating activities		
Net loss	\$ (53,896)	\$ (87,893)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	16,187	11,604
Amortization of right-of-use assets	1,290	—
Amortization of debt issuance costs	170	1,335
Amortization of prior hedge effectiveness	—	3,095
Impairment of other equity securities	170	—
Impairment of long-lived assets	237	872
Loss on debt extinguishment	—	7,955
Discontinuance of interest rate swaps and write-off of prior hedge effectiveness	—	8,688
Stock-based compensation	64,490	86,725
Deferred income taxes	166	(7,218)
Change in fair value of financial guarantee	—	(150)
Change in fair value of derivative instruments	—	392
Change in fair value of other equity security	—	(1,031)
Change in fair value of contingent consideration	(150)	—
Unrealized foreign exchange loss	5,958	1,002
Other	(1)	4
Changes in operating assets and liabilities, net of effects of business combination:		
Accounts receivable	(2,902)	(3,040)
Prepaid expenses and other current assets	(560)	(5,562)
Other assets	(864)	(2,283)
Accounts payable	(6,417)	14,635
Accrued expenses and other liabilities	7,606	7,416
Operating lease liabilities	(1,599)	—
Income tax payable	22	(368)
Deferred revenue	22,108	23,978
Net cash provided by operating activities	<u>52,015</u>	<u>60,156</u>
Cash flows from investing activities		
Acquisition, net of cash acquired	(2,532)	—
Proceeds from acquisition working capital adjustment	307	—
Purchase of property and equipment	(16,441)	(8,500)
Payment upon extinguishment of interest rate swaps	—	(3,283)
Net cash used in investing activities	<u>(18,666)</u>	<u>(11,783)</u>
Cash flows from financing activities		
Repayment of capital lease obligations	—	(24)
Payment of debt issuance costs	—	(767)
Repayment of 2018 Term Loan	—	(524,300)
Repayment of hybrid debt	—	(1,332)

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

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

	Nine Months Ended September 30,	
	2022	2021
Payment upon extinguishment of hybrid debt	—	(9,774)
Payment of contingent consideration	(600)	(1,049)
Payment of special dividends	—	(115)
Proceeds from issuance of common stock in initial public offering, net of underwriting discounts and commissions	—	581,833
Proceeds from private placement, net of underwriting discounts and commissions	—	85,050
Payment of stock issuance costs	—	(5,634)
Repurchase of common stock	(61,736)	(1,462)
Shares surrendered for settlement of minimum statutory tax withholding	(41)	—
Proceeds from issuance of stock under employee stock plans	1,682	412
Net cash (used in) provided by financing activities	<u>(60,695)</u>	<u>122,838</u>
Effect of exchange rate changes on cash and cash equivalents	(139)	23
Net (decrease) increase in cash and cash equivalents, and restricted cash equivalents	(27,485)	171,234
Cash and cash equivalents, and restricted cash equivalents, at beginning of the period	239,297	139,470
Cash and cash equivalents at end of the period	<u>\$ 211,812</u>	<u>\$ 310,704</u>
Non-cash investing and financing activities:		
Conversion of Series A redeemable convertible preferred stock into common stock in connection with initial public offering	—	70,906
Purchase of property and equipment included in accounts payable and accrued expenses and other current liabilities	1,124	486
Change in fair value of hedged interest rate swaps and interest rate cap	—	(5,817)
Capitalized stock-based compensation	1,779	35
Right-of-use assets under operating leases	13,165	—
Contingent consideration for acquired business	850	—

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

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, referred to herein as “we,” “us,” or “our,” has its executive headquarters in Glendale, California, its operational headquarters in Austin, Texas and additional locations in Frisco and San Antonio, Texas, Beaverton, Oregon and London in the United Kingdom, or U.K. We are a provider of services that meet the legal needs of small businesses and consumers. Our position at business inception allows us to become a trusted business advisor, supporting the evolving needs of a new business across its lifecycle. Along with formation, our offerings include ongoing compliance and tax advice and filings, 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.

Initial Public Offering

The registration statement related to our initial public offering, or IPO, was declared effective on June 29, 2021, and our common stock began trading on the Nasdaq Global Select Market on June 30, 2021. On July 2, 2021, we completed our IPO for the sale of 19,121,000 shares of our common stock, \$0.001 par value per share at an offering price of \$28.00 per share, for proceeds of \$505.9 million, net of underwriting discounts and commissions. In addition, we sold 2,868,150 shares of our common stock for net proceeds of \$75.9 million pursuant to the full exercise of the underwriter’s option to purchase additional shares in connection with the IPO. In addition, on July 2, 2021, we sold 3,214,285 shares of our common stock in a private placement with an existing related party stockholder for proceeds of \$85.0 million, net of underwriting discounts and commissions. We raised aggregate proceeds of \$666.9 million from our IPO and private placement after deducting underwriting discounts and commissions. We incurred stock issuance costs of \$5.6 million. Proceeds raised from our IPO were used to repay the full outstanding balance of \$521.6 million on our prior 2018 term loan, or 2018 Term Loan.

Upon the completion of our IPO, 23,081,080 outstanding shares of redeemable convertible preferred stock with a carrying value of \$70.9 million converted into 46,162,160 shares of common stock. Following the completion of the IPO, we have one class of authorized and outstanding common stock. Immediately upon the completion of our IPO, we filed an Amended and Restated Certificate of Incorporation, which authorized a total of 1,000,000,000 shares of common stock, \$0.001 par value per share and 100,000,000 shares of preferred stock, par value \$0.001 per share.

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, 2021. The December 31, 2021 unaudited condensed consolidated balance sheet was derived from our audited consolidated financial statements as of that date. Our unaudited condensed consolidated financial statements include, in the opinion of management, all adjustments, consisting of normal and recurring items, necessary for the fair statement of the unaudited condensed consolidated financial statements. All intercompany balances and transactions have been eliminated in consolidation. There have been no significant changes in accounting policies during the three and nine months ended September 30, 2022 from those disclosed in the annual consolidated financial statements for the year ended December 31, 2021 and the related notes, except as noted below in the *Recently Adopted Accounting Pronouncements*.

The operating results for the three and nine months ended September 30, 2022 are not necessarily indicative of the results expected for the full year ending December 31, 2022.

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, among other things, revenue recognition, sales allowances and credit reserves, available-for-sale debt securities, valuation of long-lived

assets and goodwill, income taxes, commitments and contingencies, valuation of assets and liabilities acquired in business combinations and stock-based compensation. Actual results could differ materially from those estimates.

The extent to which COVID-19 continues to impact our business and financial results will depend on numerous continuously evolving factors including, but not limited to, the magnitude and duration of COVID-19, including resurgences; the impact on our employees; the extent to which it will impact worldwide macroeconomic conditions, including interest rates, employment rates, and health insurance coverage; the speed and degree of the anticipated recovery, as well as variability in such recovery across different geographies, industries, and markets; and governmental and business reactions to the pandemic. We assessed certain accounting matters that generally require consideration of forecasted financial information in context with the information reasonably available to us and the unknown future impacts of COVID-19 as of September 30, 2022 and through the date of the issuance of these unaudited condensed consolidated financial statements. The accounting matters assessed included, but were not limited to, the carrying value of goodwill and other long-lived assets. While there was not a material impact as a result of COVID-19 on our unaudited condensed consolidated financial statements at and for the three and nine months ended September 30, 2022, our future assessment of the magnitude and duration of COVID-19, as well as other factors, could result in material impacts to our consolidated financial statements in future reporting periods.

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, 2021. On January 1, 2022, we adopted Financial Accounting Standards Board, or FASB, Accounting Standard Codification No. 842, *Leases*, or ASC 842, with application to leases that existed as of the adoption date.

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 each of the three and nine months ended September 30, 2022 and 2021. Our property and equipment located outside of the U.S. was less than 1% of our consolidated property and equipment as of September 30, 2022 and December 31, 2021.

Foreign Currency

The British Pound Sterling is the functional currency for our foreign subsidiaries. The financial statements of these foreign subsidiaries are translated to U.S. Dollars using period-end rates of exchange for assets and liabilities, historical rates of exchange for equity, and average rates of exchange for the period for revenue and expenses. Translation gains and losses are recorded in accumulated other comprehensive income (loss) as a component of our unaudited consolidated statements of redeemable convertible preferred stock and stockholders' equity (deficit). We recognized foreign currency transaction losses of \$2.6 million and \$1.4 million during the three months ended September 30, 2022 and 2021, respectively, and losses of \$6.0 million and \$1.0 million during the nine months ended September 30, 2022 and 2021, respectively.

Concentrations of Credit Risk

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

Due to a large and diverse customer base, no individual customer represented more than 1% of total revenue for the three and nine months ended September 30, 2022 and 2021. At September 30, 2022 and December 31, 2021, there were no customers with an outstanding balance of 10% or more of our accounts receivable balance.

Held for sale

We classify long-lived assets or asset groups we plan to sell as held for sale on our consolidated balance sheets only after certain criteria have been met including: (i) management has the authority and commits to a plan to sell the asset, (ii) the asset is available for immediate sale in its present condition, (iii) an active program to locate a buyer and the plan to sell the asset have been initiated, (iv) the sale of the asset is probable within 12 months, (v) the asset is being actively marketed at a reasonable sales price relative to its current fair value, and (vi) it is unlikely that the plan

to sell will be withdrawn or that significant changes to the plan will be made. We record assets or asset groups held for sale at the lower of their carrying value or fair value less costs to sell.

Leases

Financial information related to periods prior to adoption will be as originally reported under ASC No. 840, *Leases*. On January 1, 2022, we recorded operating lease right-of-use, or ROU assets of \$5.7 million and operating lease liabilities of \$5.9 million. The difference between the leased assets and lease liabilities represents the existing deferred rent liabilities balance at adoption, resulting from historical straight-line recognition of operating leases, which was reclassified upon adoption to reduce the measurement of the leased assets. The adoption of the standard did not have a material impact on our stockholders' equity, results of operations, or cash flows.

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

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

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

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

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

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

Revenue Recognition

We derive our revenue from the following sources:

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

Subscription revenue—Subscription revenue is generated primarily from subscriptions to our registered agent services, compliance packages, attorney advice, and legal forms services, in addition to software-as-a-service, or SaaS, subscriptions in the U.K. We generally recognize revenue from our subscriptions ratably over the subscription term. Subscription terms generally range from thirty days to one year. Subscription revenue includes the value 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 and tax service providers.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Transaction	\$ 57,550	\$ 66,873	\$ 188,166	\$ 201,621
Subscription	91,397	73,317	267,069	208,194
Partner	5,469	7,689	17,257	23,128
Total revenue	\$ 154,416	\$ 147,879	\$ 472,492	\$ 432,943

Recent Accounting Pronouncements

Under the *Jumpstart our Business Startups Act*, or JOBS Act, we currently meet the definition of an emerging growth company. We have elected to use the extended transition period for complying with new or revised accounting standards pursuant to Section 107(b) of the JOBS Act. As a result, our financial statements may not be comparable to the financial statements of issuers who are required to comply with the effective date for new or revised accounting standards that are applicable to public companies. To the extent that we no longer qualify as an emerging growth company, which we expect to occur on December 31, 2022, we will be required to adopt certain accounting pronouncements earlier than the adoption dates disclosed below which are for non-public business entities.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. We adopted this guidance effective January 1, 2022. Refer to Note 8 for further details.

In March 2020, the FASB issued Accounting Standards Update, or ASU No. 2020-04, *Reference Rate Reform (Topic 848) — Facilitation of the Effects of Reference Rate Reform on Financial Reporting*, or Topic 848, that provides optional relief to applying reference rate reform to contracts, hedging relationships, and other transactions that reference the LIBOR, which has been discontinued as of the end of 2021. Also, in January 2021, the FASB issued ASU No. 2021-01, *Reference Rate Reform (Topic 848) — Scope*, to clarify that cash flow hedges are eligible for certain optional expedients and exceptions for the application of subsequent assessment methods to assume perfect effectiveness as previously presented in ASU 2020-04. Topic 848 is effective immediately and may be applied through December 31, 2022. We have adopted the provisions of Topic 848 and the adoption did not have a material impact to our unaudited condensed consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments—Credit losses: Measurement of Credit Losses on Financial Instruments (Topic 326)*, or Topic 326, which revises the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in more timely recognition of losses on financial instruments, including, but not limited to, available-for-sale debt securities and accounts receivable. Based upon our current filing status, Topic 326 is effective for our annual reporting period beginning on January 1, 2023. We are currently evaluating the impact of the adoption of Topic 326 on our consolidated financial statements.

In August 2020, the FASB issued ASU No. 2020-06, *Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*. This standard eliminates the beneficial conversion and cash conversion accounting models for convertible instruments. It also amends the accounting for certain contracts in an entity's own equity that are currently accounted for as derivatives because of specific settlement provisions. In addition, the new guidance modifies how particular convertible instruments and certain contracts that may be settled in cash or shares impact the diluted earnings per share computation. Based upon our current filing status, the amendments are effective for the reporting period beginning on January 1, 2023, including interim periods within those fiscal years. We are currently evaluating the impact of the adoption on our consolidated financial statements.

In June 2022, the FASB issued ASU No. 2022-03, *Fair Value Measurement—Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions (Topic 820)*, or Topic 820, which clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. Based upon our current filing status, the amendments are effective for fiscal years, beginning after December 15, 2023. 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 allowance consisted of the following (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Beginning balance	\$ 4,508	\$ 5,114	\$ 4,060	\$ 5,256
Add: amounts recognized as a reduction of revenue	2,099	1,884	6,292	4,911
Add: bad debt expense recognized in general and administrative expense	2	146	142	177
Less: write-offs, net of recoveries	(2,190)	(2,415)	(6,075)	(5,615)
Ending balance	<u>\$ 4,419</u>	<u>\$ 4,729</u>	<u>\$ 4,419</u>	<u>\$ 4,729</u>

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

Prepaid Expenses and Other Current Assets

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

	September 30, 2022	December 31, 2021
Prepaid expenses	\$ 11,377	\$ 10,968
Deferred cost of revenue	2,029	1,819
Capitalized cloud computing development costs	1,016	867
Other current assets	2,202	2,935
Total prepaid expenses and other current assets	<u>\$ 16,624</u>	<u>\$ 16,589</u>

Accrued Expenses and Other Current Liabilities

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

	September 30, 2022	December 31, 2021
Accrued payroll and related expenses	\$ 21,574	\$ 21,858
Accrued vendor payables	16,557	18,239
Accrued advertising	8,543	426
Sales allowances	4,287	4,862
Accrued sales, use and business taxes	3,745	2,678
Other	5,210	2,754
Total accrued expenses and other current liabilities	<u>\$ 59,916</u>	<u>\$ 50,817</u>

Depreciation and Amortization

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cost of revenue	\$ 1,966	\$ 1,403	\$ 6,220	\$ 4,479
Sales and marketing	1,754	1,401	5,508	4,199
Technology and development	694	538	2,112	1,709
General and administrative	840	433	2,347	1,217
Total depreciation and amortization expense	<u>\$ 5,254</u>	<u>\$ 3,775</u>	<u>\$ 16,187</u>	<u>\$ 11,604</u>

Deferred revenue

Deferred revenue as of September 30, 2022 and December 31, 2021 was \$169.7 million and \$147.9 million, respectively. Revenue recognized in the three months ended September 30, 2022 and 2021 that was included in deferred revenue as of June 30, 2022 and 2021 was \$81.7 million and \$79.4 million, respectively. Revenue recognized in the nine months ended September 30, 2022 and 2021, that was included in deferred revenue as of December 31, 2021 and 2020 was \$146.5 million and \$121.9 million, respectively.

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

Note 4. Assets Held for Sale

During the three months 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, 2022, the total carrying value of the assets held for sale were \$22.7 million. The estimated fair value less costs to sell the assets held for sale exceed their carrying values and hence no impairment was necessary during the quarter ended September 30, 2022.

Note 5. Acquisitions

United Agent Services Corp

In August 2022, we acquired certain assets and liabilities of United Agency Services Corp, or UA Services, a company providing registered agent services and corporate compliance solutions for \$3.5 million, of which \$2.6 million was paid in cash on the acquisition date and up to \$1.0 million will be paid in cash within twelve months, based upon the achievement of certain earnout metrics. Furthermore, up to \$0.4 million is contingent on certain service conditions being met. This amount has been excluded from the purchase consideration and will be recorded as future compensation expense.

The acquisition was completed in order to build a more durable registered agency platform and has been accounted for as a business combination. The preliminary purchase price was allocated to the assets acquired and liabilities assumed. Goodwill of \$3.3 million arising from the acquisition consisted largely of the assembled workforce and synergies expected from combining our operations. The acquired goodwill is expected to be deductible for tax purposes. There were no intangible assets acquired in connection with this acquisition. Acquisition costs related to this transaction of approximately \$0.4 million were expensed as incurred and are included in general and administrative expenses on the accompanying unaudited condensed consolidated statements of operations.

The revenue and earnings of the acquired business have been included in our results of operations since the acquisition date and are not material to the consolidated financial results. Pro forma revenues and results of operations for this acquisition have not been presented as the impact on our unaudited condensed consolidated financial statements is immaterial.

The purchase accounting for this acquisition remains incomplete with respect to acquired contingent liabilities as management continues to gather and evaluate information about circumstances that existed as of the acquisition

date. Measurement period adjustments will be recognized in the reporting period in which the adjustment amounts are determined within 12 months from the acquisition date.

Earth Class Mail, Inc.

In November 2021, we acquired all of the outstanding equity interests in Earth Class Mail, Inc., or Earth Class Mail, a company that provides virtual mailbox solutions for small businesses, in line with our strategy to scale our existing business through building in-house adjacencies. The total cash paid was \$61.2 million, inclusive of a working capital adjustment of \$0.3 million. Intangible assets acquired from Earth Class Mail included customer relationships of \$10.6 million, developed technology of \$5.4 million and trade names of \$0.2 million, which are being amortized over their estimated useful life using the straight-line method. Goodwill of \$48.6 million arising from the acquisition consisted largely of the assembled workforce and synergies expected from combining Earth Class Mail into our operations.

There were no material measurement period adjustments recorded to the fair values of assets acquired and liabilities assumed during the period and the purchase price is considered final.

Note 6. Long-term Debt

On July 2, 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.

The interest rate applicable to the 2021 Revolving Facility is, at our option, 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% or (iii) one month LIBOR (subject to a 1.00% floor), plus 1.00% or LIBOR (subject to a 0.00% floor) plus 2.00%. 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 LIBOR loans. There is no scheduled amortization under the 2021 Revolving Facility. Any principal amount outstanding is due and payable in full at maturity, five years from the closing date of the 2021 Revolving Facility. Obligations under the 2021 Revolving Facility are guaranteed by our existing and future direct and indirect material wholly-owned domestic subsidiaries, subject to certain exceptions.

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

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

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

Note 7. Derivative Financial Instruments

Interest Rate Swaps

At June 30, 2021, we held interest rate swap contracts with an aggregate notional amount of \$395.0 million, which were designated as cash flow hedges. In July 2021, upon the full repayment of our 2018 Term Loan, our interest rate swaps were discontinued as cash flow hedges and were subsequently extinguished.

Financial Guarantee

In June 2021, our financial guarantee of the personal loan of a former executive officer was waived prior to our IPO. The associated restricted cash equivalent of \$25.0 million became unrestricted and was reclassified to cash and cash equivalents. The change in fair value of our financial guarantee was not material to our unaudited condensed consolidated financial statements for the nine months ended September 30, 2021.

Note 8. Commitments and Contingencies

Operating Leases

We conduct operations from certain leased facilities in various locations. At September 30, 2022, we had various non-cancelable operating leases for office space and equipment, which expire between November 30, 2022 and November 30, 2029, and which represent the non-cancelable periods of the leases and include extension options that we determined are reasonably certain to be exercised. We exclude extension options that are not reasonably certain to be exercised from our lease terms. Our lease payments consist primarily of fixed rental payments for the right to use the underlying leased assets over the lease terms. We often receive customary incentives from our landlords, such as reimbursements for tenant improvements and rent abatement periods, which effectively reduce the total lease payments owed for these leases.

Operating lease ROU assets and liabilities on our unaudited condensed consolidated balance sheets represent the present value of our remaining lease payments over the remaining lease terms. We do not allocate lease payments to non-lease components. We use our incremental borrowing rate to calculate the present value of our lease payments, as the implicit rates in our leases are not readily determinable.

At September 30, 2022, the maturities of our remaining operating lease liabilities were as follows (in thousands, except years and percentages):

	September 30, 2022
2022 (remaining three months)	\$ 500
2023	2,743
2024	2,364
2025	1,813
2026	1,729
Thereafter	4,117
Total minimum lease payments	13,266
Less: Effects of discounting	1,644
Present value of lease liabilities under ASC 842	11,622
Less: current portion	2,054
Long-term lease liabilities	\$ 9,568
Weighted-average remaining lease term	5.8 years
Weighted-average incremental borrowing rate	4.35 %

The component of our lease costs included in our unaudited condensed consolidated statements of operations for the three and nine months ended September 30, 2022, were as follows (in thousands):

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Lease cost		
Operating lease cost	\$ 650	\$ 1,589
Other variable cost	27	203
Net lease cost	\$ 677	\$ 1,792

Total future aggregate minimum lease payments calculated under ASC 840 as of December 31, 2021 were as follows (in thousands):

	Operating Leases
2022	\$ 2,372
2023	1,101
2024	867
2025	550
2026	505
Thereafter	1,033
Total minimum lease payments under ASC 840	\$ 6,428

Advertising, Media and Other Commitments

We use a variety of media to advertise our services, including search engine marketing, television and radio. At September 30, 2022, we had non-cancelable minimum advertising and media commitments for future advertising spots of \$8.8 million, substantially all of which will be paid over a two-year period. We also have non-cancelable agreements with various vendors, which require us to pay \$54.5 million over a 5-year period, of which \$41.1 million remains to be paid as of September 30, 2022.

Legal Proceedings

We received a demand letter dated April 20, 2020 from service partner Dun & Bradstreet alleging that Dun & Bradstreet had overpaid us for services. The letter alleges these overpayments occurred between 2015 and 2019, amounted to \$5.6 million, and were caused by overreporting by us. The parties have continued to negotiate, and no claim has been filed. We deny and will continue to deny all of the allegations and claims asserted by Dun & Bradstreet, including, but not limited to, any allegation that Dun & Bradstreet has suffered any harm or damages. We believe we have meritorious defenses to the claims and will vigorously defend any action. While there is at least a reasonable possibility that a loss may be incurred, we have not recorded any loss or accrual in the accompanying unaudited condensed consolidated financial statements at September 30, 2022 for this matter as a loss is not probable.

In July 2021, Legalinc Corporate Services Inc., our wholly owned subsidiary, or Legalinc, received a citation from the Wyoming Secretary of State of Wyoming regarding Legalinc's registered agent services in Wyoming. The citation alleges that Legalinc failed to comply with Wyoming's Registered Offices and Agents Act when carrying out its registered agent business in the state, and assessed an initial \$4.1 million penalty and revoked Legalinc's status as a commercial registered agent in Wyoming. Legalinc has requested a hearing to review the matter and is engaging in negotiations with the State. We are unable to predict the ultimate outcome of this matter. While there is at least a reasonable possibility that a loss may be incurred, we have not recorded any loss or accrual in the accompanying unaudited condensed consolidated financial statements at September 30, 2022 for this matter as a loss is not probable. If this matter is not resolved in our favor, the losses arising from the result of a final ruling, hearing or settlements may have a material adverse effect on our results of operations, cash flows and financial condition.

From time to time, we may become subject to legal proceedings, claims and litigation arising in the ordinary course of business. Other than those described above and in our Annual Report on Form 10-K, 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 9. Stockholders' Equity

Share Repurchase Program

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

During the nine months ended September 30, 2022, using the Rule 10b5-1 plans, we repurchased a total of 5,664,151 shares of our common stock through open market purchases at an average per share price of \$11.30 for a total repurchase of \$64.0 million including broker commission. The repurchases were recorded as a reduction to stockholders' equity. We have made additional repurchases under the share repurchase program subsequent to September 30, 2022 of 1,204,387 shares of our common stock through open market purchases, amounting to \$10.3 million, as of the date of filing.

Note 10. 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,	
	2022	2021	2022	2021
Cost of revenue	\$ 597	\$ 764	\$ 2,205	\$ 1,585
Sales and marketing	2,972	6,356	9,633	11,706
Technology and development	3,857	14,446	12,303	32,591
General and administrative	12,352	16,499	40,349	41,079
Total stock-based compensation expense	19,778	38,065	64,490	86,961
Amount capitalized to internal-use software	549	9	1,779	35
Total stock-based compensation expense	\$ 20,327	\$ 38,074	\$ 66,269	\$ 86,996

The change in compensation expense is due to certain award modifications in connection with our IPO in 2021 as described in "Modification of Stock-Based Compensation Awards" below.

Stock Options

Stock option activity for the nine months ended September 30, 2022 is as follows (in thousands, except weighted-average exercise price and remaining contract life):

	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2021	15,274	\$ 10.47	8.0	\$ 97,094
Granted	2,766	14.15		
Exercised	(305)	1.61		
Cancelled/forfeited	(33)	6.36		
Outstanding at September 30, 2022	17,702	\$ 11.21	7.6	\$ 4,377
Vested and expected to vest at September 30, 2022	17,698	\$ 11.21	7.6	\$ 4,375
Exercisable at September 30, 2022	9,553	\$ 9.76	7.1	\$ 4,311

There was a realized tax benefit of \$2.4 million for tax deductions from stock options exercised during the nine months ended September 30, 2022, and \$2.3 million and \$7.7 million for tax deductions from stock options exercised during the three and nine months ended September 30, 2021, respectively. At September 30, 2022, total unrecognized stock-based compensation expense is \$40.9 million, which is expected to be recognized over a weighted-average period of 2.4 years.

The weighted-average assumptions that were used to calculate the grant-date fair value of our stock option grants using the Black-Scholes option pricing model were as follows:

	Nine Months Ended September 30,
	2021
Expected life (years)	5.4
Risk-free interest rate	1.0 %
Expected volatility	45.6 %
Expected dividend yield	—

In June 2021, we granted 970,970 options to our executive officers that were contingent on the effectiveness of the registration statement of our IPO, which occurred on June 29, 2021, or IPO Options. Because the number of options and exercise price of the IPO Options were based on the IPO price to the public, the grant date for accounting purposes was not established until the effective date of our IPO. As the IPO was a performance condition, no stock-based compensation expense was recognized until our IPO registration statement was declared effective. The related stock-based compensation expense for the three and nine months ended September 30, 2022 was \$1.2 million and \$4.1 million, respectively, and the remaining stock-based compensation of \$4.2 million will be recognized over a weighted-average requisite service period of approximately 2.9 years.

Restricted Stock Units

Restricted stock unit, or RSU, activity for the nine months ended September 30, 2022 is as follows (in thousands, except weighted-average grant-date fair value):

	Number of Units	Weighted-Average Grant-Date Fair Value
Unvested at December 31, 2021	3,577	\$ 21.52
Granted	6,982	13.39
Vested	(1,010)	21.05
Cancelled/forfeited	(900)	14.50
Unvested at September 30, 2022	8,649	\$ 15.75

RSUs are measured based on the fair market value of the underlying stock on the date of grant and recognized as expense over the employee's requisite service period. At September 30, 2022, total remaining stock-based compensation expense for unvested RSU awards is \$103.6 million, which is expected to be recognized over a weighted-average period of 3.2 years.

In June 2021, we granted 388,389 RSUs with a value of \$10.9 million to our executive officers that were contingent on the effectiveness of the registration statement filed in connection with our IPO, or IPO RSUs. As the IPO was a performance condition, no stock-based compensation expense was recognized until our IPO registration statement was declared effective by the SEC. Stock-based compensation expense for the three and nine months ended September 30, 2022 was \$1.1 million and \$3.9 million, respectively, and the remaining stock-based compensation of \$3.9 million is expected to be recognized over a weighted-average period of 2.9 years.

In 2021, we granted 1,338,028 liquidity event RSUs, or LERSUs, to various employees, which only vest upon the achievement of up to four-years of service and upon the consummation of a change-in-control, or CIC event, which included an IPO. If the recipient's employment terminates for any reason other than for cause, the recipient shall retain any service-vested LERSUs until 6.5 years from the date of grant or the earlier settlement of the service-vested LERSUs upon the consummation of a CIC event. For the LERSUs, recognition of expense does not occur until the consummation of a CIC event and expense is recognized thereafter for any remaining service period, as such events are not considered probable of occurring prior to the CIC event for stock-based compensation purposes.

Upon the effective date of our IPO registration statement on June 29, 2021, we commenced recognition of stock-based compensation for all LERSUs as the CIC performance event and service conditions for vested RSUs were satisfied. Stock-based compensation expense for these LERSUs of \$3.6 million and \$14.0 million was recognized on a graded vesting basis during the three and nine months ended September 30, 2022, respectively.

In March 2021, we granted 30,434 RSUs to various employees where the RSUs will vest depending upon the appreciation of the fair value of our common stock compared to the grant-date fair value of our common stock and upon the consummation of a CIC event, which included an IPO, merger, acquisition, or sale of more than 50% of our assets, or performance RSUs. The performance RSUs vest on a linear basis, starting at 0% with a fair value of our common stock equal to \$19.64 per share and ending at 100% upon reaching a fair value of our common stock of \$29.46 per share. The performance options were subsequently modified in June 2021, prior to the effective date of our IPO registration statement, as discussed below.

Stock-option and RSU activity described above, including total stock-based compensation expense recognized and total remaining stock-based compensation expense, is inclusive of awards modified during the period as discussed below.

Modification of Stock-Based Compensation Awards

In June 2021, we modified the vesting conditions of certain stock options and RSUs as described below.

We modified the vesting conditions of 4,477,218 outstanding performance options of certain executive officers and employees so that the performance options do not fully vest immediately upon an IPO. Instead, subject to and contingent upon the effective date of an IPO, the modified performance options for executive officers will vest monthly over a four-year period from their original vesting commencement dates and the modified performance options of certain employees will vest 25% on the first anniversary from the vesting commencement date, and then vest monthly over the remaining service period, subject to continued employment through the applicable vesting dates. As the modified awards contain a performance condition that is satisfied upon an IPO, we remeasured the fair value of the performance options on the date of modification. This new fair value of \$76.6 million will be recognized as stock-based compensation expense using the graded vesting method, with an immediate stock-based compensation expense recognized on the effective date of our IPO registration statement for the modified performance options for which the service vesting condition was satisfied on or prior to the effective date of the IPO registration statement, and all remaining compensation expense will be recognized thereafter over the remaining service period. We recognized stock-based compensation of \$4.3 million and \$17.0 million during the three and nine months ended September 30, 2022, respectively.

We modified the vesting conditions of 3,627,936 outstanding 2019 performance options of an executive officer so that in the event of an IPO, the modified 2019 performance options will vest monthly over a four-year period from the original vesting commencement date in 2019, subject to continued employment of the executive officer, rather than vesting upon the fourth anniversary of the original date of grant based on achieving certain stock price thresholds. Incremental stock-based compensation expense as a result of this modification was \$11.4 million. Upon our IPO, we recognized stock-based compensation expense for the modified 2019 performance options for which the service vesting condition was satisfied on or prior to the effective date of the IPO registration statement, and all remaining compensation will be recognized thereafter over the remaining service period using the graded vesting method. We recognized stock-based compensation of \$1.0 million and \$4.3 million during the three and nine months ended September 30, 2022, respectively.

We modified the vesting conditions of 111,902 outstanding performance RSUs of certain employees so that the modified performance RSUs do not vest immediately upon an IPO. Instead, subject to and contingent upon the effective date of an IPO registration statement, the modified performance RSUs vest 25% on the first anniversary from their respective vesting commencement dates, then monthly over the remaining service period, subject to the continued employment through the applicable vesting dates. As the modified RSUs contain a performance condition that is satisfied upon an IPO, we remeasured the fair value of the performance RSUs on the date of modification. This new fair value of approximately \$2.9 million will be recognized as stock-based compensation expense using the graded vesting method, with an immediate stock-based compensation expense recognized on the effective date of our IPO registration statement for the performance RSUs for which the service vesting condition was satisfied on or prior to the effective date of the IPO registration statement, and all remaining compensation will be recognized thereafter over the remaining service period. We recognized stock-based compensation expense of \$0.1 million and \$0.5 million during the three and nine months ended September 30, 2022, respectively.

We modified the vesting conditions of 1,725,942 outstanding LERSUs and 1,706,888 outstanding time-based options of certain executive officers to amend the severance vesting acceleration benefit applicable for the LERSUs and to remove the CIC event vesting acceleration benefit for the time-based options. There was no incremental stock-based compensation associated with the modification of the time-based options. We remeasured the fair value of the LERSUs on the date of modification and this new fair value of approximately \$43.3 million will be recognized using the graded vesting method, with an immediate stock-based compensation expense recognized on the effective date of our IPO registration statement for the modified LERSUs that have satisfied the service-vesting condition on or prior to the effective date of our IPO registration statement, and all remaining compensation will be recognized thereafter

over the remaining service period. We recognized stock-based compensation expense of \$2.9 million and \$11.0 million during the three and nine months ended September 30, 2022, respectively.

Note 11. 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.

We recorded a benefit from income taxes of \$1.5 million and \$5.9 million for the three months ended September 30, 2022 and 2021, respectively and provision for income taxes of \$1.0 million and benefit from income taxes of \$6.8 million for the nine months ended September 30, 2022 and 2021, respectively. The effective tax rate for the three months ended September 30, 2022 and 2021 was 12.7% and 13.0%, respectively. For the nine months ended September 30, 2022 and 2021, the effective tax rate was (2.0)% and 7.2%, 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 \$8.4 million and \$7.9 million as of September 30, 2022 and December 31, 2021, respectively. The gross unrecognized tax benefits, if recognized by us, will result in a reduction of approximately \$8.4 million, excluding interest and penalties, to the provision for income taxes thereby favorably impacting our effective tax rate. Our policy is to recognize interest and penalties related to income tax matters in income tax expense. For the periods presented, interest and penalties related to income tax positions were not material to our unaudited condensed consolidated financial statements.

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

In August 2022, the U.S. President signed into law the Inflation Reduction Act of 2022, or IRA, which revised U.S. tax law by, among other things, including a new corporate alternative minimum tax, or CAMT, of 15% on certain large corporations, imposing a 1% excise tax on stock buybacks, and providing incentives to address climate change, including the introduction of advanced manufacturing production tax credits. The provisions of the IRA are generally effective for tax years beginning after 2022. Given the complexities of the IRA, which is pending technical guidance and regulations from the Internal Revenue Service and U.S. Treasury Department, we will continue to monitor these developments and evaluate the potential future impact to our results of operations.

Note 12. Net Loss Per Share Attributable to Common Stockholders

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Numerator:				
Net loss	\$ (10,108)	\$ (39,675)	\$ (53,896)	\$ (87,893)
Net loss attributable to common stockholders—basic and diluted	\$ (10,108)	\$ (39,675)	\$ (53,896)	\$ (87,893)
Denominator:				
Weighted-average common stock used in computing net loss per share attributable to common stockholders—basic and diluted	194,906	196,351	196,984	149,207
Net loss per share attributable to common stockholders—basic and diluted	\$ (0.05)	\$ (0.20)	\$ (0.27)	\$ (0.59)

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

	Nine Months Ended September 30,	
	2022	2021
Options to purchase common stock	17,703	15,572
RSUs	8,649	3,614
Employee stock purchase plan	79	53
Restricted stock	—	50
Total	26,431	19,289

Note 13. Fair Value Measurements

Fair value is defined as the price that would be received from selling an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The standard establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is as follows:

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

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

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

At September 30, 2022 and December 31, 2021, our financial assets and liabilities recorded at fair value on a recurring basis consisted of cash equivalents and available-for-sale debt securities. Cash equivalents consisted of a money market fund valued using quoted prices in active markets, which represent Level 1 inputs in the fair value hierarchy. The available-for-sale debt securities were valued using a Monte Carlo simulation, which include inputs that represent Level 3 inputs in the fair value hierarchy. Contingent consideration payable was determined based upon the net amount we expect to pay upon the achievement of certain earnout metrics for our acquisitions.

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, 2022		
	Level 1	Level 2	Level 3
Available-for-sale debt securities	\$ —	\$ —	\$ 1,183
Money market fund	130,457	—	—
Total assets	\$ 130,457	\$ —	\$ 1,183
Contingent consideration	—	—	850
Total liabilities	\$ —	\$ —	\$ 850

	As of December 31, 2021		
	Level 1	Level 2	Level 3
Available-for-sale debt securities	\$ —	\$ —	\$ 1,122
Money market fund	30,215	—	—
Total assets	\$ 30,215	\$ —	\$ 1,122
Contingent consideration	—	—	750
Total liabilities	\$ —	\$ —	\$ 750

Note 14. Accumulated Other Comprehensive (Loss) Income

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

<i>(in thousands)</i>	As of September 30, 2022		
	Before Tax Amount	Tax Effect	Net of Tax Amount
Foreign currency translation adjustments:			
Beginning balance at December 31, 2021	\$ (2,078)	\$ —	\$ (2,078)
Change during period	1,402	—	1,402
Ending balance at March 31, 2022	(676)	—	(676)
Change during period	2,209	—	2,209
Ending balance at June 30, 2022	1,533	—	1,533
Change during period	2,644	—	2,644
Ending balance at September 30, 2022	\$ 4,177	\$ —	\$ 4,177
Available-for-sale debt securities:			
Beginning balance at December 31, 2021	\$ 331	\$ (48)	\$ 283
Unrealized gains	51	(13)	38
Ending balance at March 31, 2022, June 30, 2022 and September 30, 2022	\$ 382	\$ (61)	\$ 321
Accumulated other comprehensive (loss) income:			
Beginning balance at December 31, 2021	\$ (1,747)	\$ (48)	\$ (1,795)
Other comprehensive income	1,453	(13)	1,440
Ending balance at March 31, 2022	(294)	(61)	(355)
Other comprehensive income	2,209	—	2,209
Ending balance at June 30, 2022	1,915	(61)	1,854
Other comprehensive income	2,644	—	2,644
Ending balance at September 30, 2022	\$ 4,559	\$ (61)	\$ 4,498

(in thousands)	As of September 30, 2021		
	Before Tax Amount	Tax Effect	Net of Tax Amount
Foreign currency translation adjustments:			
Beginning balance at December 31, 2020	\$ (3,014)	\$ —	\$ (3,014)
Change during period	(147)	—	(147)
Ending balance at March 31, 2021	(3,161)	—	(3,161)
Change during period	(204)	—	(204)
Ending balance at June 30, 2021	(3,365)	—	(3,365)
Change during period	1,452	—	1,452
Ending balance at September 30, 2021	\$ (1,913)	\$ —	\$ (1,913)
Available-for-sale debt securities:			
Beginning balance at December 31, 2020	\$ 281	\$ (36)	\$ 245
Unrealized gains	17	(4)	13
Ending balance at March 31, 2021	298	(40)	258
Unrealized losses	(56)	15	(41)
Ending balance at June 30, 2021	242	(25)	217
Unrealized gains	96	(24)	72
Ending balance at September 30, 2021	\$ 338	\$ (49)	\$ 289
Cash flow hedges:			
Beginning balance at December 31, 2020	\$ (14,708)	\$ 3,650	\$ (11,058)
Unrealized gain on interest rate swaps and cap	2,772	(691)	2,081
Reclassification of losses from interest rate cap to net loss	28	(8)	20
Reclassification of prior hedge effectiveness to net loss	1,328	(331)	997
Ending balance at March 31, 2021	(10,580)	2,620	(7,960)
Unrealized gain on interest rate swaps	360	(90)	270
Reclassification of prior hedge effectiveness to net loss	1,748	(450)	1,298
Ending balance at June 30, 2021	(8,472)	2,080	(6,392)
Unrealized loss on interest rate swaps	(235)	(668)	(903)
Reclassification to net loss upon extinguishment of interest rate swaps	8,707	(1,412)	7,295
Ending balance at September 30, 2021	\$ —	\$ —	\$ —
Accumulated other comprehensive loss:			
Beginning balance at December 31, 2020	\$ (17,441)	\$ 3,614	\$ (13,827)
Other comprehensive income	3,998	(1,034)	2,964
Ending balance at March 31, 2021	(13,443)	2,580	(10,863)
Other comprehensive income	1,848	(525)	1,323
Ending balance at June 30, 2021	(11,595)	2,055	(9,540)
Other comprehensive income	10,020	(2,104)	7,916
Ending balance at September 30, 2021	\$ (1,575)	\$ (49)	\$ (1,624)

Note 15. Subsequent Events

On October 14, 2022, we acquired all of the outstanding equity interests in Revvsales, Inc., or Revv, a company that provides a self-service document automation and electronic signature platform. Revv's proprietary technology will enhance our forms library and legal template offerings and will be used to develop modern product experiences and services for small businesses. The total purchase price of \$8.5 million, which is subject to customary adjustments, was paid at closing and funded by our available cash on hand. We are currently evaluating the purchase price allocation and related acquisition expenses for this transaction.

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 2021 Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 24, 2022. This discussion contains forward-looking statements based upon current plans, expectations and beliefs involving 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 legal and compliance solutions in the United States, or U.S. Our core offerings include business formations, intellectual property and estate planning services, and we have recently expanded our platform to include professional expertise and other products, both legal and non-legal, to better meet the needs of small businesses. 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. Along with formations, our services include ongoing compliance and tax advice and filings, trademark filings, and estate plans. Additionally, we have unique insights into our customers and leverage our product as a channel to introduce small businesses to leading brands in our partner ecosystem, solving even more of their business needs. We operate across all 50 states and over 3,000 counties in the U.S. and have more than 20 years of experience navigating complex regulation and simplifying the legal and compliance process for our customers.

Initial Public Offering

The registration statement related to our initial public offering, or IPO, was declared effective on June 29, 2021, and our common stock began trading on the Nasdaq Global Select Market on June 30, 2021. On July 2, 2021, we completed our IPO for the sale of 19,121,000 shares of our common stock at an offering price of \$28.00 per share, for proceeds of \$505.9 million, net of underwriting discounts and commissions. In addition, we sold 2,868,150 shares of our common stock for net proceeds of \$75.9 million pursuant to the full exercise of the underwriters' option to purchase additional shares in connection with the IPO. In addition, on July 2, 2021, we sold 3,214,285 shares of our common stock in a private placement with an existing related party stockholder for proceeds of \$85.0 million, net of underwriting discounts and commissions. We raised aggregate proceeds of \$666.9 million from our IPO and private placement after deducting underwriting discounts and commissions. We incurred stock issuance costs of \$5.6 million. Proceeds raised from our IPO were used to repay the full outstanding balance of \$521.6 million on our 2018 term loan.

Upon the completion of our IPO, 23,081,080 outstanding shares of redeemable convertible preferred stock with a carrying value of \$70.9 million converted into an aggregate of 46,162,160 shares of common stock. Following the completion of the IPO, we have one class of authorized and outstanding common stock.

Our Business Model and Growth Strategy

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

Our strategy is to scale our existing business and gain market share by investing in core products and sales and marketing; integrating our independent attorney network and tax professionals into our core product set; expanding our addressable market; and attracting additional customers and increasing conversion through the introduction of lower-priced products and services. We are innovating our product lineup to target more price-sensitive customer segments and have made certain of our business formation services available at a low cost or without charge in certain geographies on a test-basis. We expect to continue to test new products and price points going forward as we optimize our product offerings across our lineup. We also aim to grow average revenue per subscription unit, or ARPU, and partnership revenue through building in-house adjacencies and expanding our partner ecosystem to provide new recurring revenue streams.

Key Business Metrics

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

Number of business formations

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

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

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

The below table sets forth the number of business formations for the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Number of business formations	117,000	114,000	359,000	380,000

We experienced a 3% increase in business formation transactions during the three months ended September 30, 2022 compared to the three months ended September 30, 2021, and a 6% decrease for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. Our business formations increased during the three months ended September 30, 2022 despite a year-over-year decline in overall U.S. business formations during this period based on a review of US Census data revealing new applications for EINs. The decrease in the number of business formations on our platform during the nine months ended September 30, 2022 primarily resulted from a year-over-year decline in overall U.S. business formations during the period.

Number of transactions

We define the number of transactions in a given period as gross transaction order volume, prior to refunds, on our platform during such period. Transactions may include one or more services purchased at the same time. For example, a customer of our business formation services may choose to form an LLC and purchase an operating agreement and business licenses at the same time. This constitutes a single transaction. Refunds, or partial refunds, may be issued under certain circumstances pursuant to the terms of our customer satisfaction guarantee. We consider the number of transactions to be an important metric considering that our customers generally begin their LegalZoom journey with a transaction, creating the foundation for generating subsequent subscription and partner revenue.

The below table sets forth the number of transactions for the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Number of transactions	226,000	229,000	718,000	765,000

We experienced a 1% decrease in the number of transactions during the three months ended September 30, 2022 compared to the three months ended September 30, 2021, and an 6% decrease for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. The decrease in the number of transactions during the three months ended September 30, 2022 resulted from lower volumes in our intellectual property business largely due to the discontinuation of our do-it-yourself trademark product in favor of our attorney-assisted solution and a reduction in estate planning and other consumer transactions, partially offset by the increase in business formations during this same period. The decrease in the number of transactions during the nine months

ended September 30, 2022 was driven by these same factors in addition to the year-over-year decline in business formations on our platform during the period.

Our estate planning and other consumer transactions declined as a percentage of total transactions in the three and nine months ended September 30, 2022. We expect the proportion of estate planning and other consumer transactions to continue to decrease over time as we focus more of our investment in small business formations, which have a significantly higher average order value. Over the long-term, we expect to continue to grow transactions; however, the growth may fluctuate period-over-period based on the variability of overall business formations and estate planning transactions.

Average order value

We define average order value for a given period as total transaction revenue divided by total number of transactions in such period. We consider average order value to be an important metric given it indicates how much customers are spending on our platform per transaction. Estate planning transactions are generally at a lower price point, making our overall average order value lower than our typical price point for small business formations.

The below table sets forth the average order value for the three and nine months ended September 30, 2022 and 2021:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Average order value	\$ 255	\$ 291	\$ 262	\$ 263

Average order value decreased by 12% during the three months ended September 30, 2022 compared to the three months ended September 30, 2021, and was unchanged for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. The reduction in average order value for the three months ended September 30, 2022 was primarily driven by an increase in transactions from our partner integration channel as a percentage of total transactions, the timing of revenue recognition and testing of lower-priced business formation services. Transactions offered through our partner integration channel are generally at lower price points than our other small business products and services. Our fulfillment rates began to normalize during the three months ended September 30, 2022, resulting in lower recognized revenue for the three months ended September 30, 2022 compared to the three months ended September 30, 2021. Finally, during the three months ended September 30, 2022, we made certain of our business formation services available at a low cost or without charge in certain geographies on a test-basis as we continued to innovate our product lineup to target more price-sensitive customer segments.

Growth in our average order value may fluctuate period-over-period based on the mix of business formations relative to estate planning and other consumer transactions, the timing of transaction revenue recognition, and our ability to introduce and sell new products. We expect year-over-year growth in average order value to be negative throughout the remainder of 2022 as we introduce lower-priced products and services. We expect to continue to test new products and price points going forward as we optimize our product offerings across our lineup.

Number of subscription units

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

We consider the number of subscription units to be an important metric since subscriptions enable us to increase the lifetime value of a customer through deeper, longer-term relationships. 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, 2022 and 2021:

	As of September 30,	
	2022	2021
Number of subscription units	1,415,000	1,264,000

We achieved 12% growth in our number of subscription units from September 30, 2021 to September 30, 2022, reflecting strong growth in subscriptions acquired through our partner integration channel, our registered agent,

compliance, and tax advisory products, as well as from our purchase of Earth Class Mail, during the fourth quarter of 2021. The number of subscription units as of September 30, 2022 increased 6% from 1,329,000 as of December 31, 2021. We aim to continue to grow subscription units by increasing the proportion of our small business customers that purchase a subscription service at the time of their initial formation purchase and by improving retention rates.

Average revenue per subscription unit

We define average revenue per subscription unit, or ARPU as of a given date as subscription revenue for the twelve-month period ended on such date, or LTM, divided by the average of the number of subscription units at the beginning and end of the LTM period. We consider ARPU to be an important metric because it helps to illustrate our ability to deepen our relationship with our existing customers as they purchase incremental and higher-value services. We have expanded ARPU in recent periods, and ARPU increased 12% as of September 30, 2022 as compared to September 30, 2021.

The below table sets forth ARPU as of September 30, 2022 and 2021:

	As of September 30,	
	2022	2021
Average revenue per subscription unit	\$ 259	\$ 231

The increase in ARPU as of September 30, 2022 primarily resulted from subscriptions acquired through our purchase of Earth Class Mail, growth of our tax advisory, registered agent and compliance services and a price increase to our small business legal advisory plan that was implemented in the fourth quarter of 2021. We expect ARPU to increase over time as these products, which carry higher average price points than our other subscription products, comprise a greater share of total subscription units.

Key Factors Affecting Our Performance

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

- **Our share of business formations.** The majority of our transaction revenue is generated by providing formation services to guide our customers through the transition from being aspiring business owners to actually launching their entities. We offer entity formation services for LLCs, corporations and non-profits as well as DBA filings. In the three and nine months ended September 30, 2022 and 2021, business formations represented the largest share of our total transaction orders. In addition, business formations act as an entrance point for many customers to the LegalZoom ecosystem, where they then often purchase additional products and services. Our business depends on the continuation of new business formations in the U.S., which may be seasonal in nature and dependent on macroeconomic factors, and even more so, on our ability to increase our share of these formations.
- **Product leadership.** We have invested significantly in our user experience, which we believe is critical to attracting and converting customers and improving retention. These investments consist mainly of creating educational content, improving our website and application user interface, and creating and offering additional products and services, including the growing use of experts in the customer journey. The performance of our product is important to attracting new customers to our platform, maintaining a healthy subscriber base and retaining our customers.
- **Ability to enhance customer lifetime value.** Many of our subscribers have increased their cumulative spend with us over time as they have expanded their use of our platform to include additional products and subscription services. Our relationship with our small business customers typically starts with the formation of their business and deepens as their businesses grow and their needs become more complex. By continuing to develop new products and subscription services such as tax advice and preparation to address such needs, we expect to see higher customer engagement and retention, which in turn would further increase our customer lifetime value. Additionally, we offer third-party services via our partner ecosystem, such as our partnership with Wix, which enables our small business customers to build their online presence, and we expect to be able to generate incremental revenue via these offerings.
- **Investment in marketing.** We have invested, and expect that we will continue to invest, in our brand and the promotion of our services through our various customer acquisition channels, including search engine marketing, search engine optimization, television, digital video, social, radio, and our inside sales team to acquire new customers and grow our business. We frequently evaluate how we price, market, and sell transaction products in order to optimize our subscription business.
- **Investment in tax offerings.** Tax represents a natural adjacency in our mission to make legal and compliance services accessible to small businesses. Based on customer surveys, we estimate that approximately 70% of small business owners that sought a tax accountant did not have one at the time of their entity formation but face tax implications as a result of the entity they choose. To address this

customer need, we have invested in launching our Tax Advisory offering. We anticipate incurring additional costs related to our tax offerings as we continue to invest in these offerings throughout the remainder of 2022 and 2023. We believe that our tax offerings represent an attractive opportunity for incremental revenue growth.

- **Talent acquisition and retention.** We are focused on providing a quality employee experience as we believe the future success of our business is heavily dependent on our ability to attract and retain talented and highly productive employees, including software engineers, product designers, brand and performance marketers, and customer-facing positions. We compete for talent within the technology industry and believe that our strong brand recognition and greater company purpose are important, positive considerations in our ability to recruit talent. We also are scaling an in-house team of certified public accountants (CPAs) and enrolled agents that are critical to our tax offerings.
- **Macroeconomic factors.** Fluctuations in general macroeconomic, political, regulatory and market conditions, such as recessionary fears, the current inflationary environment, rising interest rates and lingering effects of the COVID-19 pandemic can adversely impact consumer spending patterns, the success of existing small businesses and the formation of new small businesses. For example, overall U.S. business formations declined in the nine months ended September 30, 2022 compared to the same period in 2021 based on a review of U.S. Census data and we believe this decline is due, in part, to the current challenging macroeconomic environment. While we believe that secular trends toward greater adoption of online services continue to exist, future negative or decelerating impact from sustained inflation, higher interest rates or other macroeconomic fluctuations remains uncertain.

Key Components of our Results of Operations

Revenue

We generate revenue from the sources identified below.

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

Subscription revenue. Subscription revenue is generated primarily from subscriptions to our registered agent services, compliance packages, attorney advice, legal forms services, tax advisory services, and virtual mail services in addition to software-as-a-service, or SaaS, subscriptions in the U.K. We generally recognize revenue from our subscriptions ratably over the subscription term. Subscription terms generally range from thirty days to one year. Subscription revenue includes the value 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 and tax 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.

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

See the section titled "—Critical Accounting Policies and Estimates—Revenue Recognition" for a description of the accounting policies related to revenue recognition, including arrangements that contain multiple deliverables.

Cost of revenue

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

criteria for revenue recognition. These contract assets are recognized as cost of revenue in the same period the related revenue is recognized.

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

Gross profit and gross margin

Gross profit, or revenue less cost of revenue, and gross margin, or gross profit as a percentage of revenue, have been and will continue to be affected by various factors, primarily the mix between transaction, subscription and partner revenue. Our gross margin on subscription and partner revenue is higher than our gross margin on transaction revenue. Our long-term gross margin expansion is also expected to be driven by automation improvements and digitization efforts. Further, our acquisitions of other companies have negatively impacted our gross margin in the short term, and any such future acquisitions could have a similar effect.

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

Operating expenses

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

Sales and marketing

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

We intend to continue to make significant investments in sales and marketing to drive additional revenue, further penetrate our expanding addressable market, and build on our digital brand leadership and awareness. As a result, we expect 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, 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 websites, mobile applications, online legal platform, research and development and related infrastructure. Technology and development expenses are expensed as incurred, except to the extent that such costs are associated with internal-use software costs that qualify for capitalization.

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

General and administrative

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

Excluding stock-based compensation, we expect our general and administrative expenses to increase in absolute dollars for the foreseeable future due to additional costs associated with accounting, compliance, insurance and investor relations as we have recently become a public company. Over the next two years, we will incur significant stock-based compensation expense as a result of certain modifications to equity awards that occurred in connection with our IPO; however, we expect our general and administrative expenses to decrease as a percentage of our

revenue over the longer term, although our general and administrative expenses may fluctuate as a percentage of our revenue from period-to-period due to seasonality and the timing and extent of these expenses.

Interest income (expense), net

Interest income (expense), net, consists primarily of interest income generated from our money market fund offset by amortization of debt issuance costs related to our Amended and Restated Credit and Guaranty Agreement, or 2021 Revolving Facility. Prior year interest income (expense), net, consisted of interest expense on our prior credit facility, hedging instruments and amortization of debt issuance costs, which were extinguished after our IPO in July 2021.

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

Income taxes

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

At December 31, 2021, we had federal net operating loss, or NOL, carryforwards of \$29.8 million, which will begin to expire in 2032. At December 31, 2021, we had state NOL carryforwards of \$58.8 million, which will begin to expire in 2022 and we had foreign NOL carryforwards of \$31.8 million, which can be carried forward indefinitely and are not subject to expiration. In general, under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended, or the Code, if a corporation undergoes an "ownership change," generally defined as a greater than 50% change, by value, in its equity ownership by certain stockholders over a three-year period, the corporation's ability to use its pre-change NOLs and other pre-change tax attributes, such as research tax credits, to offset its post-change income or taxes may be limited.

We had an ownership change in prior years, and as a result certain federal and state NOLs were limited pursuant to Section 382 of the Code. This limitation has been accounted for in calculating our available NOL carryforwards.

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,	
	2022	2021	2022	2021
	<i>(in thousands)</i>			
Revenue	\$ 154,416	\$ 147,879	\$ 472,492	\$ 432,943
Cost of revenue ⁽¹⁾⁽²⁾	50,050	47,267	163,383	141,086
Gross profit	104,366	100,612	309,109	291,857
Operating expenses:				
Sales and marketing ⁽¹⁾⁽²⁾	66,145	72,572	215,964	209,364
Technology and development ⁽¹⁾⁽²⁾	17,457	26,865	51,613	65,790
General and administrative ⁽¹⁾⁽²⁾	30,103	28,192	88,560	75,202
Impairment of long-lived and other assets	237	493	237	872
Total operating expenses	113,942	128,122	356,374	351,228
Loss from operations	(9,576)	(27,510)	(47,265)	(59,371)
Interest income (expense), net	535	(9,957)	511	(27,923)
Other (expense) income, net	(2,536)	(368)	(6,102)	300
Loss on debt extinguishment	—	(7,748)	—	(7,748)
Loss before income taxes	(11,577)	(45,583)	(52,856)	(94,742)
(Benefit from) provision for income taxes	(1,469)	(5,908)	1,040	(6,849)
Net loss	\$ (10,108)	\$ (39,675)	\$ (53,896)	\$ (87,893)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	<i>(in thousands)</i>			
Cost of revenue	\$ 597	\$ 764	\$ 2,205	\$ 1,585
Sales and marketing	2,972	6,356	9,633	11,706
Technology and development	3,857	14,446	12,303	32,591
General and administrative	12,352	16,499	40,349	41,079
Total stock-based compensation expense	<u>\$ 19,778</u>	<u>\$ 38,065</u>	<u>\$ 64,490</u>	<u>\$ 86,961</u>

Stock-based compensation expense decreased significantly for the three and nine months ended September 30, 2022 compared to the same periods of 2021 due to the modification of certain equity awards in connection with our IPO. Refer to Note 10 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,	
	2022	2021	2022	2021
	<i>(in thousands)</i>			
Cost of revenue	\$ 1,966	\$ 1,403	\$ 6,220	\$ 4,479
Sales and marketing	1,754	1,401	5,508	4,199
Technology and development	694	538	2,112	1,709
General and administrative	840	433	2,347	1,217
Total depreciation and amortization expense	<u>\$ 5,254</u>	<u>\$ 3,775</u>	<u>\$ 16,187</u>	<u>\$ 11,604</u>

Comparison of the Three Months Ended September 30, 2022 and 2021

Revenue

Revenue by type	Three Months Ended September 30,		\$ change	% change
	2022	2021		
	<i>(in thousands, except percentages)</i>			
Transaction	\$ 57,550	\$ 66,873	\$ (9,323)	(14)%
Subscription	91,397	73,317	18,080	25 %
Partner	5,469	7,689	(2,220)	(29)%
Total revenue	<u>\$ 154,416</u>	<u>\$ 147,879</u>	<u>\$ 6,537</u>	<u>4 %</u>

The increase in total revenue was primarily driven by an increase in subscription revenue. Subscription revenue was 59% and 50% of total revenue for the three months ended September 30, 2022 and 2021, respectively, and transaction revenue was 37% and 45% of total revenue for the three months ended September 30, 2022 and 2021, respectively.

Subscription revenue for the three months ended September 30, 2022 increased primarily due to a 12% increase in the number of subscription units and a 12% improvement in ARPU compared to the three months ended September 30, 2021. The increase in subscription units was primarily driven by strong growth in subscriptions acquired through our partner integration channel, our registered agent, compliance, and tax advisory products, as well as from our purchase of Earth Class Mail. The increase in ARPU was primarily due to a change in mix, as subscriptions from Earth Class Mail, our tax advisory services, compliance and registered agent products, which carry higher average price points than our other subscription products, increased as a percentage of total subscription units.

Transaction revenue for the three months ended September 30, 2022 decreased due to a 1% decrease in the number of transaction units and a 12% decrease in the average order value compared to the three months ended September 30, 2021. The decrease in the number of transactions during the three months ended September 30, 2022 resulted from lower volumes in our intellectual property business largely due to the discontinuation of our do-it-yourself trademark product in favor of our attorney-assisted solution and a reduction in estate planning and other consumer transactions, partially offset by an increase in the number of business formations. The reduction in average order value for the three months ended September 30, 2022 was primarily driven by an increase in transactions from our partner integration channel as a percentage of total transactions, the timing of revenue recognition and testing of lower-priced business formation services. Transactions offered through our partner integration channel are generally at lower price points than our other small business products and services.

Partner revenue for the three months ended September 30, 2022 decreased in spite of higher formation volumes during the period and as we transitioned away from certain legacy partner relationships that no longer align with our strategic direction.

Cost of revenue

	Three Months Ended September 30,		\$ change	% change
	2022	2021		
	<i>(in thousands, except percentages)</i>			
Cost of revenue	\$ 50,050	\$ 47,267	\$ 2,783	6 %

Cost of revenue for the three months ended September 30, 2022 increased mainly due to higher fulfillment costs, partially offset by a reduction in filing fees and other variable costs related to the decline in transaction revenue. Fulfillment costs increased by \$5.9 million compared to the three months ended September 30, 2021 due to our acquisition of Earth Class Mail and expanded headcount to support growth of our tax advisory business.

Gross profit

	Three Months Ended September 30,		\$ change	% change
	2022	2021		
	<i>(in thousands, except percentages)</i>			
Gross profit	\$ 104,366	\$ 100,612	\$ 3,754	4 %

The increase in gross profit was driven by a \$6.5 million increase in revenue partially offset by a \$2.8 million increase in cost of revenue.

Sales and marketing

	Three Months Ended September 30,		\$ change	% change
	2022	2021		
	<i>(in thousands, except percentages)</i>			
Sales and marketing	\$ 66,145	\$ 72,572	\$ (6,427)	(9 %)

Sales and marketing expenses for the three months ended September 30, 2022 decreased primarily due to a \$6.2 million reduction in customer acquisition marketing spend. Customer acquisition marketing spend was \$43.5 million and \$49.7 million for the three months ended September 30, 2022 and 2021, respectively, as we reduced our marketing spend in response to the year-over-year decline in overall U.S. business formations and the uncertain macroeconomic environment.

Technology and development

	Three Months Ended September 30,		\$ change	% change
	2022	2021		
	<i>(in thousands, except percentages)</i>			
Technology and development	\$ 17,457	\$ 26,865	\$ (9,408)	(35)%

Technology and development expenses for the three months ended September 30, 2022 decreased primarily due to a decrease in stock-based compensation of \$10.6 million, mainly in connection with award modifications from our IPO in July 2021, partially offset by a \$0.9 million increase in professional services expense, including contingent staff costs related to our purchase of Earth Class Mail.

General and administrative

	Three Months Ended September 30,		\$ change	% change
	2022	2021		
	<i>(in thousands, except percentages)</i>			
General and administrative	\$ 30,103	\$ 28,192	\$ 1,911	7 %

General and administrative expenses for the three months ended September 30, 2022 increased primarily due to a \$2.9 million increase in payroll and related benefits largely due to increased headcount. General and administrative expenses also increased as a result of a \$1.2 million increase in professional fees related to accounting and compliance services and our acquisition of UA Services in August 2022, and \$0.8 million of restructuring costs. These increases were partially offset by a \$4.1 million decrease in stock-based compensation, mainly in connection with award modifications from our IPO in July 2021.

Interest income (expense), net

	Three Months Ended September 30,		\$ change	% change
	2022	2021		
	<i>(in thousands, except percentages)</i>			
Interest income (expense), net	\$ 535	\$ (9,957)	\$ 10,492	(105)%

The change in interest income (expense), net, was primarily due to the repayment of the 2018 Term Loan in July 2021.

Other expense, net

	Three Months Ended September 30,		\$ change	% change
	2022	2021		
	<i>(in thousands, except percentages)</i>			
Other expense, net	\$ (2,536)	\$ (368)	\$ (2,168)	589 %

The change in other expense, net, between 2022 and 2021 was primarily due to changes in foreign currency movements related to our intercompany loans which were denominated in British Pound Sterling, or GBP.

Benefit from for income taxes

	Three Months Ended September 30,		\$ change	% change
	2022	2021		
	<i>(in thousands, except percentages)</i>			
Benefit from income taxes	\$ (1,469)	\$ (5,908)	\$ 4,439	(75 %)
Effective tax rate	12.7 %	13.0 %		

The benefit from income taxes for the three months ended September 30, 2022 resulted from a \$4.4 million unfavorable change in our income taxes as compared to the three months ended September 30, 2021. The change

was primarily due to nondeductible stock compensation for the three months ended September 30, 2022 compared to the three months ended September 30, 2021.

Comparison of the Nine Months Ended September 30, 2022 and 2021

Revenue

	Nine Months Ended September 30,		\$ change	% change
	2022	2021		
	<i>(in thousands, except percentages)</i>			
Revenue by type				
Transaction	\$ 188,166	\$ 201,621	\$ (13,455)	(7 %)
Subscription	267,069	208,194	58,875	28 %
Partner	17,257	23,128	(5,871)	(25 %)
Total revenue	<u>\$ 472,492</u>	<u>\$ 432,943</u>	<u>\$ 39,549</u>	<u>9 %</u>

The increase in total revenue was primarily driven by an increase in subscription revenue. Subscription revenue was 57% and 48% of total revenue for the nine months ended September 30, 2022 and 2021, respectively, and transaction revenue was 40% and 47% of total revenue for the nine months ended September 30, 2022 and 2021, respectively.

Subscription revenue for the nine months ended September 30, 2022 increased primarily due to a 12% increase in the number of subscription units and a 12% improvement in ARPU compared to the nine months ended September 30, 2021. The increase in subscription units was primarily driven by strong growth in subscriptions acquired through our partner integration channel, our registered agent, compliance, and tax advisory products, as well as from our purchase of Earth Class Mail. The increase in ARPU was primarily due to a change in mix, as subscriptions from Earth Class Mail, our tax advisory services, compliance and registered agent products, which carry higher average price points than our other subscription products, increased as a percentage of total subscription units. ARPU also increased as a result of a price increase to our small business legal advisory plan that was implemented in the fourth quarter of 2021.

Transaction revenue for the nine months ended September 30, 2022 decreased due to an 6% decrease in the number of transaction units compared to the nine months ended September 30, 2021. The decrease in the number of transactions resulted from a reduction in estate planning and other consumer transactions, lower volumes in our intellectual property business largely due to the discontinuation of our do-it-yourself trademark product in favor of our attorney-assisted solution and the year-over-year decline in business formations on our platform.

Partner revenue for the nine months ended September 30, 2022 decreased due to lower formation volumes and our transition away from certain legacy partner relationships that no longer align with our strategic direction.

Cost of revenue

	Nine Months Ended September 30,		\$ change	% change
	2022	2021		
	<i>(in thousands, except percentages)</i>			
Cost of revenue	<u>\$ 163,383</u>	<u>\$ 141,086</u>	<u>\$ 22,297</u>	<u>16 %</u>

Cost of revenue for the nine months ended September 30, 2022 increased mainly due to higher fulfillment and customer care costs. Fulfillment costs increased \$21.0 million compared to the nine months ended September 30, 2021 due to our acquisition of Earth Class Mail, expanded headcount in our tax advisory business for the 2022 tax filing season and to support future growth as well as the investment in additional production capacity to enhance our customer experience. Customer care costs increased \$1.6 million as we invested in additional capacity to enhance our customer experience.

Gross profit

	Nine Months Ended September 30,			
	2022	2021	\$ change	% change
	<i>(in thousands, except percentages)</i>			
Gross profit	\$ 309,109	\$ 291,857	\$ 17,252	6 %

The increase in gross profit was driven by a \$39.5 million increase in revenue partially offset by a \$22.3 million increase in cost of revenue.

Sales and marketing

	Nine Months Ended September 30,			
	2022	2021	\$ change	% change
	<i>(in thousands, except percentages)</i>			
Sales and marketing	\$ 215,964	\$ 209,364	\$ 6,600	3 %

Sales and marketing expenses for the nine months ended September 30, 2022 increased primarily due to a \$7.3 million increase in payroll and related costs due to higher headcount and a \$4.9 million increase in media production and other non-programmatic spend, partially offset by a \$5.2 million reduction in customer acquisition marketing spend and a \$2.1 million decrease in stock-based compensation, mainly in connection with award modifications from our IPO in July 2021. Customer acquisition marketing spend was \$142.7 million and \$147.9 million for the nine months ended September 30, 2022 and 2021, respectively, as we reduced our marketing spend in response to the year-over-year decline in overall U.S. business formations and the uncertain macroeconomic environment.

Technology and development

	Nine Months Ended September 30,			
	2022	2021	\$ change	% change
	<i>(in thousands, except percentages)</i>			
Technology and development	\$ 51,613	\$ 65,790	\$ (14,177)	(22)%

Technology and development expenses for the nine months ended September 30, 2022 decreased primarily due to a decrease in stock-based compensation of \$20.3 million, mainly in connection with award modifications from our IPO in July 2021. This decrease was partially offset by a \$3.5 million increase in professional services expense, including contingent staff costs related to our purchase of Earth Class Mail, an increase in other payroll and related benefits of \$1.4 million resulting from higher headcount as we added staff to support our investment in new products and services, and a \$1.4 million increase in software licensing costs.

General and administrative

	Nine Months Ended September 30,			
	2022	2021	\$ change	% change
	<i>(in thousands, except percentages)</i>			
General and administrative	\$ 88,560	\$ 75,202	\$ 13,358	18 %

General and administrative expenses for the nine months ended September 30, 2022 increased primarily due to an \$8.9 million increase in payroll and related benefits, largely due to increased headcount, \$1.8 million of additional insurance expense as a public company and \$1.7 million of restructuring costs, partially offset by a \$1.2 million reduction in professional services expense and a \$0.7 million decrease in stock-based compensation, mainly in connection with award modifications from our IPO in July 2021.

Impairment of long-lived and other assets

	Nine Months Ended September 30,		\$ change	% change
	2022	2021		
	<i>(in thousands, except percentages)</i>			
Impairment of long-lived and other assets	\$ 237	\$ 872	\$ (635)	(73 %)

In 2022, we recorded non-cash charges related to the impairment of certain customer relationships and in 2021 we recorded non-cash charges related to the impairment of internal-use software projects that were no longer aligned with our go-forward strategy.

Interest income (expense), net

	Nine Months Ended September 30,		\$ change	% change
	2022	2021		
	<i>(in thousands, except percentages)</i>			
Interest income (expense), net	\$ 511	\$ (27,923)	\$ 28,434	(102)%

The change in interest income (expense), net, was primarily due to the repayment of the 2018 Term Loan in July 2021.

Other (expense) income, net

	Nine Months Ended September 30,		\$ change	% change
	2022	2021		
	<i>(in thousands, except percentages)</i>			
Other (expense) income, net	\$ (6,102)	\$ 300	\$ (6,402)	(2134 %)

The change in other (expense) income, net, between 2022 and 2021 was primarily due to changes in foreign currency movements related to our intercompany loans which were denominated in British Pound Sterling, or GBP.

Provision for (benefit from) income taxes

	Nine Months Ended September 30,		\$ change	% change
	2022	2021		
	<i>(in thousands, except percentages)</i>			
Provision for (benefit from) income taxes	\$ 1,040	\$ (6,849)	\$ 7,889	(115 %)
Effective tax rate	(2.0)%	7.2 %		

The provision for income taxes for the nine months ended September 30, 2022 resulted from a \$7.9 million unfavorable change in our income taxes as compared to the nine months ended September 30, 2021. The change was primarily due to nondeductible stock compensation for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021.

Liquidity and Capital Resources

Overview

Since inception, we have funded our operations and capital expenditures primarily from public and private sales of equity securities, cash flows provided by operating activities and equity and debt financing arrangements, including the proceeds of our IPO. Our primary requirements for liquidity and capital are to finance working capital, capital expenditures and general corporate purposes. At September 30, 2022, our principal sources of liquidity were cash and cash equivalents of \$211.8 million, which consisted of cash on deposit with banks and a money market fund, of which approximately \$1.0 million related to our foreign subsidiaries. Our cash and cash equivalents decreased by \$27.5 million from December 31, 2021 to September 30, 2022, primarily from the stock repurchases during the period.

We currently anticipate that our available cash, cash equivalents and cash provided by operating activities will be sufficient to meet our operational cash needs for at least the next twelve months. We have the ability to supplement our liquidity needs over the longer term with borrowings under our 2021 Revolving Facility.

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

Furthermore, our board of directors has authorized our management to repurchase up to \$150.0 million of shares of our common stock from time to time. As of the date of this filing, we have repurchased \$74.3 million of our common stock under our share repurchase program. For additional information regarding our share repurchase program, refer to Note 9 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. This agreement amends and restates our first lien credit and guarantee agreement with JPMorgan Chase Bank, N.A. or 2018 Credit Facility, and permits revolving borrowings of up to \$150.0 million. The 2021 Revolving Facility 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. We have \$150.0 million available for use under our 2021 Revolving Facility.

Subject to the satisfaction of certain criteria, we will be able to increase the 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 Cash EBITDA, which is defined in the 2018 Credit Facility, or LTM Cash EBITDA, 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 Cash EBITDA), plus (iii) an unlimited amount so long as the borrower is 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. The interest rate applicable to the 2021 Revolving Facility is, at our option, 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) one month LIBOR (subject to a 1.00% floor), plus 1.00% or LIBOR (subject to a 0.00% floor) plus 2.00%. 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 LIBOR loans. There is no scheduled amortization under the 2021 Revolving Facility. The principal amount outstanding is due and payable in full at maturity, five years from the closing date of the 2021 Revolving Facility.

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

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

The 2021 Revolving Facility requires compliance with a total net first lien leverage ratio of 4.50 to 1.00, or 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,	
	2022	2021
	<i>(in thousands)</i>	
Net cash provided by operating activities	\$ 52,015	\$ 60,156
Net cash used in investing activities	(18,666)	(11,783)
Net cash (used in) provided by financing activities	(60,695)	122,838
Effect of exchange rate changes on cash and cash equivalents	(139)	23
Net (decrease) increase in cash, cash equivalents and restricted cash equivalent	<u>\$ (27,485)</u>	<u>\$ 171,234</u>

Net cash provided by operating activities

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

In the nine months ended September 30, 2022, cash provided by operating activities was \$52.0 million resulting from a net loss of \$53.9 million, adjusted for stock-based compensation and other non-cash expenses of \$88.5 million and net cash flows provided by changes in operating assets and liabilities of \$17.4 million. The \$17.4 million of net cash flows provided from changes in our operating assets and liabilities included a \$22.1 million increase in deferred revenue largely due to growth of our subscription units, which are predominantly billed in advance of our revenue recognition, partially offset by a \$0.4 million reduction in accounts payable, accrued expenses, operating lease liability and other liabilities due to the timing of our payments and a \$4.3 million increase in accounts receivable, prepaid expenses 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, 2022, net cash used in investing activities was \$18.7 million, resulting primarily from \$16.4 million paid for property and equipment, including capitalized internal-use software and payments for the acquisition of UA Services of \$2.5 million and a working capital adjustment from the acquisition of Earth Class Mail in November 2021 for \$0.3 million.

Net cash used in financing activities

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

In the nine months ended September 30, 2022, net cash used in financing activities was \$60.7 million, primarily for the repurchase of common stock under our share repurchase program.

Material Cash Requirements

Refer to Note 8 of our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for a discussion of our material obligations and commitments.

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.

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

Adjusted EBITDA is one of the primary performance measures used by our management and our board of directors to understand and evaluate our financial performance and operating trends, including period-to-period comparisons, prepare and approve our annual budget, develop short and long-term operational plans and determine appropriate compensation plans for our employees. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our results of operations in the same manner as our management team and board of directors. In assessing our performance, we exclude certain expenses that we believe are not comparable period over period. Adjusted EBITDA should not be considered in isolation of, or as an alternative to, measures prepared and presented in accordance with GAAP. There are a number of limitations related to the use of Adjusted EBITDA rather than net loss, which is the nearest GAAP equivalent of Adjusted EBITDA, and it may be calculated differently by other companies in our industry, limiting its usefulness as a comparative measure. Some of these limitations include that the non-GAAP financial measure:

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
<i>(in thousands, except percentages)</i>				
Reconciliation of net loss to Adjusted EBITDA				
Net loss	\$ (10,108)	\$ (39,675)	\$ (53,896)	\$ (87,893)
Interest (income) expense, net	(535)	9,957	(511)	27,923
(Benefit from) provision for income taxes	(1,469)	(5,908)	1,040	(6,849)
Depreciation and amortization	5,254	3,775	16,187	11,604
Other expense (income), net	2,536	368	6,102	(300)
Stock-based compensation	19,778	38,141	64,490	86,725
Loss on debt extinguishment	—	7,748	—	7,748
Impairment of long-lived and other assets	237	493	237	872
IPO-related costs and other transaction related expenses ⁽¹⁾	636	217	758	852
Restructuring costs ⁽²⁾	804	—	1,795	—
Legal expenses	—	—	40	—
Certain other non-recurring expenses ⁽³⁾	400	5	400	5
Adjusted EBITDA	\$ 17,533	\$ 15,121	\$ 36,642	\$ 40,687
Net loss margin	(7 %)	(27 %)	(11 %)	(20 %)
Adjusted EBITDA margin	11 %	10 %	8 %	9 %

- (1) IPO-related costs and other transaction related expenses includes certain non-recurring expenses, which occurred in connection with our acquisition in 2022 and IPO in 2021 .
- (2) Restructuring expenses related to a phased severance event to reduce the U.S. headcount in June and August 2022. Restructuring expenses include salary and benefits for the impacted employees and are included in general and administrative expenses in the accompanying unaudited condensed consolidated statements of operations.
- (3) For 2022, certain other non-recurring expenses includes costs incurred related to the departure of a member of management.

Adjusted EBITDA increased from \$15.1 million for the three months ended September 30, 2021 to \$17.5 million for the three months ended September 30, 2022. The increase of \$2.3 million reflects an increase in revenue of \$6.5 million offset by increases in cost of revenue of \$2.4 million and other operating expenses of \$1.7 million, excluding non-cash and non-recurring items. We expect our Adjusted EBITDA to increase in absolute dollars in the longer term, although the rate at which our Adjusted EBITDA may grow could vary based upon the interplay of the foregoing factors.

Adjusted EBITDA decreased from \$40.7 million for the nine months ended September 30, 2021 to \$36.6 million for the nine months ended September 30, 2022. The decrease of \$4.1 million reflects an increase in revenue of \$39.5 million offset by increases in cost of revenue of \$19.9 million and other operating expenses of \$23.8 million, excluding non-cash and non-recurring items. We expect our Adjusted EBITDA to increase in absolute dollars in the longer term, although the rate at which our Adjusted EBITDA may grow could vary based upon the interplay of the foregoing factors.

Free cash flow

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

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

	Nine Months Ended September 30,	
	2022	2021
	<i>(in thousands)</i>	
Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow		
Net cash provided by operating activities	\$ 52,015	\$ 60,156
Purchase of property and equipment	(16,441)	(8,500)
Free cash flow	<u>\$ 35,574</u>	<u>\$ 51,656</u>

We experienced a decrease in our free cash flow from \$51.7 million for the nine months ended September 30, 2021 to \$35.6 million for the nine months ended September 30, 2022, primarily due to a \$8.1 million reduction in net cash provided by operating activities. The decline in net cash provided by operating activities resulted from a \$9.2 million increase in net income after adjusting for stock-based compensation and other non-cash items, offset by a \$17.4 million unfavorable change in our operating assets and liabilities primarily due to the timing of our accounts payable payments and lower growth in deferred revenue, partially offset by a favorable change in prepaid expenses and other current assets. Free cash flow was also impacted by higher capital expenditures for the purchase of property and equipment, including capitalization of internal-use software. We expect our free cash flow to increase in absolute dollars over the longer term, although the rate at which our free cash flow may grow could vary based upon the interplay of the factors discussed above.

JOBS Act Accounting Election

We are an emerging growth company as defined in the *Jumpstart Our Business Startups Act*, or JOBS Act. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until such time as those standards apply to private companies. We have elected to avail ourselves of delayed adoption of new or revised accounting standards and, therefore, we will not be subject to the same requirements to adopt new or revised accounting standards as other public companies that are not emerging growth companies. To the extent that we no longer qualify as an emerging growth company we will be required to adopt certain accounting pronouncements earlier than the adoption dates disclosed below which are for non-public business entities.

In addition, we intend to rely on the other exemptions and reduced reporting requirements provided by the JOBS Act. Subject to certain conditions set forth in the JOBS Act, if as an emerging growth company we intend to rely on such exemptions, we are not required to, among other things, (1) provide an auditor's attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the *Sarbanes-Oxley Act of 2002*, (2) provide all of the compensation disclosure that may be required of non-emerging growth public companies under the *Dodd-Frank Wall Street Reform and Consumer Protection Act*, (3) comply with the requirement of the Public Company Accounting Oversight Board regarding the communication of critical audit matters in the auditor's report on the financial statements and (4) disclose certain executive compensation-related items such as the correlation between executive compensation and performance and comparisons of the Chief Executive Officer's compensation to median employee compensation. These exemptions will apply until the last day of the 2026 fiscal year or until we no longer meet the requirements of being an emerging growth company, whichever is earlier.

Critical Accounting Policies and Estimates

During the nine months ended September 30, 2022, there have been no significant changes to our critical accounting policies and estimates compared with those disclosed described under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" and the notes to the audited consolidated financial statements appearing in our 2021 Annual Report on Form 10-K, except the accounting policy changes detailed in Note 2 of our condensed consolidated financial statements as a result of the adoption of the new leasing standard.

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, 2022 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, 2022 and December 31, 2021, we had cash and cash equivalents of \$211.8 million and \$239.3 million, respectively, which consisted of cash on deposit with banks and a short-term highly-liquid money market fund. 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, 2022 and December 31, 2021. Given the repayment of our 2018 Term Loan and settlement of our interest rate swaps in July 2021, we are not expected to be exposed to further fluctuations in interest rates for the foreseeable future. We would be subject to fluctuation in interest rates if we draw down under our 2021 Revolving Facility, including issuance of any letters of credit.

Foreign currency exchange risk

We have foreign currency risks related to our revenue and expenses denominated in currencies other than our functional currency, the U.S. Dollar, principally GBP. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. We have experienced and will continue to experience fluctuations in our net (loss) income as a result of transaction gains and losses related to translating certain cash balances, trade accounts receivable and payable balances and intercompany loans that are denominated in currencies other than the U.S. Dollar. We recognized foreign currency losses of \$2.6 million and \$6.0 million in the three and nine months ended September 30, 2022, respectively. A 10% adverse change in foreign exchange rates on foreign-denominated accounts for the nine months ended September 30, 2022, including intercompany balances, would have resulted in a \$0.7 million increase in our reported foreign currency loss for the three and nine months ended September 30, 2022. In the event our non-U.S. Dollar-denominated sales and expenses increase, our results of operations may be more greatly affected by fluctuations in the exchange rates of the currencies in which we do business. At this time, we do not, but we may in the future, enter into derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk. It is difficult to predict the impact hedging activities could have on our results of operations.

Inflation risk

We do not believe that inflation has had a material effect on our business, financial condition, results of operations or future prospects. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition, results of operations and future prospects.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, because of the material weaknesses in our internal control over financial reporting described below, our principal executive officer and principal financial officer concluded that, as of September 30, 2022, our disclosure controls and procedures were not effective at the reasonable assurance level.

Material weaknesses

During the year ended December 31, 2018, we identified three material weaknesses in our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

The material weaknesses we identified are as follows:

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

- We did not design and maintain effective controls over our financial statement close process. Specifically, we did not design and maintain effective controls over certain account analyses and account reconciliations.

These material weaknesses resulted in adjustments to our financial statements for the year ended December 31, 2018 primarily related to debt extinguishment costs, goodwill, revenue, accounts receivable, foreign exchange expense and deferred revenue, and could result in a misstatement of any account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected.

Remediation plan

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

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

We have made progress to remediate the material weaknesses and we believe our remediation plan to be sufficient to remediate the identified material weaknesses. As we continue to evaluate and work to improve our internal control over financial reporting, we may determine that additional measures or modifications to the remediation plan are necessary. However, the material weaknesses will not be considered remediated until a sustained period of time has passed to allow management to test the design and operational effectiveness of the corrective actions. The implementation of these remediation measures will require validation and testing of the design and operating effectiveness of internal controls over a sustained period of financial reporting prior to reaching a determination that the material weaknesses have been remediated. Accordingly, we may not remediate these material weaknesses during 2022. If the steps we take do not remediate the material weaknesses in a timely manner, there could continue to be a reasonable possibility that these control deficiencies or others would result in a material misstatement of our annual or interim financial statements that would not be prevented or detected on a timely basis. This, in turn, could jeopardize our ability to comply with our reporting obligations, limit our ability to access the capital markets or adversely impact our stock price.

Changes in internal control over financial reporting

In the third quarter we continued to design and implement procedures related to certain account analyses and account reconciliations. These third quarter remediation activities are changes in our internal control over financial reporting during the three months ended September 30, 2022 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

We are a party to various currently pending legal proceedings and government inquiries, and we anticipate that legal proceedings, government investigations, government inquiries or claims could be brought against us in the future. For information on our material pending legal proceedings and governmental inquiries, refer to Note 8 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

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 audited financial statements and related notes. The risks and uncertainties described below are not the only ones we face. Additional risk and uncertainties that we are unaware of or that we deem immaterial may also become important factors that adversely affect our business. The realization of any of these risks and uncertainties could have a material adverse effect on our reputation, business, financial condition, results of operations, growth and future prospects, as well as our ability to accomplish our strategic objectives. In that event, the market price of our common stock could decline and you could lose part or all of your investment.

Risks Relating to Our Business and Industry

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

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

Our growth also makes it difficult to evaluate future prospects. Our ability to forecast our future operating results is subject to a number of uncertainties, including our ability to plan for and model future growth. If our assumptions regarding these uncertainties, which we use to plan our business, are incorrect or change in reaction to changes in our markets, or if we do not address these uncertainties successfully, 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:

- the number of business formations;
- the level of demand for our services;
- the rate of renewal of subscriptions with, and extent of sales of additional subscriptions to, existing customers;
- current customers failing to renew their subscriptions;
- the size, timing and terms of our subscription agreements with existing and new customers;
- the timing and growth of our business;
- changes to our product offerings, including pricing changes such as the offering of free or even lower cost products;
- changes in stock-based compensation expense;

- the timing of our adoption of new or revised accounting pronouncements and the impact on our results of operations;
- 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;
- network outages, security breaches, technical difficulties or interruptions with our platform;
- changes in the growth rate of the markets in which we compete;
- the mix of subscriptions and services sold during a period;
- customers delaying purchasing decisions in anticipation of new developments or enhancements by us or our competitors or otherwise;
- changes in customers' budgets;
- seasonal variations related to sales and marketing and other activities;
- our ability to attract new customers or retain existing customers;
- our ability to increase, retain and incentivize the strategic partners that market and sell our platform;
- our ability to control costs, including our operating expenses;
- our ability to hire, train and maintain our customer care specialists, direct sales force, attorneys, and tax professionals;
- unforeseen litigation, regulatory actions, and intellectual property infringement claims;
- the rate of failure for small businesses;
- changes in governmental or other regulations affecting our business;
- changes to government agency practices, staffing, websites which may cause delay or disruptions in our business, including the processing of business formations or EIN numbers;
- variations in our provision for income taxes, which may be affected by the mix of income we earn in the United States, or U.S., and in jurisdictions with comparatively lower tax rates, the effects of stock-based compensation, the effects of changes in our business, and the impact of changes in tax laws or judicial or regulatory interpretations of tax laws;
- changes in government relief spending and related policies;
- adverse global macroeconomic and market conditions, such as those related to the recessionary fears, current inflationary and rising interest rate environment, the COVID-19 pandemic, currency fluctuations and adverse global events; and
- general geopolitical events and conditions, both domestically and internationally (such as the conflict in Ukraine), as well as economic conditions specifically affecting industries in which our customers operate.

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 fear, inflation, rising interest rates and lingering effects of the COVID-19 pandemic and their impact 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, particularly post-pandemic, we could experience short-term liquidity issues, our ability to retain or attract key personnel may diminish, and other unanticipated issues may arise.

We believe that our quarterly operating results may vary in the future and that period-to-period comparisons of our operating results may not be meaningful. For example, our overall historical growth rate and the impacts of the COVID-19 pandemic may have overshadowed the effect of seasonal variations on our historical operating results. Any seasonal effects may change or become more pronounced over time, which could also cause our operating results to fluctuate. You should not rely on the results of any given quarter as an indication of future performance.

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

Since inception, we have incurred an accumulated deficit and may incur net losses in the foreseeable future. At September 30, 2022, we had an accumulated deficit of \$865.9 million.

We will need to generate and sustain increased revenue levels in future periods in order to maintain or increase our level of profitability. We expect our cost of revenue and operating expenses to increase as we invest in scaling our

tax advisory business and accelerating growth of our newly acquired virtual mail offering; invest in marketing and sales to grow our customer base and build on our digital brand leadership and awareness; introduce free and lower cost offerings in our product lineup; invest in new products and services and production automation technologies; and increase our headcount to support these initiatives. Furthermore, as a public company, we are incurring legal, accounting and other expenses that we did not incur as a private company. 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 without limitation the other risks and uncertainties described herein. Additionally, we may encounter unforeseen operating or legal expenses, difficulties, complications, delays and other factors that may result in losses in future periods. In addition, to attract customers, launch new products, or for other reasons, we may determine to make certain of our service offerings available to customers at a low cost or without charge, which will negatively impact our profitability in the short term and, if the strategy is unsuccessful, in the long-term.

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

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

We have made substantial investments in developing our websites, mobile platform, legal documents, educational content, customer relationship management, automated supply chain and fulfillment, integrated digital workflow management and other dynamic online processes that comprise our online legal platform to improve the quality of our services, customer care and customer experience and there is no assurance that those investments will provide us with the benefits we expect. We also intend to add new services and enhance our existing product and services, which will require us to devote significant resources before we know whether such products or services will be successful. We may fail to attract new customers or lose existing customers if current or future development efforts or services fail to meet customer preferences on a timely basis if at all. For example, in October 2020, we introduced LZ Tax, a LegalZoom fulfilled tax advisory service, and in 2022, we began our first cycle of preparing tax filings at scale and we could fail to attract or retain existing customers if our tax professionals or service offerings are not able to keep up with customer volume, demand or customers' expectations. In addition, if the independent attorneys who participate in our legal services plan, or legal plan, or the tax experts who complete the tax preparation services fail to provide accurate, high-quality services, customer care and customer experience. Larger enterprises may demand more support services and features, which puts additional pressure on us to satisfy the increased support required for these customers. If we are unable to attract new customers or if we lose existing customers, our business, results of operations, financial condition and future prospects would be adversely affected.

Additionally, we offer many forms of documents on our platform, such as business formations and wills, which must comply with the latest local jurisdiction requirements. If there is a defect in any of our forms, or if we fail to timely update our forms to comply with new or modified jurisdiction requirements, this could result in negative consequences to our customers, legal liability, harm our brand and adversely affect our business, results of operations, financial condition and future prospects.

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.

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

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 our customers. We must continue to invest resources in technology and development in order to continue improving the simplicity and effectiveness of our platform. We may introduce significant changes to our product offerings, including pricing changes such as the offering of free or even lower cost products, or changes to our platform or develop and introduce new and unproven services, including using technologies with which we have little or no prior development or operating experience. We have in the past invested resources and introduced new services that have failed to produce the customer interest that we expected. 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.

Our business primarily depends on business formations

Our success significantly depends on business formations. The majority of our transaction revenue is generated by providing formation services to guide our customers through the transition from being aspiring business owners to launching their entities. In 2021 and the first nine months of 2022, 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, including an overall decline in the number of U.S. business formations, an economic slowing or downturn, increased competition, compliance or operating costs (including wage and benefit pressures), regulatory obstacles, changes in law (including changes in tax laws and regulations), changes in the business environment from inflation, interest rates, government assistance or other risks, and dissatisfaction with our services. For example, we experienced slower growth in transactions in the second quarter of 2022 than in the second quarter of 2021 as a result of slower business formations growth. Declines in the overall number of business formations or the number of business formations on our platform have adversely affected, and may continue to adversely affect our business, results of operations, financial condition or future prospects. If growth rates continue to decline, these impacts can be expected to intensify.

Our subscription services are highly dependent upon our transaction products

For the past few years, a significant amount of our revenue has been derived from our subscription services. In 2021 and the first nine months of 2022, approximately 50% of our revenue came from subscriptions. Subscriptions have primarily originated from transactional customers who opted to become subscribers. However, subscriptions may be terminated at any time, and the willingness of transactional customers to subscribe is impacted by numerous factors, including cost, the helpfulness of our services over time and our ability to continue to evolve with the growing business needs of our subscribers. As a result, we are not able to predict whether a sufficient number of our existing or new customers will continue to subscribe to our registered agent services, legal plans or other subscription services, or if they will continue to subscribe at the same rate as they have historically. If we are unable to continue to convert our transactional customers to subscribers, our business, results of operations, financial condition and future prospects would be adversely affected.

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

A large portion of our revenue stream comes from our subscriptions for small businesses and individuals. For us to maintain or improve our operating results, it is important that we retain our existing customers and that our subscribers renew their subscriptions with us when the existing subscription term expires. Our subscribers have no obligation to renew their subscriptions upon expiration and we cannot assure you that subscribers will renew subscriptions at the same or a higher level of service, if at all.

We cannot accurately predict renewal rates. Our retention rate 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, the attorneys who fulfill our attorney assisted legal offering, our pricing, the prices of competing products or services, the effects of global economic conditions, regulatory changes and reductions in subscribers' spending levels. If we are unable to attract new subscribers to grow our subscription services, if subscribers cancel their subscriptions at a higher rate than anticipated or do not renew their subscriptions or renew on less favorable terms, our business, results of operations, financial condition and future prospects would be adversely affected. If our renewal rates fall below the expectations of the public market, securities analysts or investors, the price of our common stock could also be harmed.

Our business depends on our ability to drive additional purchases and cross-sell to paying customers

Our future success depends on our ability to expand our relationships with our customers by selling additional solutions to serve their needs, by offering more subscription products that increase engagement. This may require more sophisticated and costly sales efforts. Similarly, the rate at which our customers purchase additional services from us depends on a number of factors, including general economic conditions and customer reaction to pricing of

these services. If our efforts to sell additional services to our customers are not successful, our business, results of operations, financial condition or future prospects may be harmed.

The legal solutions market is highly competitive

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

We may also face potential competition from large internet providers, such as Amazon or Alphabet, who may choose to enter into the online legal solutions business. These businesses have disrupted multiple industries and routinely enter new verticals. Their extensive resources and brand recognition would likely make them formidable competitors and could adversely affect our business despite such competitors lack of expertise in providing legal solutions online.

Our direct and indirect competitors, whether they are online legal document providers, legal plan providers, law firms, accounting firms, solo attorneys or large internet providers, may also be developing innovative and cost-effective services, including automated corporate formation document processing, that target our existing and potential customers. We expect to face increasing competition from offline and online legal services providers in our market, and our failure to effectively compete with these providers could result in revenue reductions, reduced margins, or loss of market share, any of which could materially and adversely affect our business, results of operations, financial condition and future prospects.

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

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

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

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

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

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

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. These difficulties have intensified in recent years as an increasing number of employees have determined to leave the technology sector or left the workforce altogether. Many of the factors that have led to the "Great Resignation" (including increased workloads and physical isolation from other employees) have also caused employees to experience burnout, which has and may continue to result in increased attrition and decreased productivity. In addition, our Remote-First work policy, which results in a predominantly remote workforce, has also made it difficult to orient, train, develop, motivate, and engage with our employees and embed them in to the LegalZoom culture. If we are not able to effectively attract or retain quality employees, 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.

Our ability to operate efficiently depends upon contributions from across our employees and our senior management team. Having the right roles for the evolving needs of our business is important for achieving this efficiency. We have in the past, and may in the future, conducted reduction in workforce actions. These actions frequently result in us eliminating roles which may have unexpected adverse impacts on the growth and operation of our business, including on our ability to attract talent. In addition, from time to time, there may be changes in our senior management team that may be disruptive to our business. If our senior management team, including any new hires that we may make, fails to work together effectively and execute agreed-upon plans and strategies on a timely basis, our business and future prospects may be adversely affected.

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

Our business and success depend in part on our strategic relationships with third parties, including our partner ecosystem, and our business would 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 partner with a variety of third parties to provide business license services, website development, credit card and banking services, productivity tools and business insurance, among others. Our sales and our customers' user experience are dependent on our ability to connect and integrate easily to such third-party solutions. We may fail to retain and expand relationships for many reasons, including third parties' failure to maintain,

support, or secure their technology platforms in general, restrictions imposed by regulatory compliance, and our integrations in particular. Any such failure could harm our relationship with our customers, our reputation and brand, our business and results of operations, and our future prospects.

As we seek to add different types of partners to our partner ecosystem, it is uncertain whether these third parties will be successful in building integrations, co-marketing our solutions to provide a significant volume and quality of lead referrals and orders, or continuing to work with us as their own products evolve. Identifying and negotiating new and expanded partner relationships require significant resources. 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 parties' 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. 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. In addition, any failure of our solutions to operate effectively with business applications could reduce the demand for our solutions and harm to our business. If we are unable to respond to these changes or failures in a cost-effective manner, our solutions may become less marketable, less competitive or obsolete, and our results of operations may be negatively impacted.

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

We rely on third parties to fulfill portions of the services we offer and to support our operations. For example, we rely on government agencies, including secretary of state offices and the U.S. Patent and Trademark Office, to process business formation documents and intellectual property applications. If these agencies are unable or refuse to process submissions in a timely manner, including as a result of any government shutdowns or slowdowns, our brand and reputation may be adversely affected, or customers may seek other avenues for their business formation or intellectual property needs. We also utilize other third parties in connection with the fulfillment and distribution of our services, including the independent attorneys in our legal plan network, as well as accountants and tax professionals through our subscription plans, and a third party to support our registered agent subscription services. Our platform also interoperates with certain third-party sites. As a result, our results may be affected by the performance of those parties and the interoperability of our platform with other sites. If certain third parties limit certain integration functionality, change their treatment of our services at any time, or experience quality issues, such as bugs and defects, our revenue, results of operations and future prospects may be adversely affected.

In addition, we may be unable to renew or replace our agreements with these third parties on comparable terms, or at all. Moreover, we cannot guarantee that the parties with which we have relationships can and will continue to devote the resources necessary to operate and expand our platform. Further, some of these third parties offer, or could offer, competing services or also work with our competitors. As a result of these factors, many of these third parties may choose to develop alternative services in addition to, or in lieu of, our platform, either on their own or in collaboration with others, including our competitors. 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. We may also be held responsible for obligations that arise from the actions or omissions of these third parties.

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. We exercise limited control over these third parties, which increases our vulnerability to problems with the services they provide for us and to security incidents or breaches affecting the data and information they hold or process on our behalf. Any errors or defects in any third-party data or other technology could result in errors in our solutions that could harm our business, damage our reputation and result in losses in revenue, and we could be required to undertake substantial additional research and expend significant development resources to fix any problems that arise. In addition, such licensed data, technology, intellectual property and services may not continue to be available on commercially reasonable terms, or at all. Any loss of the right to use any of these 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

A significant and growing portion of our customers access our platform through mobile devices with almost half of our traffic through mobile devices. The number of people who access the internet and purchase services 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 and solutions 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.

If the mobile applications and versions of some of our web content that we have created are not well received by customers, or if they don't offer the information, services and functionality required by customers that widely use mobile devices, our business may suffer and we may experience difficulty in attracting and retaining customers. In addition, we face different fraud risks and regulatory risks from transactions sent from mobile devices than we do from personal computers. If we are unable to effectively anticipate and manage these risks, our business, results of operations, financial condition and future prospects may be harmed.

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

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

- 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;
- an acquisition may disrupt our ongoing business, divert resources, increase our expenses and distract our management;
- an acquisition 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;
- we may find it difficult to, or may be unable to, successfully sell any acquired services or products;
- our use of cash to pay for acquisitions 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 these difficulties in connection with integrating some of our acquisitions and expect to face similar problems in the future, including in connection with the ongoing integration of a company we recently acquired. 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. We may also decide to restructure, divest or sell businesses, products or technologies that we have acquired or invested in. The occurrence of any of these 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, partners, the communities in which we operate,

and other stakeholders we may identify from time to time, is essential to the long-term success of our company and to long-term stockholder value. Therefore, we have made decisions, and may in the future make decisions, that we believe are in the long-term best interests of our company and our stockholders, even if such decisions may negatively impact the short- or medium-term performance of our business, results of operations, and financial condition or the short- or medium-term performance of our common stock. Our commitment to pursuing long-term value for our company and our stockholders, potentially at the expense of short- or medium-term performance, may materially adversely affect the trading price of our common stock, including by making owning our common stock less appealing to investors who are focused on returns over a shorter time horizon. Our decisions and actions in pursuit of long-term success and long-term stockholder value, which may include changes to our platform to enhance the experience of our customers, partners and the communities in which we operate, including by improving the trust and safety of our platform, enabling equitable access to legal and compliance services, investing in our relationships with our customers, partners, and employees, investing in and introducing new services, or changing our approach to working with local or national jurisdictions on laws and regulations governing our business, may not result in the long-term benefits that we expect, in which case our business, results of operations, and financial condition, as well as the trading price of our common stock, could be materially adversely affected.

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. In addition, any steps we take to increase the reliability and redundancy of our systems may be expensive and may not be successful in preventing system failures. We have experienced, and may in the future experience, website disruptions, outages and other performance problems due to a variety of factors, including infrastructure maintenance, human or software errors, ransomware attacks, capacity constraints, denial of service, fraud or security attacks. In some instances, we may not be able to identify the cause or causes of these 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. 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.

In particular, our online services may be vulnerable to denial or degradation of service attacks or ransomware attacks, which may be designed to adversely impact our operations by reducing the capacity or availability of our information technology systems, the speed of operations of online services or disrupt the public's ability to access our websites or applications. Steps we have taken to try to prevent these attacks and mitigate their potential impact on our systems and operations may be ineffective to prevent service disruptions or outages. We have experienced denial-of-service attacks in the past, and we may be subject to additional attacks or threats of attacks in the future. A similar event or 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. Further, if our customers are unable to access the information they store on our platform for even limited periods of time, data protection laws may require us to notify regulators and affected individuals, which may increase the likelihood of regulatory investigations into our data protection practices, loss of customers, litigation and other liabilities.

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 LegalZoom or our service providers. These physical locations are vulnerable to damage or interruption from natural disasters, adverse weather conditions, power losses, telecommunication failures, terrorist attacks, human errors, break-ins and similar events. The occurrence of any of the foregoing events or other unanticipated problems at our facilities could result in lengthy interruptions in our services. We may not be able to efficiently relocate our fulfillment and delivery operations due to disruptions in service if one of these events occurs, and our insurance coverage may be insufficient to compensate us for such losses. Because the Los Angeles area, where our corporate and executive headquarters is located, is in an earthquake fault zone and because both the Los Angeles area and Austin, Texas, where our operational headquarters is 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 have been or are involved in, and may in the future become involved in, litigation matters that are expensive and time consuming, and, if resolved adversely, could harm our brand and reputation, business, results of operations, financial condition or future prospects

We have been or are involved in lawsuits and other actions brought by customers, purported competitors, regulators, and other parties alleging that we engage in the unauthorized practice of law, unfairly compete or otherwise violate the law. 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 these and other proceedings. If such litigation 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 could have a negative effect on our brand and reputation, business, results of operations, financial condition and future prospects. We anticipate that we will continue to be a target for such lawsuits in the future. Any litigation to which we are 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. In addition, defending these claims is 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 such negative outcome could result in payments of substantial monetary damages or fines, injunctive relief, adverse effects on the market price of our common stock or changes to our products or business practices, and accordingly, our brand and reputation, business, results of operations, financial condition or future prospects could be materially and adversely affected.

We also may encounter future claims. For example, our U.K. subsidiary operates as an alternative business structure, or ABS, which allows corporate entities to become licensed providers of reserved legal activities in that jurisdiction. As a result, our U.K. subsidiary 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 the corporate practice of law, or CPL or unauthorized practice of law, or UPL. The professional liability insurance, held by our U.K. 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.K. 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. These same risks may emerge with respect to our U.S. subsidiary, LZ Legal Services, LLC, which was licensed in September 2021 as an Arizona ABS, and became operational in July 2022.

Furthermore, our employees may, from time to time, bring lawsuits against us regarding injuries, a hostile workplace, discrimination, wage and hour disputes, sexual harassment, or other employment issues. In recent years there has been an increase in the number of discrimination and harassment claims against employers generally. Coupled with the expansion of social media platforms, employer review websites and similar devices that allow individuals access to a broad audience, these claims have had a significant negative impact on some businesses. Certain companies that have faced employment- or harassment-related claims have had to terminate management or other key personnel and have suffered reputational harm that has negatively impacted their business, including their ability to attract and hire top talent. If we were to face any employment- or harassment-related claims, our business could be negatively affected in similar or other ways.

As we face increasing competition and gain an increasingly high profile, including as a result of our IPO, third parties may make intellectual property rights claims, file lawsuits or initiate regulatory actions or other proceedings against us. In addition, we may introduce new services, including in areas where we currently do not compete, which could increase our exposure to lawsuits, regulatory actions or intellectual property claims. Defending against lawsuits, regulatory actions, and other intellectual property claims is costly and can place a significant burden on management and employees. If such claims are made against us, there can be no assurances that favorable final outcomes will be obtained and, if resolved adversely, may result in changes to or discontinuance of some of our services, potential liabilities or additional costs, which could adversely affect our business, results of operations, financial condition and 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. For credit and debit card payments, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. 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, and it could interrupt our business if these third parties become unwilling or unable to provide these services to us, or if we are otherwise unable to collect payments. 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 business is subject to seasonal fluctuations that may cause our results of operations to vary from period to period

Many of the factors that contribute to seasonal fluctuations in our results of operations are out of our control. We have experienced, and expect that we will continue to experience, seasonality in the number of orders placed and when we enter into subscription agreements with customers. Historically, our customers have tended to place a higher number of orders and entered into new or renewed subscriptions in the first quarter of the year, which is when we believe the demand for forming businesses is the highest. Further seasonality is reflected in the timing of our revenue recognition in the second quarter, when we have typically recognized a high amount of revenue from orders placed in the first quarter but fulfilled in the second quarter. Also, we have historically seen demand for our services decline around the beginning of the third quarter as a result of summer vacations and in the last two months of the fourth quarter as a result of the winter holidays. These historical trends were recently affected by the COVID-19 pandemic beginning in the second quarter of 2020 as individuals and small businesses turned to online services given the relative inaccessibility of offline alternatives as well as due to the availability of government stimulus checks. These tailwinds subsided in the back half of 2021 due to the easing of government stimulus supporting individuals and small businesses impacted by the pandemic. Seasonality in our business may cause period-to-period fluctuations in certain of our operating results and financial metrics and thus limit our ability to predict our future results.

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

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

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

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

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

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

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

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

During the year ended December 31, 2018, we identified three material weaknesses in our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

The material weaknesses we identified are listed below:

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

These material weaknesses resulted in adjustments to our financial statements primarily related to debt extinguishment costs, goodwill, revenue, accounts receivable, foreign exchange expense and deferred revenue, and could result in a misstatement of any account balances or disclosures that would result in a material misstatement to the annual or interim unaudited condensed consolidated financial statements that would not be prevented or detected.

We have designed and are implementing a plan to remediate the material weaknesses identified. See Part I, Item 4, "Controls and Procedures" in this Quarterly Report on Form 10-Q for additional information regarding our remediation plan. We cannot assure you that these measures will significantly improve or remediate the material weaknesses described above on a timely basis, if at all. The implementation of these remediation measures will require validation and testing of the design and operating effectiveness of internal controls over a sustained period of financial reporting cycles. As a result, remediation of these material weaknesses during 2022 is uncertain. If the steps we have taken do not remediate the material weaknesses in a timely manner, there could continue to be a reasonable possibility that these control deficiencies or others would result in a material misstatement of our annual or interim financial statements that would not be prevented or detected on a timely basis. This, in turn, could jeopardize our ability to comply with our reporting obligations, limit our ability to access the capital markets and adversely impact our stock price.

We and our independent registered public accounting firm were not required to perform an evaluation of our internal control over financial reporting as of December 31, 2021 in accordance with the provisions of the Sarbanes-Oxley Act of 2002. Accordingly, we cannot assure you that we have identified all, or that we will not in the future have additional, material weaknesses. Material weaknesses may still exist when we furnish a report by management on the effectiveness of our internal control over financial reporting as required by reporting requirements under Section 404 in our Annual Report on Form 10-K for the year ended December 31, 2022. If we are unable to successfully remediate the existing material weakness in our internal control over financial reporting, the accuracy and timing of our financial reporting, and our stock price, may be adversely affected and we may be unable to maintain compliance with the applicable stock exchange listing requirements.

Implementing any appropriate changes to our internal controls may distract our officers and employees, entail substantial costs to modify our existing processes and take significant time to complete. These changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and harm our business. In addition, investors' perceptions that our internal controls are inadequate or that we are

unable to produce accurate financial statements on a timely basis may harm our stock price and make it more difficult for us to effectively market and sell our services to new and existing customers.

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

As a public company, we are required to maintain internal control over financial reporting and to report any material weaknesses in our internal controls. In addition, beginning with our 2022 Annual Report on Form 10-K, which we expect to file with the SEC in the first quarter of 2023, we will be required to furnish a report by management on the effectiveness of our internal control over financial reporting pursuant to Section 404. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting, including but not limited to those previously identified and not fully remediated at the time of such assessment. In addition, our independent registered public accounting firm will be required to attest to the effectiveness of our internal control over financial reporting beginning with our first Annual Report on Form 10-K following the date on which we are no longer an “emerging growth company,” which we expect will be our 2022 Annual Report on Form 10-K

We have commenced the costly and challenging process of compiling the system and processing documentation necessary to perform the evaluation needed to comply with Section 404, and we may not be able to complete our evaluation, testing and any required remediation in a timely fashion. Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. We will need 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 perform the evaluation needed to comply with Section 404.

During the evaluation and testing process of our internal controls, if we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert that our internal control over financial reporting is effective. We cannot assure you that there will not be additional material weaknesses or significant deficiencies 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. If we are unable to conclude that our internal control over financial reporting is effective or if our independent registered public accounting firm determines we have a material weakness in our internal control over financial reporting, we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of our common stock could be negatively affected, and we could be subject to sanctions or investigations by the stock exchange on which our securities are listed, the SEC or other regulatory authorities, which would also require additional financial and management resources. Failure to remedy any material weakness in our internal control over financial reporting or to implement or maintain other effective control systems required of public companies could also restrict our future access to the capital markets.

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

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

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

The 2021 Revolving Facility also contains a financial covenant that requires us to maintain a total net first lien leverage ratio of 4.50:1.00 on the last day of any fiscal quarter during which our New Credit Facility usage exceeds 35%

of the New Credit 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. 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.

The 2021 Revolving Facility includes customary events of default, including: failure to pay principal, interest or certain other amounts when due; material inaccuracy of representations and warranties; violation of covenants; specified cross-default and cross-acceleration to other material indebtedness; certain bankruptcy and insolvency events; certain events relating to ERISA; certain undischarged judgments; material invalidity of guarantees or grant of security interest; and change of control, in certain cases subject to certain thresholds and grace periods.

Our failure to comply with the restrictive covenants described above as well as 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. If we are forced to refinance these borrowings on less favorable terms or are unable to refinance these borrowings, our business, results of operations, financial condition and future prospects could be adversely affected. In addition, such a default or acceleration may result in the acceleration of any future indebtedness or result in the termination of certain other contracts with third parties, in each case to which a cross-acceleration or cross-default provision applies. If we are unable to repay our indebtedness, lenders having secured obligations, such as the lenders under the 2021 Revolving Facility, could proceed against the collateral securing the indebtedness. In any such case, we may be unable to borrow under our 2021 Revolving Facility and may not be able to repay the amounts due under our 2021 Revolving Facility. This could have serious consequences to our business, results of operations, financial condition and future prospects and could cause us to become bankrupt or insolvent.

When the London Interbank Offered Rate, or LIBOR is discontinued, borrowing costs under the 2021 Revolving Facility or agreements governing any of our future indebtedness will be calculated using another reference rate, which may cause substantial uncertainty as to the effect of such replacement on our borrowing costs

On March 5, 2021, the ICE Benchmark Administration, or IBA, the administrator of the London Interbank Offered Rate, or LIBOR, the U.K. Financial Conduct Authority, or FCA, the regulatory supervisor of the IBA, announced in public statements, or Announcements, that the final publication or representativeness date for one-week and two-month USD LIBOR would be December 31, 2021 and all other USD LIBOR tenors (overnight, one-month, three-month, nine-month and 12-month) will be June 30, 2023. As a result, USD LIBOR will not be available for use in agreement and other instruments after the relevant cessation date and may ultimately cease to be utilized in advance of such relevant cessation date. In April 2018, the Federal Reserve Bank of New York commenced publishing the Secured Overnight Financing Rate, or SOFR, an alternative reference rate to USD LIBOR identified by the Alternative Reference Rates Committee, a group convened by the Board of Directors of the Federal Reserve System and the Federal Reserve Bank of New York and comprised of certain private sector entities, with the participation of the staffs of various U.S. federal agencies. At this time, it is uncertain whether SOFR or other alternative reference rates may become widely accepted alternatives for USD LIBOR. USD LIBOR is used as a benchmark reference throughout the 2021 Revolving Facility. While the 2021 Revolving Facility provides fallback language in the event USD LIBOR ceases to be published, including the possibility of designation of a replacement rate by the administrative agent under the 2021 Revolving Facility, there is uncertainty as to the effect of such replacement on our borrowing costs. If future rates based upon SOFR or any other successor reference rate are higher or more volatile than USD LIBOR rates as currently determined or if our lenders have increased costs due to changes in LIBOR, 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 addition, we may need to renegotiate the 2021 Revolving Facility in order to determine an alternative reference rate to replace USD LIBOR with the new market standard that is established. As such, the full effect of any such event on our borrowing costs or the effectiveness of certain related transactions such as hedges cannot yet be determined.

We are subject to fluctuations in interest rates

Borrowings under the 2021 Revolving Facility are 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, could adversely affect us if amounts are outstanding under the 2021 Revolving Facility. 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.

Certain of our indebtedness may be denominated in foreign currencies, which subjects us to foreign exchange risk, which could cause our debt service obligations to increase significantly

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. Sharp changes in the exchange rates between the currencies in which we borrow and the currencies in which we generate cash flow could adversely affect us. In the future, we may enter into contractual arrangements designed to hedge a portion of the foreign currency exchange risk associated with any non-U.S. dollar-denominated debt. If these hedging arrangements are unsuccessful, we may experience an adverse effect on our business, results of operations, financial condition and future prospects.

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

The tax regimes we are subject to or operate under, including income and non-income taxes, are unsettled and may be subject to significant change. Changes in tax laws, regulations or rulings, or changes in interpretations of existing laws and regulations, could affect our financial condition, results of operations and cash flows. For example, the 2017 Tax Cuts and Jobs Act, or Tax Act, made broad and complex changes to the U.S. tax code, including changes to U.S. federal tax rates, additional limitations on the deductibility of interest, both positive and negative changes to the utilization of net operating loss, or NOL carryforwards, allowing for the expensing of certain capital expenditures, and putting into effect the migration from a "worldwide" system of taxation to a largely territorial system. The issuance of additional regulatory or accounting guidance related to the Tax Act could affect our tax obligations and effective tax rate in the period issued. In addition, many countries in Europe, as well as a number of other countries and organizations, have recently proposed or recommended changes to existing tax laws or have enacted new laws that could significantly increase our tax obligations in the countries where we do business or require us to change the manner in which we operate our business.

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

Our ability to use our NOL carryforwards may be limited

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

At December 31, 2021, we had U.S. federal and state NOL carryforwards of \$29.8 million and \$58.8 million, respectively. Of the \$29.8 million U.S. federal NOL carryforwards, \$28.2 million may be carried forward indefinitely with utilization limited to 80% of taxable income. The remaining \$1.6 million will begin to expire in 2032. The state NOL carryforwards begin to expire in 2032.

In addition, under Section 382 of the Code and corresponding provisions of state law, if a corporation undergoes an "ownership change," which is generally defined as a greater than 50 percentage point change (by value) in its equity ownership over a three-year period, the corporation's ability to use its pre-change NOL carryforwards to offset its post-change income or taxes may be limited. We have completed a Section 382 study and have determined that none of our net operating losses will expire solely due to Section 382 limitations. However, we may experience ownership changes in the future as a result of shifts in our stock ownership, some of which may be outside of our control. This could limit the amount of NOLs that we can utilize annually to offset future taxable income or tax liabilities. Subsequent ownership changes and changes to the U.S. tax rules in respect of the utilization of NOLs may further affect the limitation in future years. In addition, at the state level, there may be periods during which the use of NOLs is suspended or otherwise limited, which could accelerate or permanently increase state taxes owed.

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

We are subject to income taxes in the U.S. and various foreign jurisdictions. The determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment by management, and there are many transactions where the ultimate tax determination is uncertain. We believe that our provision for income taxes is reasonable, but the ultimate tax outcome may differ from the amounts recorded in our unaudited condensed

consolidated financial statements and may affect our financial results in the period or periods in which such outcome is determined.

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

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

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

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

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

Risks Relating to Legal, Compliance and Regulatory Matters

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

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

- Our business model includes the provision of services that represent an alternative to traditional legal services, which subjects us to allegations of UPL. UPL generally refers to an entity or person giving legal advice that is not licensed to practice law or advertising their services as the practice of law. However, laws and regulations defining UPL, and the governing bodies that enforce UPL rules, differ among the various jurisdictions in which we operate and are often vague.
- In the U.S., we are generally unable to hire attorneys as employees to provide legal advice directly to our customers, because we do not meet certain regulatory requirements, such as being exclusively owned by licensed attorneys. In addition, we are currently unable to acquire a license to practice law in most U.S. states, laws, regulations and professional responsibility rules impose limitations on business transactions between attorneys and persons who are not licensed attorneys, including those related to the ethics of attorney fee-splitting and CPL. This position can be contrasted with that in the U.K., where we operate an ABS, which allows certain corporate entities to become licensed providers of reserved legal activities in that jurisdiction, pursuant to the U.K. Legal Services Act 2007, or LSA. The regulatory environment in the U.S. is evolving slowly with two states so far, Arizona and Utah, approving regulatory reform that permits non-lawyers to co-own law firms and other legal service operations. We applied for and received a license to operate as an Arizona ABS on September 30, 2021, through our U.S subsidiary, LZ Legal Services, LLC. We cannot assure you that this legally permissible structure in Arizona will insulate us from claims of CPL or UPL in other jurisdictions.
- Regulation of legal document processing services and registered agent services varies among the jurisdictions in which we conduct business.
- Regulation of our legal plans varies considerably among the insurance departments, bar associations, Supreme Courts and attorneys general of each U.S. state. In addition, some U.S. states and federal agencies may seek to regulate our legal plans or other subscription plans.

Our business operations also subject us to laws and regulations relating to general business practices, and the manner in which we offer our services to customers subjects us to various consumer laws and regulations, including

false advertising, payment laws, telephone sales, email marketing, automatic contract or subscription renewal, and deceptive trade practices.

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

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

Our U.K. subsidiary, being a “licensed body” law firm, is subject to restrictions under the LSA

Under the LSA, there are restrictions on the holding of “restricted interests” in “licensed body” law firms. A restricted interest for the purpose of these restrictions is an interest of 10% or more in the issued share capital of the licensed body or the parent company of such licensed body. As our wholly owned U.K. subsidiary is a licensed body for the purposes of the LSA, the restrictions referred to above will apply to any holder(s) of 10% or more of our common stock.

The consent of the U.K. Solicitors Regulatory Authority, or SRA, is required should any person who is a “non-deemed approved lawyer” seek to acquire a restricted interest. It is a criminal offense in the U.K. for any “non-deemed approved lawyer” to acquire a restricted interest without having given prior notification to the SRA or, having given prior notification to the SRA, to acquire a restricted interest without having obtained the SRA’s consent. The SRA may attach conditions to any consent that it may give in respect of the holding of a restricted interest. However, should any stockholder wish to consider owning a stake in our common stock in excess of this threshold, it is possible for the SRA to be approached and grant pre-approval in advance of any such acquisition.

The SRA can force any person who acquires a restricted interest in contravention of the applicable rules to divest its share ownership in the licensed body (or its parent company). The SRA also has the ability to suspend or revoke the relevant entity’s licensed body status in respect of any such contravention. Any suspension or revocation of our U.K. subsidiary’s licensed body status would have a serious detrimental impact on our business, and, in such circumstances, we would seek to collaborate with the SRA to minimize any resultant business disruption.

Our Arizona subsidiary, which is licensed as an ABS, is subject to restrictions under Arizona Code of Judicial Administration

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

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

If the independent professionals who participate in our or our partners’ networks are characterized as employees, we would be subject to employment and withholding liabilities and regulatory risks

We structure our relationships with the independent attorneys and independent accountants who participate in our and our partners’ networks in a manner that we believe results in an independent contractor relationship, not an employee relationship. On the other hand, some of our LZ Tax offerings as well as our intellectual property offerings

are fulfilled by our or subsidiary's own employee accountants, tax professionals, lawyers and fulfillment staff. An independent contractor is generally distinguished from an employee by his or her degree of autonomy and independence in providing services. A high degree of autonomy and independence is generally indicative of a contractor relationship, while a high degree of control is generally indicative of an employment relationship. Tax or other regulatory authorities may in the future challenge our characterization of the independent attorneys who participate in our and our partners' networks of these relationships. If such regulatory authorities or state, federal or foreign courts were to determine that these attorneys or accountants 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 independent attorneys or independent accountants are our employees could have a material adverse effect on our business, results of operations, financial condition and future prospects.

We are subject to stringent and changing laws, regulations and standards, and contractual obligations related to data privacy and security. The actual or perceived failure to comply with applicable data protection, privacy and security laws, regulations, standards, and other requirements could adversely affect our business, results of operations, and financial conditions

In the ordinary course of business, we process sensitive information. Our data processing activities may subject us to numerous privacy and data security obligations, such as various foreign and domestic laws, regulations, guidance, standards, external and internal privacy and data security policies, contracts, and other obligations regarding privacy and data security governing the processing of personal information by us and on our behalf. Privacy and data security has become a significant issue worldwide. The global regulatory framework for privacy and data security issues is rapidly evolving and is likely to remain uncertain for the foreseeable future. Many government bodies and agencies have adopted or are considering adopting laws and regulations regarding the processing of personal information and breach notification procedures. Interpretation of these laws, rules and regulations in applicable jurisdictions is ongoing, may not be fully determined at this time and may conflict across jurisdictions. Preparing for and complying with these obligations requires significant resources and may necessitate changes to our information technologies, systems, and practices and to those of any third parties that process personal data on our behalf. In addition, these obligations may require us to change our business model.

In the United States, federal, state, and local governments have enacted numerous privacy and data security laws, including data breach notification laws, personal data privacy laws, and consumer protection laws (e.g. Section 5 of the Federal Trade Commission Act). For example, the California Consumer Privacy Act of 2018, or CCPA, gives California residents expanded rights to access and delete their personal information, opt out of certain personal information sharing and receive detailed information about how their personal information is used. The CCPA provides for civil penalties for violations, as well as a private right of action for data breaches. In addition, the California Privacy Rights Act of 2020, or CPRA, which goes into effect on January 1, 2023, gives California residents the ability to limit the use of their personal information, further restricts the use of cross-contextual advertising, establishes restrictions on the retention of personal information, expands the types of data breaches subject to the CCPA's private right of action, provides for increased penalties for CPRA violations concerning California residents under the age of 16, and establishes a new California Privacy Protection Agency to implement and enforce the new law. Other states have also enacted privacy laws. For example, Virginia enacted the Virginia Consumer Data Protection Act, or CDPA, which becomes effective on January 1, 2023, and Colorado enacted the Colorado Privacy Act, or CPA, which takes effect on July 1, 2023. Additional laws have been proposed at the federal, state, and local level in recent years, which could further complicate compliance efforts.

Additionally, compliance with any other applicable privacy and data security laws, such as the Gramm-Leach-Bliley Act and Code Section 7216, and applicable regulations is a rigorous and time-intensive process, and we may be required to put in place additional mechanisms to provide for compliance with the new data protection rules.

The global data protection landscape is also rapidly evolving outside the United States. For example, in May 2018, the General Data Protection Regulation, or GDPR, went into effect in the EU. The GDPR imposes stringent data protection requirements and to date, has increased compliance burdens on us, including by mandating burdensome documentation requirements and granting certain rights to individuals to control how we collect, use, disclose, retain and process information about them. The GDPR also provides for more robust regulatory enforcement and greater penalties for noncompliance than previous data protection laws, including fines of up to €20 million or 4% of global annual revenue of any noncompliant company for the preceding financial year, whichever is greater. Further, individuals and consumer protection organizations authorized at law to represent individual interests may initiate litigation relating to the processing of personal data. Other jurisdictions have adopted laws similar in construction to the GDPR or regulatory frameworks of equivalent complexity. For example, the United Kingdom adopted the GDPR into its national law, Brazil enacted the General Data Protection Law, New Zealand enacted the New Zealand Privacy Act, and China adopted the Personal Information Protection Law.

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, absent appropriate safeguards or other

circumstances, the GDPR generally prohibits the transfer of personal information to countries outside of the European Economic Area, or the EEA, that the European Commission does not consider to provide an adequate level of privacy and data security, such as the United States. The European Commission released a set of Standard Contractual Clauses, or SCCs, that are designed to be a valid transfer mechanism to facilitate personal data transfers out of the EEA to these jurisdictions. Currently, these SCCs are a valid mechanism to transfer personal data outside of the EEA. Additionally, the SCCs impose additional compliance burdens, such as conducting transfer and impact assessments to determine whether additional security measures are necessary to protect the at-issue data. In addition, Switzerland and the UK similarly restrict personal data transfers outside of those jurisdictions to countries such as the United States that do not provide an adequate level of personal data protection, and certain countries outside Europe (e.g., Russia, China, Brazil) 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 United States 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.

Any failure or perceived failure by us or third parties working on our behalf to comply with applicable privacy and data security obligations may result in governmental enforcement actions (including investigations, fines, penalties, audits, judgments, and settlements), civil claims, litigation, additional reporting requirements and/or oversight, bans on processing personal data, orders to destroy or not use personal data, damage to our brand and reputation, loss of goodwill (both in relation to existing customers and prospective customers), loss of customers, interruptions or stoppages in our business operations, limited ability to commercialize our products, expenditure of time and resources to defend any claim or inquiry, or revision or restructuring of our operations, any of which could have a material adverse effect on our business, operations and financial performance.

Additionally, some providers of consumer devices and web browsers have implemented, or announced plans to implement, means to make it easier for Internet users to prevent the placement of cookies or to block other tracking technologies, which could, if widely adopted, result in the use of third-party cookies and other methods of online tracking becoming significantly less effective. For example, Apple introduced an iOS update in April 2021 that allowed users to more easily opt-out of tracking of activity across devices, and Google has announced that it intends to phase out third-party cookies in its Chrome browser, which could make it more difficult for us to target advertisements. The regulation of the use of these 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, financial condition and results of operations.

In addition to data privacy and security laws, we may be contractually subject to other data privacy and security obligations, including industry standards adopted by industry groups, and may become subject to new data privacy and security obligations in the future. For example, we may be subject to the Payment Card Industry Data Security Standard, or PCI DSS. The PCI DSS requires companies to adopt certain measures to ensure the security of cardholder information, including using and maintaining firewalls, adopting proper password protections for certain devices and software, and restricting data access. Noncompliance with PCI-DSS can result in penalties ranging from \$5,000 to \$100,000 per month by credit card companies, litigation, damage to our reputation, and revenue losses. We may also rely on vendors to process payment card data, and those vendors may be subject to PCI DSS, and our business may be negatively affected if our vendors are fined or suffer other consequences as a result of PCI DSS noncompliance.

Other government agencies are also undertaking measures to strengthen the security of their systems and protect the integrity of their databases. In 2019, the United States Patent and Trademark Office, or USPTO, began requiring anyone accessing the Trademark Electronic Access System, or TEAS, to log into a USPTO.gov account with two-step authentication. On January 8, 2022, the USPTO built on that requirement by introducing an identity verification process that requires users to verify their identity and authenticate their USPTO.gov account. This process leverages technology by ID.me and is intended to ensure that account holders are who they say they are. As part of this initiative, to access TEAS, users will be required to select one of four filing roles: a trademark owner, U.S. licensed attorney, Canadian attorney/agent, or attorney support staff. This change became a mandatory requirement on August 6, 2022 and impacted our ability to log into TEAS and complete trademark applications on behalf of our do-it-yourself customers. In anticipation of this requirement, we have made certain changes to our business practices and have eliminated our do-it-yourself trademark filing product, which may have a revenue impact on the business.

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

We collect, use, store, transmit and process data and information about our customers, employees and others, some of which may be sensitive, personal or confidential. Any actual or perceived breach of our security measures or those of our third-party service providers could adversely affect our business, operations and future prospects. A

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

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

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

We may expend significant resources or modify our business activities to try to protect against security breaches. In addition, certain data privacy and security obligations may require us to implement and maintain specific security measures, industry-standard or reasonable security measures to protect our information technology systems and sensitive information. We cannot guarantee that our security measures to protect customer information and prevent data loss and other security breaches will be sufficient to protect against unauthorized access to, or other compromise of, personal information confidential or proprietary information. The techniques used to sabotage or to obtain unauthorized access to our platform, systems, networks and/or physical facilities in which data is stored or through which data is transmitted change frequently, and we have not always been able in the past and may be unable in the future to anticipate such techniques or implement adequate preventative measures or stop security breaches that may arise from such techniques. As a result, our safeguards and preventive measures may not be adequate to prevent past, current or future cyberattacks and security breaches, including security breaches that may remain undetected for extended periods of time, which can substantially increase the potential for a material adverse impact resulting from the breach. Further, we may experience delays in developing and deploying remedial measures designed to address any such identified vulnerabilities.

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

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

Our contracts may not contain limitations of liability, and even where they do, there can be no assurance that limitations of liability in our contracts are sufficient to protect us from liabilities, damages, or claims related to our data privacy and security obligations. 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.

We are subject to anti-corruption, anti-bribery, anti-money laundering, and similar laws, and non-compliance with such laws can subject us to criminal and/or civil liability and harm our business

We are subject to the U.S. Foreign Corrupt Practices Act of 1977, as amended, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the U.K. Bribery Act, and other anti-bribery and anti-money laundering laws in the countries in which we conduct activities. Anti-corruption and anti-bribery laws have been enforced aggressively in recent years and are interpreted broadly to generally prohibit companies and their employees and third-party intermediaries from authorizing, offering, or providing, directly or indirectly, improper payments or benefits to recipients in the public or private sector. In addition, we or our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities. We can be held liable for the corrupt or other illegal activities of these third-party intermediaries, our employees, representatives, contractors, partners and agents, even if we do not explicitly authorize such activities.

We cannot assure you that all of our employees and agents will comply with our policies and procedures to address anti-corruption laws or not take actions in violation of our policies and applicable law, for which we may be ultimately held responsible.

Detecting, investigating and resolving actual or alleged violations of anti-corruption and anti-money laundering laws can require a significant diversion of time, resources and attention from senior management. In addition, noncompliance with anti-corruption, anti-bribery or anti-money-laundering laws could subject us to whistleblower complaints, investigations, sanctions, settlements, prosecution, other enforcement actions, disgorgement of profits, significant fines, damages, other civil and criminal penalties or injunctions, suspension and/or debarment from contracting with certain persons, the loss of export privileges, reputational harm, adverse media coverage and other collateral consequences. If any subpoenas or investigations are launched, or governmental or other sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, results of operations, financial condition and future prospects could be materially harmed. In addition, responding to any action will likely result in a materially significant diversion of management's attention and resources and significant defense costs and other professional fees. Enforcement actions and sanctions could further harm our business, results of operations, financial condition and future prospects.

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. We have no issued patents, and have 17 U.S. trademark registrations and 17 pending U.S. trademark applications and additional trademark registrations outside of the U.S. 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.

Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and proprietary information

We have devoted substantial resources to the development of our intellectual property and proprietary rights. In order to protect our intellectual property and proprietary rights, we rely in part on confidentiality agreements with our employees, licensees, independent contractors and other advisors. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover trade secrets and proprietary information, and in such cases we could not assert any trade secret rights against such parties. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

Risks Relating to Ownership of Our Common Stock

An active market may not be sustainable, and you may not be able to resell your shares at or above the price at which you purchased your shares, if at all

It is possible that an active or liquid trading market in our common stock may not be sustainable. The lack of an active market may impair your ability to sell your shares at the time you wish to sell them, if at all. The fair value of your shares may also be reduced due to an inactive market, making it difficult to sell at a price that you consider reasonable. We cannot predict the prices at which our common stock will trade.

An inactive market may also impair our ability to raise capital to continue to fund operations by selling shares and may impair our ability to acquire other companies or technologies by using our shares as consideration.

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

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

- actual or anticipated fluctuations in our revenue and results of operations;
- the operating and financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- variance in our financial performance from expectations of securities analysts;
- increase or loss of customers;
- fluctuations in product sales mix;
- changes in our pricing strategy or those of our competitors;
- developments in new legislation and pending lawsuits or regulatory actions, including interim or final rulings by judicial or regulatory bodies;
- our involvement in any litigation;
- actual or anticipated changes in our growth rate relative to those of our competitors;
- announcements of technological innovations or new services offered by us or our competitors;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital-raising activities or commitments;

- additions or departures of key personnel;
- actions of securities analysts who initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company, or our failure to meet these estimates or investor expectations;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- technical factors in the public trading market for our common stock that may produce price movements that may or may not comport with macro, industry or company-specific fundamentals, including, without limitation, the sentiment of retail investors (including as may be expressed on financial trading and other social media sites), the amount and status of short interest in our common stock, access to margin debt, and trading in options and other derivatives on our common stock;
- additional shares of our common stock or other securities being sold into the market by us or our existing stockholders or the anticipation of such sales;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;
- other events or factors, including those resulting from war or incidents of terrorism, or responses to these events; and
- general macroeconomic, political, regulatory and market conditions, such as those related to the recessionary fear, current inflationary and rising interest rate environment and the COVID-19 pandemic

Broad market and industry fluctuations, as well as general economic, political, regulatory and market conditions such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of our common stock. 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 are restricted from immediate resale but 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, 2022, we had approximately 194 million outstanding shares of common stock, of which more than 87 million shares are currently restricted as a result of securities laws that restrict transfers, subject to certain exceptions.

The holders of approximately 134 million shares of our common stock, are entitled to rights pursuant to an investors' rights agreement and related agreements, 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 these holders of our common stock sell a large number of shares by exercising their registration rights, they could adversely affect the market price for our common stock. 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.

We have broad discretion in the use of our cash and cash equivalents, including the net proceeds from the IPO and the private placement, and may use them ineffectively, in ways with which you do not agree or in ways that do not increase the value of your investment

We currently have a significant balance of cash and cash equivalents, including as a result of the net proceeds from our IPO and private placement. We have broad discretion over the uses of the net proceeds from our IPO and concurrent private placement, as well as our cash and cash equivalents, and we may spend or invest them in ways that our stockholders disagree with, that cause the price of our common stock to decline or that could adversely affect our business, results of operations, financial condition and future prospects.

We do not intend to pay dividends for the foreseeable future, which could reduce the attractiveness of our stock to some investors

We currently intend to retain any future earnings to finance the operation and expansion of our business, and we do not expect to declare or pay any dividends in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors. In addition, the 2021 Revolving Facility contains restrictions

on our ability to pay dividends. As a result, you must rely on sales of your common stock after price appreciation, which may never occur, as the only way to realize any future gains on your investments for the foreseeable future.

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

Based upon our shares of our common stock outstanding as of September 30, 2022, our executive officers, directors and stockholders who owned more than 5% of our outstanding common stock, in the aggregate, beneficially own shares representing approximately 57.7% of our outstanding common stock. If our executive officers, directors and stockholders who owned more than 5% of our outstanding common stock acted together, they may be able to significantly influence all matters requiring stockholder approval, including the election and removal of directors and approval of any merger, consolidation or sale of all or substantially all of our assets. The concentration of voting power and transfer restrictions could delay or prevent an acquisition of our company on terms that other stockholders may desire or result in the management of our company in ways with which other stockholders disagree.

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

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

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

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

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

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

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

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

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

- any derivative claim or cause of action brought on our behalf;
- any claim or cause of action asserting a breach of fiduciary duty owed by any of our current or former directors, officers or other employees to us or our stockholders;
- any claim or cause of action against us or any of our current or former directors, officers or other employees arising under the Delaware General Corporation Law, our amended and restated certificate of incorporation and amended and restated bylaws;
- any claim or cause of action arising under or seeking to interpret our amended and restated certificate of incorporation or our amended and restated bylaws; and
- any claim or cause of action against us or any of our current or former directors, officers or other employees that is governed by the internal affairs doctrine or otherwise related to our internal affairs.

The provisions would not apply to suits brought to enforce a duty or liability created by the Exchange Act. Furthermore, Section 22 of 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. For the avoidance of doubt, this provision is intended to benefit and may be enforced by us, our officers and directors, the underwriters to any offering giving rise to such complaint, and any other professional entity whose profession gives authority to a statement made by that person or entity and who has prepared or certified any part of the documents underlying the offering.

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

- develop new services;
- maintain the rate at which customers purchase our subscriptions;
- identify and acquire or invest in new businesses, products or technologies that we believe could complement or expand our platform;
- continue to successfully expand our business; and
- successfully compete with other companies.

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

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

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

In the future, the COVID-19 pandemic or any future public health pandemic or epidemic may have a material adverse impact on our business and financial performance, the severity and duration of which will depend on many factors beyond our control, including the severity of any new virus or the emergence of new variants of the COVID-19 virus, the actions of governments, businesses and other enterprises in response to the COVID-19 pandemic or any future pandemic or epidemic and the effectiveness of those actions, and the effectiveness and rate of public acceptance of vaccines. To the extent new or additional prevention and mitigation measures are implemented in the future, or there is uncertainty about the effectiveness of these or any other measures to contain or treat COVID-19 or any future pandemic or epidemic, global economic conditions and consumer confidence and spending could be adversely impacted. For instance, to the extent our customers' operations are negatively impacted, our customers may reduce demand for or spending on our products, or customers may delay payments to us or request payment or other concessions. There may also be significant reductions or volatility in demand for our services, as well as the temporary inability of customers to purchase our products due to illness, quarantine or financial hardship, shifts in demand away from one or more of our products, or decreased consumer confidence and spending, any of which may negatively impact our results, including as a result of an increased difficulty in planning for operations. The fluid nature of epidemic diseases or pandemics, including the COVID-19 pandemic, and uncertainties regarding the related economic impact may result in market turmoil, which could also have an adverse effect on our business, financial condition, results of operations and future prospects.

The full extent of the COVID-19 pandemic's effect on our operational and financial performance will depend on future developments, including the duration and intensity of the pandemic, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. If the pandemic continues to persist as a severe worldwide health crisis, the disease could have an adverse effect on our business, financial condition, results of operations and future prospects, and may also have the effect of heightening many of the other risks described in this "Risk Factors" section.

We are currently an "emerging growth company," and we cannot be certain if the reduced reporting requirements applicable to "emerging growth companies" make our common stock less attractive to investors

We are an "emerging growth company," as defined in the JOBS Act. For as long as we continue to be an "emerging growth company," we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies," including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or Section 404, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

We cannot be certain whether investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile. We may take advantage of some or all of these reporting exemptions until we are no longer an "emerging growth company." We will remain an "emerging growth company" until the earlier of (i) the last day of the fiscal year following the fifth anniversary of the completion of our IPO, (ii) the last day of the fiscal year in which we have total annual gross revenue of at least \$1.07 billion, (iii) the last day of the first fiscal year in which we are deemed to be a large accelerated filer, which means in part that the

market value of our common stock that is held by non-affiliates equals or exceeds \$700 million as of the prior June 30th, and (iv) the date on which we have issued more than \$1.0 billion in non-convertible debt during the prior three-year period.

As an “emerging growth company,” the JOBS Act allows us to delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have elected to avail ourselves of this exemption from new or revised accounting standards and, therefore, we will not be subject to the same new or revised accounting standards as other public companies that are not “emerging growth companies.”

Our reported financial results may be adversely affected by changes in generally accepted accounting principles, or GAAP

GAAP is subject to interpretation by the Financial Accounting Standards Board, or FASB, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results and could affect the reporting of transactions completed before the announcement of a change. In February 2016, the FASB issued Accounting Standard Codification No. 842, *Leases*, or ASC 842, which will require lessees to recognize right-of-use assets and lease liabilities for operating leases, initially measured at the present value of the lease payments, on its balance sheet for operating leases. The standard also requires a lessee to recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term, on a generally straight-line basis.

We adopted ASC 842 effective January 1, 2022. Refer to Note 2 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q for a discussion on the evaluated impact ASC 842 will have on our unaudited condensed consolidated financial statements and related disclosures. Our prior historical financial information for the year ended December 31, 2021 and 2020, as well as prior periods, will continue to be reported in accordance with historical accounting standards. These or other changes to existing rules may adversely impact our operating results and affect the comparability of our results from period to period.

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

Purchases of Equity Securities

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

Stock repurchase activity during the three months ended September 30, 2022 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 Do Value of Share that May Yet b purchased Unc the Plans
July 1, 2022 through July 31, 2022	1,524,124	\$ 9.85	1,524,124	\$ 95,830,5
August 1, 2022 through August 31, 2022	13,034	\$ 10.00	13,034	\$ 95,700,2
September 1, 2022 through September 30, 2022	1,087,550	\$ 8.95	1,087,550	\$ 85,970,0
Total	2,624,708	\$ 9.48	2,624,708	

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 on July 2, 2021).
3.2	Amended and Restated Bylaws of LegalZoom.com, Inc. (incorporated by reference to Exhibit 3.4 to Amendment No. 1 to the Company's Registration Statement on Form S-1 filed on June 21, 2021).
10.1 *+	Non-Employee Director Compensation Policy .
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 nine months ended September 30, 2022 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 (Deficit), (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.

+ Indicates a management contract or compensatory plan.

SIGNATURES

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

Date: November 10, 2022

LegalZoom.Com, Inc.

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

Date: November 10, 2022

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

LegalZoom.com, Inc.

Eligible Director Compensation Policy

Each member of the Board of Directors (the "**Board**") of LegalZoom.com, Inc. (the "**Company**") who is not also serving as an employee of the Company or any of its subsidiaries and is not associated with or nominated by a private equity fund, venture capital fund or other entity that owned shares of the Company's capital stock prior to the Effective Date (as defined below) (each such member, an "**Eligible Director**") will receive the compensation described in this Eligible Director Compensation Policy (this "**Policy**"). An Eligible Director may decline all or any portion of his or her compensation by giving notice to the Company prior to the date cash is to be paid or equity awards are to be granted, as the case may be. This Policy shall be effective as of the date the registration statement for the Company's initial public offering of common stock is declared effective (the "**Effective Date**") and may be amended at any time by the Board or the Compensation Committee of the Board.

1. Annual Cash Compensation.

1.1 Cash Retainers. The annual cash compensation amount set forth below is payable to Eligible Directors in equal quarterly installments, payable in arrears on the last day of each fiscal quarter in which the service occurred. The first quarterly installment payable after the Effective Date to Eligible Directors in office as of the Effective Date will be pro-rated for the partial quarter measured from the Effective Date to the last day of the quarter. Further, if an Eligible Director joins the Board or a committee of the Board at a time other than effective as of the first day of a fiscal quarter, his or her first quarterly installment will be pro-rated based on days served in the applicable quarter. All annual cash fees are vested upon payment.

Annual Board Service Retainer:

- All Eligible Directors: \$35,000
- Non-executive chairperson of the Board, if any: \$85,000 (inclusive of annual Board service retainer)
- Lead independent director, if any (and only if a separate person from non-executive chairperson): \$51,500 (inclusive of annual Board service retainer)

Annual Committee Member (non-Chair) Service Retainer:

- Member of the Audit Committee: \$10,000
- Member of the Compensation Committee: \$7,500
- Member of the Nominating and Corporate Governance Committee: \$5,000

Annual Committee Chair Service Retainer (inclusive of Committee Member Service Retainer):

- Chairperson of the Audit Committee: \$20,000
- Chairperson of the Compensation Committee: \$15,000
- Chairperson of the Nominating and Corporate Governance Committee: \$10,000

1.2 Ability to Take Cash Compensation as RSUs.

(a) Election. Prior to the start of each fiscal year beginning after the Effective Date, an Eligible Director may elect to receive 100% of the annual cash compensation set forth herein for that next fiscal year as restricted stock units ("**RSUs**") under the Company's 2021 Equity Incentive Plan or any successor equity incentive plan (the "**Plan**") for that number of shares equal to (a) the projected annual cash compensation for such Eligible Director for the fiscal year based on Board and committee membership as of the first day of such fiscal year divided by (b) the Share Price (as defined in Section 2.4), rounded to the nearest whole share. Any such RSU grant is referred to herein as the "**Optional RSU Grant**".

(b) Grant Date. The grant date for an Optional RSU Grant will be the January 15 first occurring after the start of the applicable fiscal year except as provided in Section 2.5.

(c) Vesting. Each Optional RSU Grant will vest with respect to 1/4th of the total number of units on the last trading day in each fiscal quarter occurring during such fiscal year, provided in each case that the holder remains an Eligible Director on such vesting date. Optional RSU Grants will not be subject to accelerated vesting in connection with a Change in Control (as defined in the Plan).

(d) Changes in Cash Compensation Amount. In the event a Eligible Director were to become entitled to a greater annual cash compensation amount (either as a result of an increase in the cash compensation amounts approved by the Board or a new committee membership or role), such Eligible Director will be entitled to receive the difference paid in cash pursuant to the terms above. There would be no effect

upon the Optional RSU Grant in the event a Eligible Director would have otherwise been entitled to a lesser amount of cash compensation than that which was used to calculate the Optional RSU Grant as a result of a decrease in the cash compensation amounts approved by the Board or a decreased committee membership or role.

1.3 Expense Reimbursement. The Company will also reimburse each of the Eligible Directors for his or her travel expenses incurred in connection with his or her attendance at Board and committee meetings.

2. Equity Compensation.

2.1 Initial Grant for New Directors. Without any further action of the Board, each person who, after the Effective Date, is elected or appointed for the first time to be a Eligible Director will automatically, upon the date of his or her initial election or appointment to be a Eligible Director (except as provided in Section 2.5), be granted an RSU for that number of shares of Company common stock equal to \$200,000 divided by the Share Price, rounded to the nearest whole share (an "**Initial Grant**"). Each Initial Grant will vest in a series of equal annual installments on the first, second and third anniversary of the date of grant, provided in each case that the Eligible Director continues to be an Eligible Director on such vesting date.

2.2 Annual Grants.

(a) At Annual Meeting. Without any further action of the Board, at the close of business on the date of each annual meeting of Company stockholders following the Completion Date (except as provided in Section 2.5), each person who is then a Eligible Director will automatically be granted a RSU for that number of shares of Company common stock equal to \$200,000 divided by the Share Price, rounded to the nearest whole share (an "**Annual Grant**"). Each Annual Grant will vest in a single installment on the earlier to occur of (a) the close of business on the day before the Company's next annual meeting of stockholders and (b) the first anniversary of the date of grant of the Annual Grant, provided that the Eligible Director continues to be an Eligible Director on such vesting date.

(b) Upon Appointment or Election of New Director. Without any further action of the Board, each person who, after the Effective Date, is elected or appointed for the first time to be a Eligible Director on a date other than at an annual stockholder meeting will automatically, upon the date of his or her initial election or appointment to be a Eligible Director (except as provided in Section 2.5), be granted an RSU for that number of shares of Company common stock equal to (i) \$200,000 multiplied by a fraction, the numerator of which is the number of days between such date of appointment or election and the next June 1, divided by (ii) the Share Price, rounded to the nearest whole share (a "**Pro-Rated Annual Grant**"). Each Pro-Rated Annual Grant will vest in a single installment on the earlier to occur of (a) the close of business on the day before the Company's next annual meeting of stockholders and (b) the next June 1, provided that the Eligible Director continues to be an Eligible Director on such vesting date.

2.1 Vesting; Change in Control. Notwithstanding the foregoing vesting schedules, for each Eligible Director in office as of immediately prior to the closing of a Change in Control, the shares subject to his or her then-outstanding equity awards that were granted pursuant to this Policy will become fully vested immediately prior to the closing of such Change in Control. In addition, Annual Grants and Pro-Rated Annual Grants will vest upon the director's death or Disability. "**Disability**" means that the director is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment, which impairment can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than 12 months, as provided in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended, and will be determined by the Board on the basis of such medical evidence as the Board deems warranted under the circumstances.

2.2 Share Price. For any RSU grant to be made under this Policy, the "**Share Price**" shall be the average closing price of the Company's common stock, as reported on the primary U.S. exchange for such common stock, over the 30 calendar day period ending five calendar days before the the date of grant.

2.3 Remaining Terms. The remaining terms and conditions of each RSU grant under this Policy, including transferability, will be as set forth in the Company's standard RSU grant notice and agreement, in the form adopted from time to time by the Board or its Compensation Committee. In the event any grant date set forth above for any RSU grant to be made under this Policy is not a trading day on the primary U.S. exchange for the Company's common stock (e.g., is a holiday or on a weekend), then the grant date shall be the next trading day.

3. Expenses.

The Company will reimburse each Eligible Director for ordinary, necessary and reasonable out-of-pocket travel expenses to cover in-person attendance at and participation in Board and committee meetings; provided that

the Eligible Director timely submits to the Company appropriate documentation substantiating such expenses in accordance with the Company's travel and expense policy, as in effect from time to time.

4. Compensation Limits

Notwithstanding anything to the contrary in this Policy, all compensation payable under this Policy will be subject to any limits on the maximum amount of Eligible Director compensation set forth in the Plan, as in effect from time to time.

Last updated by Compensation Committee on August 18, 2022

CERTIFICATIONS

I, Dan Wernikoff, certify that:

1. I have reviewed this Form 10-Q of LegalZoom.com, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer 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 10, 2022

By: _____
Dan Wernikoff
Chief Executive Officer

CERTIFICATIONS

I, Noel Watson, certify that:

1. I have reviewed this Form 10-Q of LegalZoom.com, Inc.
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer 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 10, 2022

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

CERTIFICATION

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

1. The Company's Quarterly Report on Form 10-Q for the period ended September 30, 2022, 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 10th day of November 2022.

LegalZoom.com, Inc.

Date: November 10, 2022

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

Date: November 10, 2022

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

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