

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, 2023

OR

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

For the transition period from to

Commission file number 001-35618

LegalZoom.com, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

95-4752856

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

101 North Brand Boulevard,  
11<sup>th</sup> Floor, Glendale, California 91203

(Address of Principal Executive Offices, including Zip code)

(323) 962-8600

Registrant's telephone number, including area code

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

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

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

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

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

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

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

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

As of November 2, 2023, the registrant had outstanding 187,934,053 shares of common stock, \$0.001 par value per share, outstanding.

## Forward-Looking Statements

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

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

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

## Summary of Risk Factors

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

- Our recent growth may not be indicative of our future growth and, if we continue to grow, we may not be able to manage our growth effectively.
  - Our business primarily depends on business formations and fluctuations or declines in the number of business formations may adversely affect our business.
  - Our business depends substantially on converting our transactional customers to subscribers and our subscribers renewing their subscriptions with us and expanding their use of our platform.
  - Our future quarterly results of operations may fluctuate significantly due to a wide range of factors, which makes our future results difficult to predict.
  - We have a history of net losses, we anticipate increasing expenses in the future, and we may not be able to maintain profitability.
  - If we fail to provide high-quality products and services, customer care and customer experience and add new products and services that meet our customers' expectations, we may not be able to attract and retain customers.
  - If we do not continue to innovate and provide a platform that is useful to our customers, we may not remain competitive, and our results of operations could suffer.
  - The legal solutions market is highly competitive and our failure to effectively compete successfully could materially and adversely affect our business, results of operations, financial condition and future prospects.
  - Our business depends on our brand and reputation, which could be adversely affected by numerous factors.
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- If our marketing efforts are unsuccessful, our ability to attract new customers or retain existing customers may be adversely affected, which may adversely affect our business, results of operations, financial condition and future prospects.
- We depend on top talent, including our senior management team, to grow and operate our business, and if we are unable to hire, retain or motivate our employees, we may not be able to grow or operate effectively, which may adversely affect our business and future prospects.
- Our business and success depend in part on our strategic relationships with third parties, including our partner ecosystem, and our business would be harmed if we fail to maintain or expand these relationships.
- We have identified material weaknesses in our internal control over financial reporting and, if we fail to remediate these material weaknesses, we may not be able to accurately or timely report our financial condition or results of operations, which may adversely affect investor confidence and the price of our common stock.
- The recent restatement of certain of our prior quarterly financial statements may affect investor confidence and raise reputational issues and may subject us to additional risks and uncertainties, including increased professional costs and the increased possibility of legal proceedings and regulatory inquiries.
- 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)*

	<b>September 30, 2023</b>	<b>December 31, 2022</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 212,147	\$ 189,082
Accounts receivable, net of allowances of \$5,703 and \$4,730, respectively	14,417	13,177
Prepaid expenses and other current assets	17,494	16,699
Current assets held for sale	22,722	22,722
Total current assets	266,780	241,680
Property and equipment, net	43,763	30,823
Goodwill	63,318	63,229
Intangible assets, net	15,026	18,900
Operating lease right-of-use assets	9,199	11,148
Deferred income taxes	18,570	29,380
Available-for-sale debt securities	1,237	995
Other assets	8,620	9,240
Total assets	\$ 426,513	\$ 405,395
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$ 32,311	\$ 25,312
Accrued expenses and other current liabilities	55,375	57,373
Deferred revenue	176,867	164,200
Operating lease liabilities	2,269	2,317
Total current liabilities	266,822	249,202
Operating lease liabilities, non-current	7,346	8,958
Deferred revenue	560	892
Other liabilities	4,443	3,968
Total liabilities	279,171	263,020
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 100,000 shares authorized at September 30, 2023 and December 31, 2022, none issued or outstanding at September 30, 2023 and December 31, 2022	—	—
Common stock, \$0.001 par value; 1,000,000 shares authorized; 187,776 shares and 190,822 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively	187	190
Additional paid-in capital	1,086,222	1,032,550
Accumulated deficit	(940,550)	(891,862)
Accumulated other comprehensive income	1,483	1,497
Total stockholders' equity	147,342	142,375
<b>Total liabilities and stockholders' equity</b>	<b>\$ 426,513</b>	<b>\$ 405,395</b>

*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,	
	2023	2022 (Restated)	2023	2022 (Restated)
Revenue	\$ 167,274	\$ 155,277	\$ 502,064	\$ 473,353
Cost of revenue	59,213	50,314	183,356	163,647
Gross profit	108,061	104,963	318,708	309,706
Operating expenses:				
Sales and marketing	51,071	67,369	164,746	215,964
Technology and development	21,491	17,457	61,074	51,613
General and administrative	25,243	30,103	78,683	88,560
Impairment of long-lived and other assets	—	237	—	237
Total operating expenses	97,805	115,166	304,503	356,374
Income (loss) from operations	10,256	(10,203)	14,205	(46,668)
Interest income, net	2,623	535	6,357	511
Other (expense) income, net	(882)	(2,536)	436	(6,102)
Income (loss) before income taxes	11,997	(12,204)	20,998	(52,259)
Provision for (benefit from) income taxes	4,463	(223)	14,427	(1,782)
Net income (loss)	\$ 7,534	\$ (11,981)	\$ 6,571	\$ (50,477)
Net income (loss) per share attributable to common stockholders—basic:	\$ 0.04	\$ (0.06)	\$ 0.03	\$ (0.26)
Net income (loss) per share attributable to common stockholders—diluted:	\$ 0.04	\$ (0.06)	\$ 0.03	\$ (0.26)
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders—basic:	191,033	194,906	191,222	196,984
Weighted-average shares used to compute net income (loss) per share attributable to common stockholders—diluted:	197,454	194,906	194,953	196,984

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

LegalZoom.com, Inc.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
Net income (loss)	\$ 7,534	\$ (11,981)	\$ 6,571	\$ (50,477)
Other comprehensive income (loss), net of tax:				
Change in foreign currency translation adjustments	980	2,644	(187)	6,255
Change in available-for-sale debt securities due to unrealized gains	173	—	173	38
Total other comprehensive income (loss)	1,153	2,644	(14)	6,293
Total comprehensive income (loss)	\$ 8,687	\$ (9,337)	\$ 6,557	\$ (44,184)

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

LegalZoom.com, Inc.

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

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount				
<b>Balance at December 31, 2022</b>	190,822	\$ 190	\$ 1,032,550	\$ (891,862)	\$ 1,497	\$ 142,375
Issuance of common stock upon exercise of stock options	28	—	22	—	—	22
Issuance of common stock upon vesting of restricted stock awards	1,164	1	(1)	—	—	—
Stock-based compensation	—	—	17,378	—	—	17,378
Repurchased common stock	(771)	(1)	—	(6,767)	—	(6,768)
Other comprehensive loss	—	—	—	—	(631)	(631)
Net loss	—	—	—	(2,358)	—	(2,358)
<b>Balance at March 31, 2023</b>	191,244	\$ 190	\$ 1,049,948	\$ (900,987)	\$ 866	\$ 150,017
Issuance of common stock upon exercise of stock options and ESPP	362	—	2,951	—	—	2,951
Issuance of common stock upon vesting of restricted stock awards	661	1	(1)	—	—	—
Shares surrendered for settlement of minimum statutory tax withholdings	(232)	—	(2,469)	—	—	(2,469)
Stock-based compensation	—	—	20,031	—	—	20,031
Repurchased common stock	(378)	—	—	(3,041)	—	(3,041)
Other comprehensive loss	—	—	—	—	(536)	(536)
Net income	—	—	—	1,395	—	1,395
<b>Balance at June 30, 2023</b>	191,657	\$ 191	\$ 1,070,461	\$ (902,633)	\$ 330	\$ 168,349
Issuance of common stock upon exercise of stock options	326	—	3,011	—	—	3,011
Issuance of common stock upon vesting of restricted stock awards	824	1	(1)	—	—	—
Shares surrendered for settlement of minimum statutory tax withholdings	(312)	—	(3,884)	—	—	(3,884)
Stock-based compensation	—	—	16,635	—	—	16,635
Repurchased common stock	(4,719)	(5)	—	(45,159)	—	(45,164)
Stock repurchase excise tax	—	—	—	(292)	—	(292)
Other comprehensive income	—	—	—	—	1,153	1,153
Net income	—	—	—	7,534	—	7,534
<b>Balance at September 30, 2023</b>	187,776	\$ 187	\$ 1,086,222	\$ (940,550)	\$ 1,483	\$ 147,342

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



LegalZoom.com, Inc.

Unaudited Condensed Consolidated Statements of Stockholders' Equity (continued)

(In thousands)

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Stockholders' Equity
	Shares	Amount				
<b>Balance at December 31, 2021</b>	198,084	\$ 198	\$ 947,160	\$ (748,012)	\$ (1,795)	\$ 197,551
Issuance of common stock upon exercise of stock options	202	—	225	—	—	225
Issuance of common stock upon vesting of restricted stock awards	392	—	—	—	—	—
Stock-based compensation	—	—	22,346	—	—	22,346
Repurchased common stock	(79)	—	—	(1,102)	—	(1,102)
Other comprehensive income	—	—	—	—	1,440	1,440
Net loss	—	—	—	(25,753)	—	(25,753)
<b>Balance at March 31, 2022 (Restated)</b>	198,599	\$ 198	\$ 969,731	\$ (774,867)	\$ (355)	\$ 194,707
Issuance of common stock upon exercise of stock options and ESPP	174	—	1,262	—	—	1,262
Issuance of common stock upon vesting of restricted stock awards	268	1	(1)	—	—	—
Shares surrendered for settlement of minimum statutory tax withholdings	(1)	—	(30)	—	—	(30)
Stock-based compensation	—	—	23,596	—	—	23,596
Repurchased common stock	(2,961)	(3)	—	(38,050)	—	(38,053)
Other comprehensive income	—	—	—	—	2,209	2,209
Net loss	—	—	—	(12,743)	—	(12,743)
<b>Balance at June 30, 2022 (Restated)</b>	196,079	\$ 196	\$ 994,558	\$ (825,660)	\$ 1,854	\$ 170,948
Issuance of common stock upon exercise of stock options	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	—	—	—	(11,981)	—	(11,981)
<b>Balance at September 30, 2022 (Restated)</b>	193,848	\$ 193	\$ 1,015,068	\$ (862,514)	\$ 4,498	\$ 157,245

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,	
	2023	2022 (Restated)
<b>Cash flows from operating activities</b>		
Net income (loss)	\$ 6,571	\$ (50,477)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	18,061	16,187
Amortization of right-of-use assets	2,011	1,290
Amortization of debt issuance costs	170	170
Impairment of other equity security	—	170
Impairment of long-lived assets	—	237
Stock-based compensation	51,005	64,490
Deferred income taxes	10,818	(2,637)
Change in fair value of contingent consideration	(836)	(150)
Unrealized foreign exchange (gain) loss	(179)	5,958
Other	(39)	(1)
Changes in operating assets and liabilities, net of effects of business combination:		
Accounts receivable	(946)	(3,024)
Prepaid expenses and other current assets	(785)	(296)
Other assets	345	(863)
Accounts payable	5,992	(6,417)
Accrued expenses and other liabilities	(992)	7,585
Operating lease liabilities	(1,723)	(1,599)
Income tax payable	16	22
Deferred revenue	12,325	21,370
Net cash provided by operating activities	<u>101,814</u>	<u>52,015</u>
<b>Cash flows from investing activities</b>		
Acquisition, net of cash acquired	—	(2,532)
Proceeds from acquisition working capital adjustment	—	307
Purchase of property and equipment	(23,220)	(16,441)
Other	38	—
Net cash used in investing activities	<u>(23,182)</u>	<u>(18,666)</u>
<b>Cash flows from financing activities</b>		
Repayment of capital lease obligations	(27)	—
Payment of contingent consideration	—	(600)
Repurchase of common stock	(54,873)	(61,736)
Shares surrendered for settlement of minimum statutory tax withholding	(6,353)	(41)
Proceeds from issuance of stock under employee stock plans	5,690	1,682
Net cash used in financing activities	<u>(55,563)</u>	<u>(60,695)</u>
Effect of exchange rate changes on cash and cash equivalents	(4)	(139)
Net increase (decrease) in cash and cash equivalents	23,065	(27,485)
Cash and cash equivalents, at beginning of the period	189,082	239,297
Cash and cash equivalents, at end of the period	<u>\$ 212,147</u>	<u>\$ 211,812</u>
Non-cash operating, investing, and financing activities:		
Accrued stock repurchase excise tax	\$ 292	\$ —
Receivable from issuance of stock under employee stock plans	295	—
Purchase of property and equipment included in accounts payable and accrued expenses and other current liabilities	1,548	1,124
Capitalized stock-based compensation	3,039	1,779
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*

LegalZoom.com, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

**Note 1. Description of the Business**

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

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

**Note 2. Restatement**

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

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

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

*Description of Restatement of Financial Information*

In the following tables, we have presented a reconciliation of our unaudited condensed consolidated financial information as originally reported, to the as restated amounts as of and for the three and nine months ended September 30, 2022.

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

	September 30, 2022		
	As Reported	Adjustments	As Restated
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	211,812	—	211,812
Accounts receivable, net of allowances of \$4,419	13,578	122	13,700
Prepaid expenses and other current assets	16,624	(264)	16,360
Current assets held for sale	22,722	—	22,722
Total current assets	264,736	(142)	264,594
Property and equipment, net	29,012	—	29,012
Goodwill	63,184	—	63,184
Intangible assets, net	13,552	—	13,552

	September 30, 2022		
	As Reported	Adjustments	As Restated
Operating lease right-of-use assets	11,796	—	11,796
Deferred income taxes	27,473	2,803	30,276
Available-for-sale debt securities	1,183	—	1,183
Other assets	12,877	(1)	12,876
Total assets	423,813	2,660	426,473
<b>Liabilities and stockholders' equity</b>			
Current liabilities:			
Accounts payable	25,805	—	25,805
Accrued expenses and other current liabilities	59,916	(21)	59,895
Deferred revenue	168,705	(738)	167,967
Operating lease liabilities	2,054	—	2,054
Total current liabilities	256,480	(759)	255,721
Operating lease liabilities, non-current	9,568	—	9,568
Deferred revenue	1,013	—	1,013
Other liabilities	2,926	—	2,926
Total liabilities	269,987	(759)	269,228
Commitments and contingencies			
Stockholders' equity:			
Preferred stock, \$0.001 par value; 100,000 shares authorized; 0 issued or outstanding at September 30, 2022	—	—	—
Common stock, \$0.001 par value; 1,000,000 shares authorized; 193,848 shares issued and outstanding at September 30, 2022	193	—	193
Additional paid-in capital	1,015,068	—	1,015,068
Accumulated deficit	(865,933)	3,419	(862,514)
Accumulated other comprehensive income	4,498	—	4,498
Total stockholders' equity	153,826	3,419	157,245
<b>Total liabilities and stockholders' equity</b>	<b>\$ 423,813</b>	<b>\$ 2,660</b>	<b>\$ 426,473</b>

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

	Three Months Ended			Nine Months Ended		
	September 30, 2022			September 30, 2022		
	As Reported	Adjustments	As Restated	As reported	Adjustments	As restated
Revenue	\$ 154,416	\$ 861	\$155,277	\$ 472,492	\$ 861	\$473,353
Cost of revenue	50,050	264	50,314	163,383	264	163,647
Gross profit	104,366	597	104,963	309,109	597	309,706
Operating expenses:						
Sales and marketing	66,145	1,224	67,369	215,964	—	215,964
Technology and development	17,457	—	17,457	51,613	—	51,613
General and administrative	30,103	—	30,103	88,560	—	88,560
Impairment of long-lived and other assets	237	—	237	237	—	237
Total operating expenses	113,942	1,224	115,166	356,374	—	356,374
Loss from operations	(9,576)	(627)	(10,203)	(47,265)	597	(46,668)
Interest income, net	535	—	535	511	—	511
Other expense, net	(2,536)	—	(2,536)	(6,102)	—	(6,102)
Loss before income taxes	(11,577)	(627)	(12,204)	(52,856)	597	(52,259)
(Benefit from) provision for income taxes	(1,469)	1,246	(223)	1,040	(2,822)	(1,782)

	Three Months Ended			Nine Months Ended		
	September 30, 2022			September 30, 2022		
	As Reported	Adjustments	As Restated	As reported	Adjustments	As restated
Net loss	\$ (10,108)	\$ (1,873)	\$ (11,981)	\$ (53,896)	\$ 3,419	\$ (50,477)
Net loss per share attributable to common stockholders—basic and diluted:	\$ (0.05)	\$ —	\$ (0.06)	\$ (0.27)	\$ —	\$ (0.26)
Weighted-average shares used to compute net loss per share attributable to common stockholders—basic and diluted:	194,906	—	194,906	196,984	—	196,984

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

	Three Months Ended			Nine Months Ended		
	September 30, 2022			September 30, 2022		
	As Reported	Adjustments	As Restated	As reported	Adjustments	As restated
Net Loss	\$ (10,108)	\$ (1,873)	\$ (11,981)	\$ (53,896)	\$ 3,419	\$ (50,477)
Total other comprehensive income	2,644	—	2,644	6,293	—	6,293
Total comprehensive loss	\$ (7,464)	\$ (1,873)	\$ (9,337)	\$ (47,603)	\$ 3,419	\$ (44,184)

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

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount				
Balance at September 30, 2022 as reported	193,848	\$ 193	\$ 1,015,068	\$ (865,933)	\$ 4,498	\$ 153,826
Cumulative adjustments to net loss	—	—	—	3,419	—	3,419
Balance at September 30, 2022 as restated	193,848	\$ 193	\$ 1,015,068	\$ (862,514)	\$ 4,498	\$ 157,245

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

	Nine Months Ended September 30, 2022		
	As Reported	Adjustments	As Restated
<b>Cash flows from operating activities</b>			
Net loss	\$ (53,896)	\$ 3,419	\$ (50,477)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	16,187	—	16,187
Amortization of right-of-use assets	1,290	—	1,290
Amortization of debt issuance costs	170	—	170
Impairment of other equity security	170	—	170
Impairment of long-lived assets	237	—	237
Stock-based compensation	64,490	—	64,490
Deferred income taxes	166	(2,803)	(2,637)
Change in fair value of contingent consideration	(150)	—	(150)
Unrealized foreign exchange loss	5,958	—	5,958
Other	(1)	—	(1)

	Nine Months Ended September 30, 2022		
	As Reported	Adjustments	As Restated
Changes in operating assets and liabilities, net of effects of business combination:			
Accounts receivable	(2,902)	(122)	(3,024)
Prepaid expenses and other current assets	(560)	264	(296)
Other assets	(864)	1	(863)
Accounts payable	(6,417)	—	(6,417)
Accrued expenses and other liabilities	7,606	(21)	7,585
Operating lease liabilities	(1,599)	—	(1,599)
Income tax payable	22	—	22
Deferred revenue	22,108	(738)	21,370
Net cash provided by operating activities	52,015	—	52,015
<b>Cash flows from investing activities</b>			
Acquisition, net of cash acquired	(2,532)	—	(2,532)
Proceeds from acquisition working capital adjustment	307	—	307
Purchase of property and equipment	(16,441)	—	(16,441)
Net cash used in investing activities	(18,666)	—	(18,666)
<b>Cash flows from financing activities</b>			
Payment of contingent consideration	(600)	—	(600)
Repurchase of common stock	(61,736)	—	(61,736)
Shares surrendered for settlement of minimum statutory tax withholding	(41)	—	(41)
Proceeds from issuance of stock under employee stock plans	1,682	—	1,682
Net cash used in financing activities	(60,695)	—	(60,695)
Effect of exchange rate changes on cash and cash equivalents	(139)	—	(139)
Net decrease in cash and cash equivalents, and restricted cash equivalents	(27,485)	—	(27,485)
Cash and cash equivalents, and restricted cash equivalents, at beginning of the period	239,297	—	239,297
<b>Cash and cash equivalents at end of the period</b>	<b>\$ 211,812</b>	<b>\$ —</b>	<b>\$ 211,812</b>

### Note 3. Summary of Significant Accounting Policies

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

#### *Basis of Presentation and Consolidation*

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

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

### *Use of Estimates*

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

### *Significant Accounting Policies*

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

### *Segment and Geographic Information*

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

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

### *Foreign Currency*

The British Pound Sterling is the functional currency for our foreign subsidiaries domiciled in the U.K. The financial statements of these foreign subsidiaries are translated to U.S. Dollars using period-end rates of exchange for assets and liabilities, historical rates of exchange for equity, and average rates of exchange for the period for revenue and expenses. Translation gains and losses are recorded in accumulated other comprehensive income (loss) as a component of our unaudited condensed consolidated statements of stockholders' equity. We recognized foreign currency transaction loss of \$0.9 million and gain of \$0.2 million during the three and nine months ended September 30, 2023, respectively, and losses of \$2.6 million and \$6.0 million during the three and nine months ended September 30, 2022, respectively.

### *Concentrations of Credit Risk*

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

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

### *Accounts Receivable and Allowance for Credit Losses*

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

collect from customers. Account balances are charged off against the allowance when we determine that it is not probable we will collect the receivable. At September 30, 2023 and December 31, 2022 the allowance for credit losses was not material.

#### *Leases*

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

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

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

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

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

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

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

#### *Revenue Recognition*

We derive our revenue from the following sources:

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

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

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



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

*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,	
	2023	2022 (Restated)	2023	2022 (Restated)
Transaction	\$ 57,351	\$ 58,411	\$ 180,084	\$ 189,027
Subscription	104,457	91,397	303,967	267,069
Partner	5,466	5,469	18,013	17,257
Total revenue	\$ 167,274	\$ 155,277	\$ 502,064	\$ 473,353

#### Recent Accounting Pronouncements

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

#### Recently Adopted Accounting Pronouncements

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

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

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

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

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

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

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

#### Note 4. Other Financial Statement Information

##### Accounts Receivable

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
<b>Beginning balance</b>	\$ 5,734	\$ 4,508	\$ 4,730	\$ 4,060
Add: amounts recognized as a reduction of revenue	1,271	2,099	7,349	6,291
Add: allowance for credit losses recognized in general and administrative expense	493	2	981	143
Less: write-offs, net of recoveries	(1,795)	(2,190)	(7,357)	(6,075)
<b>Ending balance</b>	<u>\$ 5,703</u>	<u>\$ 4,419</u>	<u>\$ 5,703</u>	<u>\$ 4,419</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, 2023	December 31, 2022
Prepaid expenses	\$ 11,195	\$ 10,624
Deferred cost of revenue	2,551	1,915
Capitalized cloud computing development costs	1,011	1,407
Income tax receivable	575	760
Other current assets	2,162	1,993
Total prepaid expenses and other current assets	<u>\$ 17,494</u>	<u>\$ 16,699</u>

##### Accrued Expenses and Other Current Liabilities

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

	September 30, 2023	December 31, 2022
Accrued payroll and related expenses	\$ 27,082	\$ 27,822
Accrued vendor payables	15,684	15,531
Accrued advertising	13	1,071
Sales allowances	4,672	4,426
Accrued sales, use and business taxes	4,800	3,838

	September 30, 2023	December 31, 2022
Other	3,124	4,685
Total accrued expenses and other current liabilities	<u>\$ 55,375</u>	<u>\$ 57,373</u>

#### Depreciation and Amortization

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
Cost of revenue	\$ 3,307	\$ 1,966	\$ 8,940	\$ 6,220
Sales and marketing	1,400	1,754	4,011	5,508
Technology and development	1,168	694	2,867	2,112
General and administrative	780	840	2,243	2,347
Total depreciation and amortization expense	<u>\$ 6,655</u>	<u>\$ 5,254</u>	<u>\$ 18,061</u>	<u>\$ 16,187</u>

#### Deferred revenue

Deferred revenue as of September 30, 2023 and December 31, 2022 was \$177.4 million and \$165.1 million, respectively. Revenue recognized in the three months ended September 30, 2023 and 2022 that was included in deferred revenue as of June 30, 2023 and 2022 was \$86.5 million and \$81.7 million, respectively. Revenue recognized in the nine months ended September 30, 2023 and 2022 that was included in deferred revenue as of December 31, 2022 and 2021 was \$154.6 million and \$146.5 million, respectively.

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

#### Note 5. Assets Held for Sale

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

#### Note 6. 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 was payable in cash within twelve months from the acquisition date based upon the achievement of certain earnout metrics. During the three and nine months ended September 30, 2023, we recorded a \$0.1 million and \$0.8 million, respectively, reduction in fair value of contingent consideration as a component of cost of revenue because the earnout metrics were not achieved. Furthermore, an additional payment of up to \$0.4 million to the seller of UA Services was contingent on certain service conditions being met. This amount was excluded from the purchase consideration and was recorded as compensation expense in 2022.

The acquisition was completed in order to build a more durable registered agency platform and has been accounted for as a business combination. The 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 was 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 were included in our results of operations since the acquisition date and were not material to the consolidated financial results for the three and nine months ended September 30, 2022. Pro forma revenues and results of operations for this acquisition are not presented as the impact on our unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2022 was immaterial.

#### **Note 7. Long-term Debt**

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

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

The interest rate margins under the 2021 Revolving Facility are subject to a reduction of 0.25% and a further reduction of 0.25% upon achieving total net first lien leverage ratios of 3.50 to 1.00 and 2.50 to 1.00, respectively. We are required to pay a commitment fee in respect of unutilized commitments under the 2021 Revolving Facility. The commitment fee is, initially, 0.35% per annum. The commitment fee is subject to a reduction of 0.10% if the total net first lien leverage ratio does not exceed 3.50 to 1.00. We are also required to pay customary letter of credit fees and agency fees. We have the option to voluntarily repay outstanding loans under the 2021 Revolving Facility at any time without premium or penalty, other than customary "breakage" costs with respect to SOFR loans. There is no scheduled amortization under the 2021 Revolving Facility. Any principal amount outstanding is due and payable in full at maturity, five years from the closing date of the 2021 Revolving Facility. Obligations under the 2021 Revolving Facility are guaranteed by our existing and future direct and indirect material wholly-owned domestic subsidiaries, subject to certain exceptions.

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

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

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

#### **Note 8. Commitments and Contingencies**

##### *Commitments*

We have non-cancelable agreements with various vendors, which require us to pay \$46.0 million over a 5-year period, of which \$35.0 million remains to be paid as of September 30, 2023.

##### *Legal Proceedings*

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

### *Indemnifications*

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

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

### **Note 9. Stockholders' Equity**

#### *Stock Repurchase Program*

On March 1, 2022, our board of directors approved a stock repurchase program authorizing us to repurchase up to \$150.0 million of our common stock, with no fixed expiration. At September 30, 2023, there were no funds available for future repurchases under the 2022 stock repurchase program. In October 2023, our board of directors approved a new stock repurchase program authorizing repurchases of up to \$100.0 million of our common stock, with no fixed expiration. Stock repurchases under this new program may be made through any manner, including open market transactions, accelerated stock repurchase agreements, or privately negotiated transactions with third parties, and in such amounts as management deems appropriate. Open market repurchases will be structured to occur in accordance with applicable federal securities laws, including within the pricing and volume requirements of Rule 10b-18 under the Securities Exchange Act of 1934, as amended. We may also, from time to time, enter into Rule 10b5-1 plans to facilitate repurchases of our shares of common stock under this authorization. This program does not obligate us to acquire any particular amount of common stock and may be modified, suspended or terminated at any time at the discretion of our board of directors. Shares repurchased under our share repurchase program are purchased for immediate retirement.

During the three months ended September 30, 2023, we repurchased a total of 4,718,755 shares of our common stock for a total repurchase of \$45.1 million directly from a selling stockholder, who is a related party due to selling shareholder's ownership, in a private, non-underwritten transaction at a price of \$9.55 per share, which was equal to the price paid by the underwriters to the selling stockholder in a concurrent secondary public offering. The repurchase was recorded as a reduction to stockholders' equity. Upon this repurchase, no further repurchases were available under our 2022 stock repurchase program. The secondary offering of 16,100,000 shares of our common stock by a selling stockholder was completed at a price to the public of \$10.00 per share before underwriting discounts and commissions. All direct and incremental costs incurred in connection with the secondary offering were expensed because we did not receive any proceeds from the sale of shares of common stock in the secondary offering.

During the nine months ended September 30, 2023, we repurchased a total of 5,867,835 shares of our common stock through open market purchases using Rule 10b5-1 plans and in the above private, non-underwritten transaction, at an average per share price of \$9.35 for a total repurchase of \$54.9 million including broker commissions. The repurchases were recorded as a reduction to stockholders' equity.

The Inflation Reduction Act of 2022, enacted in August 2022, imposed a 1% non-deductible excise tax on net repurchases of shares by domestic corporations whose stock is traded on an established securities market. Consequently, this excise tax is applicable to our stock repurchase program beginning in 2023 and represents a cost of the repurchases of our common stock. We have recognized \$0.3 million excise tax liability as of September 30, 2023 because the fair market value of stock repurchases exceeded the fair market value of stock issuances during the nine months ended September 30, 2023.

### **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,	
	2023	2022 (Restated)	2023	2022 (Restated)
Cost of revenue	\$ 1,115	\$ 597	\$ 3,094	\$ 2,205
Sales and marketing	1,623	2,972	\$ 4,602	\$ 9,633
Technology and development	4,706	3,857	\$ 13,901	\$ 12,303
General and administrative	8,138	12,352	\$ 29,408	\$ 40,349
Total stock-based compensation expense	15,582	19,778	\$ 51,005	\$ 64,490
Amount capitalized to internal-use software	1,054	549	\$ 3,039	\$ 1,779
Total stock-based compensation expense	\$ 16,636	\$ 20,327	\$ 54,044	\$ 66,269

#### Stock Options

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

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

#### Restricted Stock Units

During the nine months ended September 30, 2023, we granted 8.2 million restricted stock units, or RSUs, with a total grant date fair value of \$71.6 million to various employees. RSUs are measured based on the fair market value of the underlying stock on the date of grant and recognized as expense over the requisite service period.

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

that 75% of such PSUs will vest on June 30, 2024 and the remaining 25% of such PSUs will vest on June 30, 2025, subject to the recipients continuing to be service providers through each such date and accelerated if the acquirer does not assume the awards in an economically equivalent manner.

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

#### Note 11. Income Taxes

We recorded a provision for income taxes of \$4.5 million and \$14.4 million for the three and nine months ended September 30, 2023, respectively, and a benefit from income taxes of \$0.2 million and \$1.8 million for the three and nine months ended September 30, 2022, respectively. The effective tax rate for the three months ended September 30, 2023 and 2022 was 37.2% and 1.8% (as restated), respectively. For the nine months ended September 30, 2023 and 2022, the effective tax rate was 68.7% and 3.4% (as restated), respectively. The difference from the federal statutory rate of 21% is primarily due to the recognition of significant non-deductible stock-based compensation and other discrete adjustments.

Gross unrecognized tax benefits were \$9.7 million and \$8.9 million as of September 30, 2023 and December 31, 2022, respectively. The gross unrecognized tax benefits, if recognized by us, will result in a reduction of approximately \$9.7 million, excluding interest and penalties, to the provision for income taxes, thereby favorably impacting our effective tax rate. Our policy is to recognize interest and penalties related to income tax matters in income tax expense. For the periods presented, interest and penalties related to income tax positions were not material to our unaudited condensed consolidated financial statements.

We are subject to taxation and file income tax returns in the U.S. federal, state, and foreign jurisdictions. The federal income tax returns for the years 2018 and forward and state income tax returns for the tax years 2008 and forward remain open to examination. We are under examination in one state which is not expected to have an impact on our results of operations, cash flows and financial condition.

#### Note 12. Net Income (Loss) Per Share Attributable to Common Stockholders

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
<b>Numerator:</b>				
Net income (loss)	\$ 7,534	\$ (11,981)	\$ 6,571	\$ (50,477)
Net income (loss) attributable to common stockholders—basic and diluted	\$ 7,534	\$ (11,981)	\$ 6,571	\$ (50,477)
<b>Denominator:</b>				
Weighted-average common stock used in computing net income (loss) per share attributable to common stockholders—basic	191,033	194,906	191,222	196,984
Effect of potentially dilutive securities				
Options to purchase common stock	2,699	—	1,347	—

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
RSUs	3,702	—	2,372	—
Employee stock purchase plan	20	—	12	—
Weighted-average common stock used in computing net income (loss) per share attributable to common stockholders—diluted	197,454	194,906	194,953	196,984
Net income (loss) per share attributable to common stockholders—basic	\$ 0.04	\$ (0.06)	\$ 0.03	\$ (0.26)
Net income (loss) per share attributable to common stockholders—diluted	\$ 0.04	\$ (0.06)	\$ 0.03	\$ (0.26)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
Options to purchase common stock	3,661	17,703	11,752	17,703
RSUs	2,557	8,649	5,580	8,649
Employee stock purchase plan	—	79	48	79
PSUs	1,316	—	1,316	—
Total	7,534	26,431	18,696	26,431

### Note 13. Restructuring

From time to time, we initiate cost reduction activities to integrate acquired businesses, to align our workforce with strategic business activities, or to improve efficiencies in our operations. During three and nine months ended September 30, 2023, we incurred \$0.1 million and \$0.8 million, respectively, in severance costs related to the reduction of our U.K. headcount, which is expected to be substantially complete by December 31, 2023. Restructuring expenses include severance for the impacted employees and are included in general and administrative expenses in the accompanying unaudited condensed consolidated financial statements.

### Note 14. 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, 2023 and December 31, 2022, our financial assets recorded at fair value on a recurring basis consist of cash equivalents and available-for-sale debt securities. At December 31, 2022, our financial liabilities recorded at fair value on a recurring basis consisted of contingent consideration from the UA Services acquisition. The cash equivalents consist of money market funds valued using quoted prices in active markets, which represents Level 1 inputs in the fair value hierarchy. The available-for-sale debt securities are valued using a Monte Carlo simulation, which include inputs that represent Level 3 inputs in the fair value



hierarchy. Contingent consideration is valued using the present value and probability of the estimated future cash outflow, which include inputs that represent Level 3 inputs in the fair value hierarchy.

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

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

	As of September 30, 2023		
	Level 1	Level 2	Level 3
Available-for-sale debt securities	\$ —	\$ —	\$ 1,237
Money market funds	191,393	—	—
<b>Total assets</b>	<b>\$ 191,393</b>	<b>\$ —</b>	<b>\$ 1,237</b>

  

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

#### Note 15. Accumulated Other Comprehensive (Loss) Income

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

(in thousands)	Nine Months Ended September 30, 2023		
	Before Tax Amount	Tax Effect	Net of Tax Amount
<b>Foreign currency translation adjustments:</b>			
Beginning balance at December 31, 2022	\$ 1,358	\$ —	\$ 1,358
Change during period	(631)	—	(631)
Ending balance at March 31, 2023	727	—	727
Change during period	(536)	—	(536)
Ending balance at June 30, 2023	\$ 191	\$ —	\$ 191
Change during period	980	—	980
Ending balance at September 30, 2023	\$ 1,171	\$ —	\$ 1,171
<b>Available-for-sale debt securities:</b>			
Beginning balance at December 31, 2022	\$ 184	\$ (45)	\$ 139
Unrealized gains (losses)	—	—	—
Ending balance at March 31, 2023	184	(45)	139
Unrealized gains (losses)	—	—	—
Ending balance at June 30, 2023	\$ 184	\$ (45)	\$ 139
Unrealized gains	230	(57)	173
Ending balance at September 30, 2023	\$ 414	\$ (102)	\$ 312
<b>Accumulated other comprehensive income:</b>			
Beginning balance at December 31, 2022	\$ 1,542	\$ (45)	\$ 1,497
Other comprehensive loss	(631)	—	(631)
Ending balance at March 31, 2023	911	(45)	866
Other comprehensive loss	(536)	—	(536)
Ending balance at June 30, 2023	\$ 375	\$ (45)	\$ 330

	Nine Months Ended September 30, 2023		
	Before Tax Amount	Tax Effect	Net of Tax Amount
(in thousands)			
Other comprehensive income	1,210	(57)	1,153
Ending balance at September 30, 2023	\$ 1,585	\$ (102)	\$ 1,483

	Nine Months Ended September 30, 2022 (Restated)		
	Before Tax Amount	Tax Effect	Net of Tax Amount
(in thousands)			
<b>Foreign currency translation adjustments:</b>			
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
<b>Available-for-sale debt securities:</b>			
Beginning balance at December 31, 2021	\$ 331	\$ (48)	\$ 283
Unrealized gains	51	(13)	38
Ending balance at March 31, 2022	382	(61)	321
Unrealized gains (losses)	—	—	—
Ending balance at June 30, 2022	\$ 382	\$ (61)	\$ 321
Unrealized gains	—	—	—
Ending balance at September 30, 2022	\$ 382	\$ (61)	\$ 321
<b>Accumulated other comprehensive (loss) income:</b>			
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

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

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

### Overview

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

### Our Business Model and Growth Strategy

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

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

## Recent Developments and Updates

- On November 2, 2023, we announced the launch of a new business license compliance product. This new product is built on a proprietary nationwide database that matches a small business profile with the required licenses and permits at all levels of government.
- In September 2023, we announced the beta launch of Doc Assist, a document summarization product that uses generative AI to help small businesses review documents.
- On September 11, 2023, a secondary public offering of 16,100,000 shares of our common stock by a selling stockholder was completed at a price to the public of \$10.00 per share before underwriting discounts and commissions. Concurrently with the completion of the secondary offering, we repurchased 4,718,755 shares of our common stock for an aggregate purchase price of approximately \$45.1 million directly from the selling stockholder in a private, non-underwritten transaction at a price per share of \$9.55, which was equal to the price paid by the underwriters to the selling stockholder in the secondary offering. The stock repurchase was funded from cash on hand and was part of our 2022 share repurchase program.
- On August 3, 2023, we launched LZ Books, a simple online accounting solution developed to empower “solopreneurs”, single member LLCs or sole proprietors, to effectively manage their books, secure new work, and be prepared for tax time. We believe LZ Books represents a new potential customer entry point for LegalZoom, while also integrating with, and providing an up-sell opportunity to, LZ Tax.
- We exited certain channel partnership relationships as part of our focus on profitable, customer-led growth. In the short term, we expect these exits to negatively impact business formations and, in turn, our subscription unit growth, as business formations act as an entrance point for many customers into the LegalZoom ecosystem.
- We are continuing to scale up LZ Tax and we are learning more about our tax customers in the process. As we optimize our LZ Tax offerings to better meet the needs of our target customers, we are seeing and expect to continue to see a decrease in the number of customers purchasing and retaining an LZ Tax subscription unit. While this decrease will produce a revenue headwind into 2024, we expect increased retention of our LZ Tax subscription units over the long term.

## Key Business Metrics

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

### ***Number of business formations***

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	<i>(in thousands)</i>			
Number of business formations	137	117	468	359

We experienced a 17% and 30% increase in business formation transactions during the three and nine months ended September 30, 2023, respectively, compared to the three and nine months ended September 30, 2022. Our business formation transactions increased during the three and nine months ended September 30, 2023 primarily due to an increase in LLC formations driven by our nationwide roll-out of free LLC formations beginning in the first quarter of 2023. The increase in business formation transactions during the three months ended September 30, 2023 was partially offset by our recent exit of certain channel partner relationships. Our business formation transactions outpaced the 12% increase in overall U.S. business formations during the three months ended September 30, 2023 compared to the three months ended in September 30, 2022 and also outpaced the 7% increase in overall U.S. business formations during the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022, in each case, based on a review of U.S. Census data revealing new applications for EINs.

#### **Number of transactions**

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
	<i>(in thousands)</i>			
Number of transactions	237	226	828	718

We experienced a 5% increase in the number of transactions during the three months ended September 30, 2023 compared to the three months ended September 30, 2022, and a 15% increase during the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. The increase in the number of transactions during the three months ended September 30, 2023 resulted primarily from the increase in business formations discussed above. The increase in the number of transactions during the nine months ended September 30, 2023 resulted primarily from the increase in business formations discussed above, as well as an increase in the number of compliance-related transactions. These increases were partially offset by an 18% and 12% reduction in estate planning and other transactions during the three and nine months ended September 30, 2023, respectively.

#### **Average order value**

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
Average order value	\$ 242	\$ 258	\$ 217	\$ 263

Average order value decreased by 6% during the three months ended September 30, 2023 compared to the three months ended September 30, 2022, and decreased by 17% during the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022. The decrease in average order value for the three and nine months ended September 30, 2023 was primarily driven by a 21% and 14% decrease, respectively, in average order value related to our business formations due to the nationwide rollout of free LLC formations during the first quarter of 2023.

We expect year-over-year growth in average order value to improve throughout the remainder of 2023 as we begin to lap the initial rollout of free LLC formations.

#### **Number of subscription units**

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

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

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

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

	As of September 30,	
	2023	2022
Number of subscription units	1,568	1,415

*(in thousands)*

We achieved 11% growth in subscription units from September 30, 2022 to September 30, 2023, primarily driven by a 12% increase in our registered agent and compliance subscription units, partially offset by a decline in our consumer and other subscription units.

On a sequential basis, the number of subscription units as of September 30, 2023 increased 1% from 1,553 thousand subscription units as of June 30, 2023.

#### **Average revenue per subscription unit**

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

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

	As of September 30,	
	2023	2022
Average revenue per subscription unit	\$ 265	\$ 259

ARPU as of September 30, 2023 was up 2% year-over-year driven primarily by a shift in mix of our higher priced subscription offerings. ARPU as of September 30, 2023 was up 2% sequentially compared to June 30, 2023.

#### **Annual small business retention rate**

We define annual small business retention rate as the percentage of small business subscription units active as of the last day of the quarter one year ago that were still active subscriptions 12 months later. Small business subscription units represent our subscriptions targeted at our small business customers and include subscriptions for our registered agent and compliance services, LZ Tax, our small business legal advisory plan and subscriptions acquired through our purchase of Earth Class Mail and Revvsales Inc., and exclude subscriptions from our enterprise customers, our operations in the U.K. and our consumer legal advisory plan. Annual small business retention rate includes both monthly and annual subscription units and reflects all subscription unit attrition, including as a result of actual business failures of certain of our customers. Our annual small business retention rate as of September 30, 2023 was approximately 63%.

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

#### **Key Factors Affecting Our Performance**

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

- **Our share of business formations.** The majority of our transaction revenue is generated by providing formation services to guide our customers through the transition from being aspiring business owners to actually launching their entities. We offer entity formation services for LLCs, corporations and non-profits as well as DBA filings. In the three and nine months ended September 30, 2023 and 2022, business formations represented the largest share of our total transaction orders. In addition, business formations act as an entrance point for many customers to the LegalZoom ecosystem, where they then often purchase additional products and services. Our business depends on the continuation of new business formations in the U.S., which may be seasonal in nature and dependent on macroeconomic factors, and even more so, on our ability to increase our share of these formations. Further, as we continue to invest in fulfillment automation technologies and become more efficient in fulfilling business formation orders, the timing of our revenue recognition in future periods may vary from historical seasonality and other trends.
- **Platform leadership.** We have invested and expect to continue to invest significantly in our user experience, which we believe is critical to attracting and converting customers and improving retention. These investments consist mainly of creating educational content, improving our website and application user interface, and creating and offering additional products and services, including the growing use of experts in the customer journey. Further, the performance of our products is important to attracting new customers to our platform, maintaining a healthy subscriber base and retaining our customers.
- **Ability to enhance customer lifetime value.** Our relationship with our small business customers typically starts with the formation of their business and we aim to deepen this relationship over time as their businesses grow and their needs become more complex. Our goal is that customers grow their use of our platform to include additional products and subscription services as their businesses evolve and, in turn, they increase their cumulative spend with us over time. We are also improving the way customers engage with their existing subscriptions, which we believe will result in higher customer engagement. Additionally, we offer third-party services via our partner ecosystem, such as our partnership with Wix, and we aim to generate incremental revenue via these partner offerings.
- **Investment in marketing.** We have invested, and expect that we will continue to invest, in the promotion of our services through our various customer acquisition channels, including performance marketing, search engine optimization, television, digital video, social and our inside sales team. We

frequently evaluate how we price, market, and sell transaction products in order to optimize our subscription business.

- **Investment in tax offerings.** Tax services represent a natural adjacency in our mission to make legal and compliance services accessible to small businesses. Based on customer surveys, we estimate that approximately 92% of small business owners did not consult a tax professional at the time of their entity formation. To address this customer need, we have invested in our tax advisory offering, and we anticipate incurring additional costs related to LZ Tax as we continue to scale these tax offerings. We believe that our tax offerings represent an attractive opportunity for incremental revenue growth.
- **Talent acquisition and retention.** We are focused on providing a quality employee experience as we believe the future success of our business is heavily dependent on our ability to attract and retain talented and highly productive employees, including software engineers, product designers, brand and performance marketers, and customer-facing positions. We compete for talent within the technology industry and believe that our strong brand recognition and greater company purpose are important, positive considerations in our ability to recruit talent. We also are scaling an in-house team of certified public accountants, or CPAs, and enrolled agents that are critical to our tax offerings.
- **Macroeconomic factors.** Fluctuations in general macroeconomic, political, regulatory and market conditions, such as recessionary fears, the current inflationary environment and rising interest rates can adversely impact consumer spending patterns, the success of existing small businesses and the formation of new small businesses. While overall U.S. business formations increased in the three and nine months ended September 30, 2023 compared to the same period in 2022 based on a review of U.S. Census data, we believe that future negative or decelerating impacts from sustained inflation, higher interest rates or other macroeconomic fluctuations remain uncertain.

## Key Components of our Results of Operations

### Revenue

We generate revenue from the sources identified below.

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

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

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

**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 certain channel partners that do not align with our new strategic direction and focus more on long-term opportunities to have strategic partnerships that build on recurring revenue models.

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



### **Cost of revenue**

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

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

### **Gross profit and gross margin**

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

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

### **Operating expenses**

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

### **Sales and marketing**

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

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

### **Technology and development**

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

Excluding stock-based compensation, we expect our technology and development expenses to continue to increase in absolute dollars for the foreseeable future as we invest in new products and services and in production automation technologies to enhance our customer experience. We expect our technology and development expenses to remain relatively consistent or increase as a percentage of our revenue over the

long-term, although our technology and development expenses may fluctuate as a percentage of our revenue from period-to-period due to seasonality and the timing and extent of these expenses.

#### **General and administrative**

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

Excluding stock-based compensation, we expect our general and administrative expenses to increase in absolute dollars for the foreseeable future due to additional costs associated with accounting, compliance, insurance and investor relations. We will continue to incur stock-based compensation expense through fiscal 2024 as a result of certain modifications to equity awards that occurred in connection with our initial public offering, or IPO; however, we expect our general and administrative expenses to decrease as a percentage of our revenue over the longer term. Our general and administrative expenses may fluctuate as a percentage of our revenue from period-to-period due to seasonality and the timing and extent of these expenses.

#### **Interest income (expense), net**

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

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

#### **Income taxes**

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

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

## Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
	<i>(in thousands)</i>			
Revenue	\$ 167,274	\$ 155,277	\$ 502,064	\$ 473,353
Cost of revenue <sup>(1)(2)</sup>	59,213	50,314	183,356	163,647
Gross profit	108,061	104,963	318,708	309,706
Operating expenses:				
Sales and marketing <sup>(1)(2)</sup>	51,071	67,369	164,746	215,964
Technology and development <sup>(1)(2)</sup>	21,491	17,457	61,074	51,613
General and administrative <sup>(1)(2)</sup>	25,243	30,103	78,683	88,560
Impairment of long-lived and other assets	—	237	—	237
Total operating expenses	97,805	115,166	304,503	356,374
Income (loss) from operations	10,256	(10,203)	14,205	(46,668)
Interest income, net	2,623	535	6,357	511
Other (expense) income, net	(882)	(2,536)	436	(6,102)
Income (loss) before income taxes	11,997	(12,204)	20,998	(52,259)
Provision for (benefit from) income taxes	4,463	(223)	14,427	(1,782)
Net income (loss)	\$ 7,534	\$ (11,981)	\$ 6,571	\$ (50,477)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
	<i>(in thousands)</i>			
Cost of revenue	\$ 1,115	\$ 597	\$ 3,094	\$ 2,205
Sales and marketing	1,623	2,972	4,602	9,633
Technology and development	4,706	3,857	13,901	12,303
General and administrative	8,138	12,352	29,408	40,349
Total stock-based compensation expense	\$ 15,582	\$ 19,778	\$ 51,005	\$ 64,490

Stock-based compensation expense decreased significantly for the three and nine months ended September 30, 2023 compared to the same periods of 2022 due to the modification of certain equity awards in connection with our IPO. Refer to Note 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,	
	2023	2022 (Restated)	2023	2022 (Restated)
	<i>(in thousands)</i>			
Cost of revenue	\$ 3,307	\$ 1,966	\$ 8,940	\$ 6,220
Sales and marketing	1,400	1,754	4,011	5,508
Technology and development	1,168	694	2,867	2,112
General and administrative	780	840	2,243	2,347
Total depreciation and amortization expense	<u>\$ 6,655</u>	<u>\$ 5,254</u>	<u>\$ 18,061</u>	<u>\$ 16,187</u>

#### Comparison of the Three Months Ended September 30, 2023 and 2022

##### Revenue

	Three Months Ended September 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Transaction	\$ 57,351	\$ 58,411	\$ (1,060)	(2)%
Subscription	104,457	91,397	13,060	14 %
Partner	5,466	5,469	(3)	— %
Total revenue	<u>\$ 167,274</u>	<u>\$ 155,277</u>	<u>\$ 11,997</u>	<u>8 %</u>

The increase in total revenue was primarily driven by an increase in subscription revenue. Subscription revenue was 62% and 59% of total revenue for the three months ended September 30, 2023 and 2022, respectively, and transaction revenue was 34% and 38% of total revenue for the three months ended September 30, 2023 and 2022, respectively.

Transaction revenue for the three months ended September 30, 2023 decreased due to a 6% decrease in average order value compared to the three months ended September 30, 2022, partially offset by a 5% increase in transaction units over the same period. The decrease in average order value for the three months ended September 30, 2023 was driven primarily by a 21% decrease in average order value related to the nationwide rollout of free LLC formations during the first quarter of 2023. The overall increase in transaction units during the three months ended September 30, 2023 was due to a 17% increase in business formations due primarily to the nationwide rollout of free LLC formations. This increase was partially offset by an 18% reduction in estate planning and other consumer transactions.

Subscription revenue for the three months ended September 30, 2023 increased primarily due to an 11% increase in the number of subscription units and a 2% improvement in ARPU compared to the three months ended September 30, 2022. The increase in subscription units was driven primarily by a 12% increase in our registered agent and compliance subscription units, partially offset by a decline in our consumer and other subscription units compared to the three months ended September 30, 2022. ARPU increased 2% compared to September 30, 2022 driven primarily by a shift in mix of our higher priced subscription offerings.

Partner revenue for the three months ended September 30, 2023 was flat compared to the prior year period.

**Cost of revenue**

	Three Months Ended September 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Cost of revenue	\$ 59,213	\$ 50,314	\$ 8,899	18 %

Cost of revenue for the three months ended September 30, 2023 increased by \$8.9 million mainly due to a \$7.0 million increase in filing fees. The increase in filing fees was primarily driven by the increase in business formations during the three months ended September 30, 2023.

**Gross profit**

	Three Months Ended September 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Gross profit	\$ 108,061	\$ 104,963	\$ 3,098	3 %

The increase in gross profit was driven by a \$12.0 million increase in revenue offset by a \$8.9 million increase in cost of revenue.

**Sales and marketing**

	Three Months Ended September 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Sales and marketing	\$ 51,071	\$ 67,369	\$ (16,298)	(24 %)

Sales and marketing expenses for the three months ended September 30, 2023 decreased primarily due to a \$9.3 million reduction in customer acquisition marketing spend and a \$5.8 million reduction in payroll and related benefits. Customer acquisition marketing spend was \$35.4 million and \$44.8 million for the three months ended September 30, 2023 and 2022, respectively, as we reduced our marketing spend in response to the uncertain macroeconomic environment.

**Technology and development**

	Three Months Ended September 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Technology and development	\$ 21,491	\$ 17,457	\$ 4,034	23 %

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

**General and administrative**

	Three Months Ended September 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
General and administrative	\$ 25,243	\$ 30,103	\$ (4,860)	(16 %)

General and administrative expenses for the three months ended September 30, 2023 decreased primarily due to a \$4.2 million decrease in stock-based compensation.

**Interest income, net**

	Three Months Ended September 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Interest income, net	\$ 2,623	\$ 535	\$ 2,088	390 %

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

**Other (expense) income, net**

	Three Months Ended September 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Other (expense) income, net	\$ (882)	\$ (2,536)	\$ 1,654	(65 %)

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

**Provision for (benefit from) income taxes**

	Three Months Ended September 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Provision for (benefit from) income taxes	\$ 4,463	\$ (223)	\$ 4,686	n/m
Effective tax rate	37.2 %	1.8 %		

The provision for income taxes for the three months ended September 30, 2023 resulted from a \$4.7 million unfavorable change as compared to the three months ended September 30, 2022. The change was primarily due to pre-tax book income and non-deductible stock-based compensation for the three months ended September 30, 2023 compared to a pre-tax loss for the three months ended September 30, 2022.

## Comparison of the Nine Months Ended September 30, 2023 and 2022

### Revenue

	Nine Months Ended September 30,		\$ change	% change
	2023	2022 (Restated)		
<i>(in thousands, except percentages)</i>				
<b>Revenue by type</b>				
Transaction	\$ 180,084	\$ 189,027	\$ (8,943)	(5 %)
Subscription	303,967	267,069	36,898	14 %
Partner	18,013	17,257	756	4 %
<b>Total revenue</b>	<b>\$ 502,064</b>	<b>\$ 473,353</b>	<b>\$ 28,711</b>	<b>6 %</b>

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

Transaction revenue for the nine months ended September 30, 2023 decreased due to a 17% decrease in average order value compared to the nine months ended September 30, 2022, partially offset by a 15% increase in the number of transaction units over the same period. The decrease in average order value for the nine months ended September 30, 2023 was driven primarily by a 14% decrease in average order value related to our business formations due to the nationwide rollout of free LLC formations during the first quarter of 2023. The overall increase in transaction units during the nine months ended September 30, 2023 was due to a 30% increase in business formations due primarily to the nationwide rollout of free LLC formations. This increase was partially offset by a 12% reduction in estate planning and other consumer transactions.

Subscription revenue for the nine months ended September 30, 2023 increased primarily due to a 11% increase in the number of subscription units as of September 30, 2023 compared to September 30, 2022 and a 2% increase in ARPU compared to September 30, 2022. The increase in subscription units was driven primarily by a 12% increase in our registered agent and compliance subscription units, partially offset by a decline in our consumer and other subscription units compared to the nine months ended September 30, 2022. ARPU increased 2% compared to September 30, 2022 driven primarily by a shift in the mix of our higher priced subscription offerings.

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

### Cost of revenue

	Nine Months Ended September 30,		\$ change	% change
	2023	2022 (Restated)		
<i>(in thousands, except percentages)</i>				
Cost of revenue	\$ 183,356	\$ 163,647	\$ 19,709	12 %

Cost of revenue for the nine months ended September 30, 2023 increased by \$19.7 million mainly due to a \$10.9 million increase in filing fees, a \$3.8 million increase in third-party staffing fees, and a \$2.7 million increase in depreciation and amortization expense. The increase in filing fees was primarily driven by the increase in business formations during the nine months ended September 30, 2023 compared to the same period in 2022.

## Gross profit

	Nine Months Ended September 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Gross profit	\$ 318,708	\$ 309,706	\$ 9,002	3 %

The increase in gross profit was driven by a \$28.7 million increase in revenue partially offset by a \$19.7 million increase in cost of revenue.

## Sales and marketing

	Nine Months Ended September 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Sales and marketing	\$ 164,746	\$ 215,964	\$ (51,218)	(24 %)

Sales and marketing expenses for the nine months ended September 30, 2023 decreased primarily due to a \$30.5 million reduction in customer acquisition marketing spend, a \$12.5 million reduction in payroll and related benefits, a \$6.4 million reduction in media production spend, a \$5.0 million reduction in stock-based compensation expense, and a \$1.5 million reduction in depreciation and amortization expense, partially offset by a \$6.9 million increase in consulting fees. The decrease in stock-based compensation expense and payroll and related benefits was largely due to decreased sales and marketing headcount. Customer acquisition marketing spend was \$112.2 million and \$142.7 million for the nine months ended September 30, 2023 and 2022, respectively, as we reduced our marketing spend in response to the uncertain macroeconomic environment.

## Technology and development

	Nine Months Ended September 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Technology and development	\$ 61,074	\$ 51,613	\$ 9,461	18 %

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

## General and administrative

	Nine Months Ended September 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
General and administrative	\$ 78,683	\$ 88,560	\$ (9,877)	(11 %)

General and administrative expenses for the nine months ended September 30, 2023 decreased primarily due to a \$10.9 million decrease in stock-based compensation, mainly in connection with award modifications from our IPO in July 2021.



### Interest income, net

	Nine Months Ended September 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Interest income, net	\$ 6,357	\$ 511	\$ 5,846	n/m

The change in interest income, net, was primarily due to dividend income generated from our money market investments during the nine months ended September 30, 2023.

### Other (expense) income, net

	Nine Months Ended September 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Other (expense) income, net	\$ 436	\$ (6,102)	\$ 6,538	(107 %)

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

### Provision for (benefit from) income taxes

	Nine Months Ended September 30,		\$ change	% change
	2023	2022 (Restated)		
	<i>(in thousands, except percentages)</i>			
Provision for (benefit from) income taxes	\$ 14,427	\$ (1,782)	\$ 16,209	(910 %)
Effective tax rate	68.7 %	3.4 %		

The provision for income taxes for the nine months ended September 30, 2023 resulted from an \$16.2 million unfavorable change as compared to the nine months ended September 30, 2022. The change was primarily due to pre-tax book income and non-deductible stock-based compensation for the nine months ended September 30, 2023 compared to a pre-tax loss for the nine months ended September 30, 2022.

## Liquidity and Capital Resources

### Overview

We fund our operations and capital expenditures from cash flows from operating activities. Our primary requirements for liquidity and capital are to finance working capital, capital expenditures and general corporate purposes. At September 30, 2023, our principal sources of liquidity were cash and cash equivalents of \$212.1 million, which consisted of cash on deposit with banks and money market funds, of which approximately \$1.8 million related to our foreign subsidiaries. Our cash and cash equivalents increased by \$23.1 million from December 31, 2022 to September 30, 2023, primarily as a result of cash provided by operating activities, partially offset by purchases of property and equipment and stock repurchases during the period.

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

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.

At September 30, 2023, there were no funds available for repurchases under our 2022 stock repurchase program. However, in October 2023, our board of directors approved a new stock repurchase program, pursuant to which our management is authorized to repurchase up to \$100.0 million of shares of our common stock from time to time. For additional information regarding our stock 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. The 2021 Revolving Facility, as amended, provides for the issuance of up to \$20.0 million of letters of credit as well as borrowings on same-day notice, referred to as swingline loans, in an amount of up to \$10.0 million. As of September 30, 2023, we had no borrowings outstanding and \$150.0 million available for use under our 2021 Revolving Facility.

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

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

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

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

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

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

## Cash flows

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

	Nine Months Ended September 30,	
	2023	2022 (Restated)
	<i>(in thousands)</i>	
Net cash provided by operating activities	\$ 101,814	\$ 52,015
Net cash used in investing activities	(23,182)	(18,666)
Net cash used in financing activities	(55,563)	(60,695)
Effect of exchange rate changes on cash and cash equivalents	(4)	(139)
Net increase (decrease) in cash and cash equivalents	<u>\$ 23,065</u>	<u>\$ (27,485)</u>

### Net cash provided by operating activities

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

In the nine months ended September 30, 2023, cash provided by operating activities was \$101.8 million resulting from net income of \$6.6 million, adjusted for stock-based compensation and other non-cash expenses of \$81.0 million and net cash flows provided by changes in operating assets and liabilities of \$14.2 million. The \$14.2 million of net cash flows provided from changes in our operating assets and liabilities included a \$12.3 million increase in deferred revenue largely due to growth of our subscription units, which are predominantly billed in advance of our revenue recognition, a \$6.0 million increase in accounts payable, partially offset by a \$0.9 million increase in accounts receivable and a \$2.7 million reduction in accrued expenses and operating lease liability and other liabilities due to the timing of our payments.

### Net cash used in investing activities

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

In the nine months ended September 30, 2023, net cash used in investing activities was \$23.2 million resulting primarily from purchases of property and equipment, including capitalization of internal-use software.

### Net cash used in financing activities

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

In the nine months ended September 30, 2023, net cash used in financing activities was \$55.6 million, resulting from \$54.9 million in repurchases of our common stock under our stock repurchase program and a \$6.4 million settlement of minimum statutory tax withholding upon vesting of RSUs, partially offset by \$5.7 million of proceeds from the issuance of stock under our employee stock plans.

### Material Cash Requirements

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

## *Commitments*

We have non-cancelable agreements with various vendors, which require us to pay \$46.0 million over a 5-year period, of which \$35.0 million remains to be paid as of September 30, 2023.

## *Lease Obligations*

At September 30, 2023, we had various non-cancelable operating leases for office space and equipment, which expire between January 2024 and November 2029. As of September 30, 2023, we had total minimum operating lease maturities of \$10.8 million, \$0.7 million of which mature within three months. See Note 9 of our consolidated financial statements included in our 2022 Annual Report on Form 10-K for additional information regarding our future operating lease payments.

## **Non-GAAP Financial Measures**

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

### ***Adjusted EBITDA and Adjusted EBITDA Margin***

We define Adjusted EBITDA as net income (loss) adjusted to exclude interest income (expense), net, provision for (benefit from) income taxes, depreciation and amortization, other expense (income), net, stock-based compensation, impairment of goodwill, long-lived and other assets, restructuring expenses, legal expenses, transaction-related expenses and certain other non-recurring income and expenses from time to time. Our Adjusted EBITDA financial measure differs from GAAP in that it excludes certain items of income and expense. We define Adjusted EBITDA margin as Adjusted EBITDA as a percentage of revenue. We define net income (loss) margin as net income (loss) as a percentage of revenue based on our 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 or that we believe are not indicative of our underlying operating performance. Adjusted EBITDA should not be considered in isolation of, or as an alternative to, measures prepared and presented in accordance with GAAP. There are a number of limitations related to the use of Adjusted EBITDA rather than net income (loss), which is the nearest GAAP equivalent of Adjusted EBITDA. Some of these limitations include that the non-GAAP financial measure:

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022 (Restated)	2023	2022 (Restated)
<i>(in thousands, except percentages)</i>				
<b>Reconciliation of net income (loss) to Adjusted EBITDA</b>				
Net income (loss)	\$ 7,534	\$ (11,981)	\$ 6,571	\$ (50,477)
Interest income, net	(2,623)	(535)	(6,357)	(511)
Provision for (benefit from) income taxes	4,463	(223)	14,427	(1,782)
Depreciation and amortization	6,655	5,254	18,061	16,187
Other expense (income), net	882	2,536	(436)	6,102
Stock-based compensation	15,582	19,778	51,005	64,490
Impairment of long-lived and other assets	—	237	—	237
Transaction-related expenses	—	636	—	758
Restructuring costs <sup>(1)</sup>	68	804	803	1,795
Legal expenses	—	—	—	40
Certain other non-recurring expenses <sup>(2)</sup>	1,179	400	1,179	400
Adjusted EBITDA	\$ 33,740	\$ 16,906	\$ 85,253	\$ 37,239
Net income (loss) margin	5 %	(8 %)	1 %	(11 %)
Adjusted EBITDA margin	20 %	11 %	17 %	8 %

- (1) For 2023, restructuring expenses related to the reduction of our U.K. headcount, which is expected to be substantially complete by December 31, 2023. For 2022, 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.
- (2) For 2023, certain other non-recurring expenses included costs incurred by the Company in conjunction with the secondary offering of 16,100,000 shares of our common stock by a selling stockholder during the three months ended September 30, 2023. For 2022, certain other non-recurring expenses included costs related to the departure of a member of management.

Adjusted EBITDA increased from \$16.9 million for the three months ended September 30, 2022 to \$33.7 million for the three months ended September 30, 2023. The increase of \$16.8 million resulted primarily from an increase in revenue of \$12.0 million and a reduction in operating expenses, excluding non-cash and non-recurring items, of \$13.8 million, partially offset by an increase in cost of revenue of \$8.9 million.

Adjusted EBITDA increased from \$37.2 million for the nine months ended September 30, 2022 to \$85.3 million for the nine months ended September 30, 2023. The increase of \$48.0 million resulted primarily from an increase in revenue of \$28.7 million and a reduction in operating expenses, excluding non-cash and non-recurring items, of \$39.0 million, partially offset by an increase in cost of revenue of \$19.7 million.

#### Free cash flow

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

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

	<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>
	<b>(Restated)</b>	
	<i>(in thousands)</i>	
<b>Reconciliation of Net Cash Provided by Operating Activities to Free Cash Flow</b>		
Net cash provided by operating activities	\$ 101,814	\$ 52,015
Purchase of property and equipment	(23,220)	(16,441)
Free cash flow	<u>\$ 78,594</u>	<u>\$ 35,574</u>

We experienced an increase in our free cash flow from \$35.6 million for the nine months ended September 30, 2022 to \$78.6 million for the nine months ended September 30, 2023, primarily due to a \$49.8 million increase in net cash provided by operating activities. The increase in net cash provided by operating activities resulted from a \$52.3 million increase in net income after adjusting for stock-based compensation and other non-cash items, partially offset by a \$2.5 million unfavorable change in our operating assets and liabilities. Free cash flow was also impacted by higher capital expenditures for the purchase of property and equipment, including capitalization of internal-use software.

#### **Critical Accounting Estimates**

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

#### **Recent Accounting Pronouncements**

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

#### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

##### **Interest rate fluctuation risk**

At September 30, 2023 and December 31, 2022, we had cash and cash equivalents of \$212.1 million and \$189.1 million, respectively, which consisted of cash on deposit with banks and short-term highly-liquid money market funds. Interest-earning instruments carry a degree of interest rate risk. To date, fluctuations in interest income have not been significant.

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

##### **Foreign currency exchange risk**

We have foreign currency risks related to our revenue and expenses denominated in currencies other than our functional currency, the U.S. Dollar, principally GBP. The volatility of exchange rates depends on many factors that we cannot forecast with reliable accuracy. We have experienced and will continue to experience fluctuations in our net (loss) income as a result of transaction gains and losses related to translating certain cash balances, trade accounts receivable and payable balances and intercompany loans that are denominated in currencies other than the U.S. Dollar. We recognized foreign currency gains of \$0.2 million during the nine months ended September 30, 2023. A 10% adverse change in foreign exchange rates on foreign-denominated accounts for the nine months ended September 30, 2023, including intercompany balances, would have

resulted in a \$0.3 million foreign currency loss for the nine months ended September 30, 2023. In the event our non-U.S. Dollar-denominated sales and expenses increase, our results of operations may be more greatly affected by fluctuations in the exchange rates of the currencies in which we do business. At this time, we do not, but we may in the future, enter into derivatives or other financial instruments in an attempt to hedge our foreign currency exchange risk. It is difficult to predict the impact hedging activities could have on our results of operations.

#### **Inflation risk**

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

#### **Item 4. Controls and Procedures**

##### **Evaluation of disclosure controls and procedures**

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

##### **Material weaknesses**

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

The material weaknesses we identified are as follows:

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

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

##### **Remediation plan**

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

- We have hired and are planning to continue to hire additional experienced accounting, financial reporting and internal control personnel and refined our key control roles and responsibilities;

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

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

#### **Changes in internal control over financial reporting**

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15(d) and 15d-15(d) of the Exchange Act during the quarter ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **Limitations on effectiveness of controls and procedures**

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



## Part II

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

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

#### Risks Relating to Our Business and Industry

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

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

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

##### ***Our business primarily depends on business formations***

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

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

For the past few years, a significant amount of our revenue has been derived from our subscriptions for small businesses and individuals. In 2022 and the first nine months of 2023, approximately 58% and 61%, respectively, of our revenue came from subscriptions. Subscriptions have primarily originated from

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

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

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

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

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

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

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

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

Since inception, we have incurred an accumulated deficit and may incur net losses in the foreseeable future. At September 30, 2023, we had an accumulated deficit of \$940.6 million.

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

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

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

We intend to continue to add new services and enhance our existing product and services, which will require us to devote significant resources before we know whether such products or services will be successful. For instance, in August 2023 we launched LZ Books, a simple online accounting solution, and in November 2023 we launched a new business license compliance product. The success of any new products or services or enhancements to existing products or services depends on several factors, including timely completion, competitive pricing, adequate quality testing, introduction, integration with existing products and services, and market acceptance. We have in the past invested resources and introduced new products and services that have failed to produce the customer interest that we expected. We may fail to attract new customers or lose existing customers if current or future development efforts or services fail to meet customer expectations on a timely basis if at all. In addition, larger enterprises may demand more support services and features, which puts additional pressure on us to satisfy the increased support required for these customers. If we are unable to continue offering innovative solutions or if new or enhanced solutions, including LZ Tax or LZ Books, fail to engage our customers, we may be unable to attract additional customers or retain our current customers, which may adversely affect our business, results of operations, financial condition or future prospects.

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

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

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

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

#### ***The legal solutions market is highly competitive***

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

Any of our existing competitors, or other potential competitors that have not yet entered the market, may also develop innovative and cost-effective services, including automated corporate formation document processing, that target our existing and potential customers. Some of our competitors and potential competitors are larger and have greater name recognition, longer operating histories, more established customer relationships, larger budgets, and significantly greater resources than we do. As a result, our competitors may be able to respond more quickly and effectively than we can to new or changing opportunities, technologies, standards, or customer requirements. We expect to face increasing competition from offline and online legal services providers in our market, including through their use of generative AI, and our failure to effectively compete with these providers could result in revenue reductions, reduced margins, or loss of market share, any of which could materially and adversely affect our business, results of operations, financial condition and future prospects.

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

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

In addition, our services, as well as those of our competitors, are regularly reviewed and commented upon by online and social media sources. Negative reviews, or reviews in which our competitors' services are rated more highly than ours, irrespective of their accuracy, could negatively affect our brand and reputation. We have in the past received negative reviews wherein our customers expressed dissatisfaction with our services, including dissatisfaction with our customer support, our billing policies and the way our subscriptions operate, and we expect to receive similar reviews in the future. If we do not handle customer complaints effectively, our brand and reputation may suffer. We may lose our customers' confidence, they may choose not to renew their subscriptions or purchase additional services from us, and we may fail to attract new customers. In addition, maintaining and enhancing our brand and reputation may require us to incur significant expenses and make substantial investments, which may not be successful. If we fail to successfully promote and maintain our brand and reputation, or if we incur excessive expenses in doing so, our business, results of operations, financial condition and future prospects may be adversely affected.

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

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

We have incorporated and intend to continue incorporating a number of generative AI features into our products. For instance, in September 2023 we announced the beta launch of Doc Assist, a document summarization product that uses generative AI to help small businesses review documents. This technology, which is a new and emerging technology that is in its early stages of commercial use, presents a number of risks inherent in its use. Generative AI technologies can create accuracy issues, unintended biases and discriminatory outcomes. If the recommendations, forecasts, content, or analyses that AI applications, including Doc Assist, assist in producing are or are alleged to be deficient or inaccurate, we could be subjected to competitive harm, potential legal liability, and brand or reputational harm. Some AI scenarios may also present ethical issues. Though measures have been taken to address algorithmic bias, if we enable or offer AI solutions that are controversial because of their perceived or real impact on human rights, privacy, employment, or other social issues, we may experience brand or reputational harm. Additionally, potential government regulation related to AI use and ethics may expose us to legal liability and/or increase the burden and cost of research and development in this area, and failure to properly remediate AI usage or ethics issues may cause public confidence in AI to be undermined, which could slow adoption of AI in our solution.

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

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

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

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

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

Our future success will depend upon our continued ability to identify, hire, develop, motivate and retain top talent. Competition for such talent is intense, particularly within the technology industry. To attract top talent, we have had to offer, and believe we will need to continue to offer, highly competitive compensation and benefit packages before we can validate the productivity of those employees, a practice which may not be sustainable and, even if sustainable, can be costly. We have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining highly skilled employees with appropriate qualifications which may, among other things, impede our ability to execute our growth strategies or continue to operate our business in a satisfactory manner. In addition, our remote first work policy, which results in a predominantly remote workforce, has made it difficult to orient, train, develop, motivate, and engage with our employees and embed them into the LegalZoom culture. If we are not able to effectively attract or retain quality employees and manage our workforce, including, for example, if employee relations deteriorate or a portion of our employees were to become unionized, disruptions to the business will occur, our costs will increase, our ability to achieve our strategic objectives will be adversely impacted, our brand or reputation could suffer, and our business may be adversely affected. In addition, we have in the past, and may in the future, conduct reduction in workforce actions, which can lead to the elimination of roles causing unexpected adverse impacts on our business, such as attrition beyond the intended reduction in workforce, delays in the development of new products or services due to gaps in knowledge transfer and new employee ramp up time, an increased risk of litigation, the distraction of employees, and reduced employee morale, any of which could also adversely affect our reputation as an employer and make it more difficult for us to hire new employees in the future.

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

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

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

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

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

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

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

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

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

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

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

- an acquisition may negatively affect our results of operations because it may require us to incur charges or assume substantial debt or other liabilities, may cause adverse tax consequences, may

expose us to claims and disputes by stockholders and third-parties, including intellectual property claims and disputes, or may not generate sufficient financial return to offset additional costs and expenses related to the acquisition;

- we may encounter difficulties or unforeseen expenditures in integrating the business, technologies, products, personnel or operations of any company that we acquire, particularly if key personnel of the acquired company decide not to work for us;
- we may not be able to realize anticipated synergies on a timely basis, if at all;
- an acquisition or investment may disrupt our ongoing business, divert resources, increase our expenses and distract our management;
- an acquisition or investment may result in a delay or reduction of customer purchases for both us and the company acquired due to customer uncertainty about continuity and effectiveness of service from either company;
- we may encounter challenges integrating the employees of the acquired company into our company culture;
- our use of cash to pay for acquisitions or other investments would limit other potential uses for our cash;
- if we incur debt to fund any acquisitions, such debt may subject us to material restrictions on our ability to conduct our business due to new financial maintenance and other covenants; and
- if we issue a significant amount of equity securities in connection with any future acquisitions, existing stockholders may be diluted and earnings per share may decrease.

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

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

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

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

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

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

We believe that focusing on the long-term best interests of our company and our consideration of our stakeholders more broadly, including our stockholders, customers, employees, partners, the communities in



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

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

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

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

Our operations and online services also rely on the continued functioning and accessibility of certain physical locations, including product fulfillment locations and data centers operated by AWS or other service providers. These physical locations are vulnerable to damage or interruption from natural disasters, adverse weather conditions, power losses, telecommunication failures, terrorist attacks, human errors or malfeasance, lockdown orders resulting from a public health pandemic or epidemic, break-ins and similar events. The occurrence of any of the foregoing events or other unanticipated problems at our facilities could result in lengthy interruptions in our services. We may not be able to efficiently relocate our fulfillment and delivery operations due to disruptions in service if one of these events occurs, and our insurance coverage may be

insufficient to compensate us for such losses. Because the Los Angeles area, where our corporate and executive headquarters is located, is in an earthquake fault zone and because both the Los Angeles area and Austin, Texas, where our operational headquarters is currently located, are subject to the increased risk of wildfires, tornadoes and power outages, we are particularly sensitive to the risk of damage to, or total destruction of, our primary offices and two key fulfillment and delivery centers. Our insurance limits against any certain losses or expenses that may result from a disruption to our business due to earthquakes or wildfires may not be sufficient to cover all such losses or expenses, and the occurrence of either of these events could adversely affect our business, results of operations, financial condition and future prospects.

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

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

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

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

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

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

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

#### **Risks Relating to Our Financial Condition, Indebtedness and Capital Requirements**

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

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

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

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

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

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

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

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

As previously disclosed, we determined to restate our unaudited condensed consolidated financial statements as of and for the three months ended March 31, 2022, three and six months ended June 30, 2022 and three and nine months ended September 30, 2022 after we identified an error within our income tax provision relating to the identification of named executive officers subject to limitation on the deductibility of executive compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code. As a result of this error and the resulting restatement of our unaudited condensed consolidated financial statements for the impacted periods, we have incurred, and may continue to incur, unanticipated costs for accounting and legal fees in connection with or related to the restatement, and have become subject to a number of additional risks and uncertainties, including the increased possibility of litigation and regulatory inquiries. Any of the foregoing may affect investor confidence in the accuracy of our financial disclosures and may raise reputational risks for our business, both of which could harm our business and financial results.

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

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

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

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

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

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

We are required to maintain internal control over financial reporting and to report any material weaknesses in such internal control. On an annual basis, we are required to furnish a report by management

on the effectiveness of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act and our independent registered public accounting firm is required to attest to the effectiveness of our internal control over financial reporting.

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

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

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

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

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

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

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

serious consequences to our business, results of operations, financial condition and future prospects, including bankruptcy or insolvency. Even if the 2021 Revolving Facility is terminated, any additional debt that we incur in the future could subject us to similar or additional covenants.

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

***We are subject to fluctuations in interest rates***

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

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

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

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

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

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

***Our ability to use our NOL carryforwards may be limited***

We have incurred substantial losses during our history and may not be able to maintain profitability. Unused U.S. federal net operating losses, or NOLs, for taxable years beginning before January 1, 2018, may be carried forward to offset future taxable income, if any, until such unused NOLs expire. Under the Tax Act, as modified by the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, U.S. federal NOLs

incurred in taxable years beginning after December 31, 2017, can be carried forward indefinitely and are limited to 80% of taxable income. For U.S. federal NOLs incurred in taxable years 2018, 2019, and 2020 may be carried back 5 years and carried forward indefinitely and are limited to 80% of taxable income if utilized after December 31, 2020.

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

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

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

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

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

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

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

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

***Risks Relating to Legal, Compliance and Regulatory Matters***

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

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

- Our business model includes the provision of services that represent an alternative to traditional legal services, which subjects us to allegations of UPL. UPL generally refers to an entity or person

giving legal advice that is not licensed to practice law or advertising their services as the practice of law. However, laws and regulations defining UPL, and the governing bodies that enforce UPL rules, differ among the various jurisdictions in which we operate and are often vague.

- In the U.S., we are generally unable to hire attorneys as employees to provide legal advice directly to our customers, because we do not meet certain regulatory requirements, such as being exclusively owned by licensed attorneys. In addition, we are currently unable to acquire a license to practice law in most U.S. states, laws, regulations and professional responsibility rules impose limitations on business transactions between attorneys and persons who are not licensed attorneys, including those related to the ethics of attorney fee-splitting and the corporate practice of law, or CPL.
- Regulation of legal document processing services and registered agent services varies among the jurisdictions in which we conduct business.
- 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 the state and federal laws and regulations to which we are subject are often vague and broad, and their applications and interpretations are often uncertain and conflicting. Compliance with these disparate laws and regulations requires us to structure our business and services differently in certain jurisdictions. Additionally, these laws and regulations are evolving, and changes in such laws could require us to significantly change the ways we structure our business and services. These laws and regulations could also make it more difficult for us to convert our transactional customers to subscribers or attract new subscribers to grow our subscription services. We dedicate significant management time and expense to dealing with these issues and expect that these issues will continue to be a significant focus as we expand into other services and jurisdictions.

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

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

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

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



restricted interest. The Arizona Supreme Court may attach conditions to any authorization granted in respect to holding of a restricted interest.

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

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

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

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

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

In addition, a growing number of legislative and regulatory bodies have adopted consumer notification and other requirements in the event that consumer information is accessed by unauthorized persons, and

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

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

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

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

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

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

We may expend significant resources or modify our business activities to try to protect against security breaches. In addition, certain data privacy and security obligations have required and may in the future require us to implement and maintain specific security measures, industry-standard or reasonable security measures to protect our information technology systems and sensitive information, including contractually. We cannot guarantee that our security measures to protect customer information and prevent data loss and other

security breaches will be sufficient to protect against unauthorized access to, or other compromise of, personal information, or confidential, proprietary or otherwise sensitive information. The techniques used to sabotage or to obtain unauthorized access to our platform, systems, networks and/or physical facilities in which data is stored or through which data is transmitted change frequently, and we have not always been able in the past and may be unable in the future to anticipate such techniques or implement adequate preventative measures or stop security breaches that may arise from such techniques. As a result, our safeguards and preventive measures may not be adequate to prevent past, current or future cyberattacks and security breaches, including security breaches that may remain undetected for extended periods of time, which can substantially increase the potential for a material adverse impact resulting from the breach. Further, we may experience delays in developing and deploying remedial measures designed to address any such identified vulnerabilities.

Like many companies, we rely on 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, customer service and other functions. We may share or receive sensitive information with or from third-parties. Our ability to monitor these third-parties' information security practices is limited, and these third-parties may not have adequate information security measures in place, which could lead to a breach in our information.

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

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

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

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

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

In addition, new legislation, regulation, public policy considerations, litigation by the government or private entities, changes to or new interpretations of existing laws may restrict the types of products and services that we can offer or the prices we can charge, or otherwise cause us to change the way we operate our businesses or offer our products and services. We may not be able to respond quickly to such regulatory,

legislative and other developments, and these changes may in turn increase our cost of doing business and limit our revenue opportunities. In addition, if our practices are not consistent with new interpretations of existing laws, we may become subject to lawsuits, penalties, and other liabilities that did not previously apply.

Changes in state-imposed requirements by one or more of the states may also significantly increase the costs of providing services to our customers and may prevent us from delivering a quality product to our customers in a timely manner.

### **Risks Relating to Intellectual Property**

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

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

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

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

### **Risks Relating to Ownership of Our Common Stock**

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

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

- actual or anticipated fluctuations in our revenue and results of operations;
- 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, incidents of terrorism, a public health pandemic or epidemic, bank failures, or responses to these events; and
- general macroeconomic, political, regulatory and market conditions, such as those related to recessionary fears, the current inflationary and rising interest rate environment.

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

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

Sales of a substantial number of shares of our common stock in the public market, or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that such sales may have on the prevailing market price of our common stock. The holders of approximately 78 million shares of our common stock, are entitled to rights pursuant to an investors' rights agreement, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. For example, in September 2023, we filed a registration statement on Form S-3 to register the resale of up to 38,012,988 shares of common stock held by LucasZoom, LLC (collectively with its affiliated investment entities, Permira), of which 16,100,000 and 4,718,755 shares were subsequently sold in an underwritten public offering and private, non-underwritten stock repurchase, respectively. If one or more of these holders of our common stock sells a large number of shares by exercising their registration rights, it has in the past and may in the future adversely affect the market price for our common stock. In addition, if we file a registration statement for the purposes of selling additional shares to raise capital and are required to include shares held by these holders pursuant to the exercise of their registration rights, our ability to raise capital may be impaired.

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

Based upon our shares of our common stock outstanding as of September 30, 2023, our executive officers, directors and affiliated stockholders, in the aggregate, beneficially own shares representing approximately 36% of our outstanding common stock. If our executive officers, directors and affiliated stockholders 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) Permira and (ii) FPLZ I, L.P. and FPLZ II, L.P. (together with FPLZ I, L.P. and their affiliated investment entities, or FP, and together with Permira, the Lead Sponsors), we will have the obligation to support the nomination of, and to cause our board of directors to include in the slate of nominees recommended to our stockholders for election, a number of designees equal to at least: (i) two individuals for so long as each Lead Sponsor continuously beneficially owns shares of common stock representing at least 50% of the shares of common stock owned by such Lead Sponsor immediately following our IPO and (ii) one individual for so long as each Lead Sponsor continuously beneficially owns shares of common stock representing at least 25%, but less than 50% of the shares of common stock, owned by such Lead Sponsor immediately following the completion of our IPO. Each of Permira and FP, and their respective affiliates, may therefore have influence over management and control over matters requiring stockholder approval, including the annual election of directors and significant corporate transactions.

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

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

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

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

provisions may also prevent changes in our management or limit the price that investors are willing to pay for our stock.

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

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

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

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

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

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

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

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

### Purchases of Equity Securities

On March 1, 2022, our board of directors approved a stock repurchase program authorizing us to repurchase up to \$150.0 million of our common stock, with no fixed expiration. At September 30, 2023, there are no funds available for future repurchases under this stock repurchase program. Stock repurchases under this program could be made through any manner, including open market transactions, accelerated stock repurchase agreements, or privately negotiated transactions with third parties, and in such amounts as management deems appropriate. Open market repurchases were 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 also, from time to time, entered into Rule 10b5-1 plans to facilitate repurchases of our shares of common stock under this authorization. This program did not obligate us to acquire any particular amount of common stock and could be modified, suspended or terminated at any time at the discretion of our board of directors.

During the three months ended September 30, 2023, we repurchased a total of 4,718,755 shares of our common stock for a total repurchase of \$45.1 million directly from a selling stockholder in a private, non-underwritten transaction at a price per share of \$9.55, which was equal to the price paid by the underwriters to the selling stockholder in a concurrent secondary public offering.

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

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Approximate Dollar Value of Shares that May Yet be purchased Under the Plans
July 1, 2023 through July 31, 2023	—	\$ —	—	\$ 45,064,116
August 1, 2023 through August 31, 2023	—	\$ —	—	\$ 45,064,116
September 1, 2023 through September 30, 2023	4,718,755	\$ 9.55	4,718,755	\$ —
<b>Total</b>	<b>4,718,755</b>	<b>\$ 9.55</b>	<b>4,718,755</b>	

In October 2023, our board of directors approved a new stock repurchase program authorizing us to repurchase up to \$100.0 million of our common stock, with no fixed expiration. Stock repurchases under this new program may be made through any manner, including in open market transactions (including pursuant to Rule 10b5-1 plans), through accelerated stock repurchase agreements, or in privately negotiated transactions with third parties, and in such amounts as management deems appropriate. This program does not obligate us to acquire any particular amount of common stock and may be modified, suspended or terminated at any time at the discretion of our board of directors.

### Item 3. Defaults Upon Senior Securities

None

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

#### Rule 10b5-1 Trading Arrangements

On September 8, 2023, Nicole Miller, our General Counsel, entered into a trading plan, or the Miller 10b5-1 Sales Plan, intended to satisfy the affirmative defense of Rule 10b5-1(c) under the Exchange Act. The Miller 10b5-1 Sales Plan, which was entered into during an open trading window under the Company's insider trading policy, will be in effect until the earlier of (1) May 31, 2024, or (2) the date on which an aggregate of 308,025 shares of the Company's common stock have been sold under such Miller 10b5-1 Sales Plan.



### Termination of Purchase Agreement for 9900 Spectrum

We are providing the following disclosure in lieu of filing a Current Report on Form 8-K relating to Item 1.02—Termination of a Material Definitive Agreement of Form 8-K:

As previously disclosed, on October 11, 2023, our wholly owned subsidiary, 9900 Spectrum LLC, a Texas limited liability company (“Seller”), entered into a purchase agreement (the “Agreement”) with Trinity Foundation RE Venture, LLC (the “Buyer”) to sell on an “as is” basis Seller’s improved real property located at 9900 Spectrum Drive, Austin, Texas 78717 (the “Property”) for \$41.0 million in cash. Closing of the sale transaction was subject to customary closing conditions, including Buyer’s due diligence of the Property during a diligence period ending at 5:00 p.m. C.T. on November 22, 2023 (the “Due Diligence Deadline”). On November 1, 2023, Buyer delivered notice to Seller that it would not be delivering an approval notice for the Property on or prior to the Due Diligence Deadline and that it was exercising its right to terminate the Agreement. As a result, the Agreement automatically terminated pursuant to its terms, neither Buyer nor Seller have any further obligation or liability to the other under the Agreement (other than those which expressly survive termination of the Agreement) and the \$835,000 deposited into escrow by Buyer will be returned to Buyer, in each case, without the requirement of additional documentation or agreement from either party.

The foregoing description of the Agreement is qualified in its entirety by reference to the full text of the Agreement, a copy of which is filed as Exhibit 10.2 to this Quarterly Report on Form 10-Q.

### 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. ( <a href="#">incorporated by reference to Exhibit 3.1 to the Company’s Current Report on Form 8-K filed with the SEC on July 2, 2021</a> ).
3.2	Amended and Restated Bylaws of LegalZoom.com, Inc. ( <a href="#">incorporated by reference to Exhibit 3.4 to Amendment No. 1 to the Company’s Registration Statement on Form S-1 filed with the SEC on June 21, 2021</a> ).
10.1	Stock Purchase Agreement, dated September 5, 2023, between LegalZoom.com, Inc. and LucasZoom, LLC ( <a href="#">incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the SEC on September 11, 2023</a> ).
<u>10.2*</u>	<a href="#">Property Purchase Agreement and Escrow Instructions, dated October 11, 2023, by and among 9900 Spectrum LLC and Trinity Foundation RE Venture, LLC.</a>
<u>31.1*</u>	<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).</a>
<u>31.2*</u>	<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).</a>
<u>32.1**</u>	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
101	The following financial statements from our Quarterly Report on Form 10-Q for the three and nine months ended September 30, 2023 were formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Comprehensive Loss, (iv) Condensed Consolidated Statement of Stockholders’ Equity, (v) Condensed Consolidated Statements of Cash Flows.
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101).

\* Filed herewith.

\*\* Furnished herewith.

**SIGNATURES**

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

Date: November 7, 2023

**LegalZoom.Com, Inc.**

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

Date: November 7, 2023

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

## PROPERTY PURCHASE AGREEMENT AND ESCROW INSTRUCTIONS

(9900 SPECTRUM DRIVE, AUSTIN, TX 78717)

This **PROPERTY PURCHASE AGREEMENT AND ESCROW INSTRUCTIONS** (this "**Agreement**"), dated for reference purposes only as October 11, 2023, is entered into by and between **9900 SPECTRUM LLC**, a Texas limited liability company ("**Seller**"), and **TRINITY FOUNDATION RE VENTURE, LLC**, a Delaware limited liability company ("**Buyer**"), with reference to the following facts:

### RECITALS

A. Seller owns that (i) that certain improved land containing approximately 48.79 acres which is commonly known as 9900 Spectrum Drive, Austin, Texas 78717, the legal description of which is attached hereto as **Exhibit A** and incorporated herein by reference (the "**Land**"), and (ii) the building containing approximately 209,302 square feet located on the Land (the "**Building**") and any and all other improvements located on the Land (together with the Building, the "**Improvements**", and together with the Land, the "**Real Property**"). For purposes of this Agreement, the "**Property**" shall collectively mean and refer to the following: (a) the Real Property; (b) any and all privileges, easements, rights of way and other rights and appurtenances related to the ownership of the Real Property (excepting any pre-existing oil, gas and other minerals held by predecessors in title or other third parties); (c) any and all of Seller's right, title and interest in and to any tangible personal property affixed to the Real Property and used in connection with the ownership, operation or maintenance of the Real Property or otherwise described in **Schedule 1** to the Bill of Sale (as defined in Section 5(c), below) (collectively, the "**Fixtures**") (provided, however, "Fixtures" shall not include any rights or claims arising prior to the Closing Date which Seller may have against any person with respect to the Fixtures); and (d) to the extent assignable, any and all of Seller's right, title and interest in any intangible property used or useful in connection with the foregoing, contract rights, warranties, guaranties, licenses, permits, entitlements, governmental approvals and certificates of occupancy which benefit the Real Property (collectively, the "**Intangible Personal Property**") (provided, however, "Intangible Personal Property" shall not include (i) any rights or claims arising prior to the Closing which Seller may have against any person with respect to the Intangible Personal Property, or (ii) rights of reimbursement with respect to utility services to the Property prior to the Closing or deposits in connection therewith). If the attached legal description of the Land is not complete or is inaccurate, this Agreement shall not be invalid and the legal description shall be completed or corrected to meet the requirements of Chicago Title Company (Attention: Cameron Aldrich), Address: 2365 Northside Drive, Suite 600, San Diego, CA 92108, Telephone: (858) 337-2207, Email: aldrichc@ctt.com ("**Title Company**"), in connection with its issuance of the owner's title policy to Buyer.

B. Buyer desires to purchase the Property, and Seller desires to sell the Property to Buyer, on the terms and conditions of this Agreement.

NOW THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Buyer and Seller agree (and instruct Escrow Holder (defined below)) as follows:

1. **Purchase and Sale.** Subject to and upon the terms and conditions of this Agreement, Seller agrees to sell the Property to Buyer, and Buyer hereby agrees to purchase the Property from Seller. The term "**Effective Date**" shall mean the date upon which both Buyer and Seller have executed and delivered this Agreement.

2. **Purchase Price.** The total "**Purchase Price**" to be paid by Buyer to Seller for the Property shall be equal to Forty-One Million Dollars (\$41,000,000) cash, which Purchase Price shall be payable as follows:

(a) **Earnest Money Deposit.** Within five (5) business days after the Effective Date, Buyer shall deposit (by wire transfer) Eight Hundred Thirty-Five Thousand Dollars (\$835,000) (the "**Earnest Money Deposit**") into an interest-bearing escrow (the "**Escrow**") with Heritage Title Company of Austin, Inc. (Attention: Emily Mansfield), Address: 200 W. 6<sup>th</sup> Street, Suite 1600, Austin, Texas, Telephone: (512) 505-5000, Email: emansfield@heritage-title.com ("**Escrow Holder**"). The Earnest Money Deposit shall be applicable to the Purchase Price at Closing (as defined in Section 5(a) below); however, if Buyer fails to purchase the Property and such failure is due to a breach or default by Buyer under this Agreement, the Earnest Money Deposit shall be delivered to Seller as liquidated damages pursuant to Paragraph 7(a). Any interest that accrues on the Earnest Money Deposit shall be included in such Earnest Money Deposit and credited to the party entitled to the Earnest Money Deposit under this Agreement.

(b) **Cash Balance.** On or prior to 2 p.m. (Central time) on the Closing Date, Buyer shall deposit (by wire transfer) the balance of the Purchase Price with Escrow Holder, plus Buyer's share of closing costs and prorations as described in this Agreement. Upon Closing, the Purchase Price shall be paid to the order or account of Seller pursuant to the terms of this Agreement.

3. **Buyer's Investigation.**

(a) **Due Diligence Matters.** Buyer shall have until 5:00 p.m. Central Time on November 22, 2023 (the "**Due Diligence Deadline**") to review and approve or disapprove, in Buyer's sole and absolute discretion, all matters that Buyer may elect in its sole and absolute discretion to investigate concerning any aspect of the Property, the feasibility thereof for Buyer's purposes and/or the suitability thereof for Buyer's intended use and/or development (individually and collectively, the "**Due Diligence Matters**"). If Buyer approves the Due Diligence Matters (which approval shall be in Buyer's sole and absolute discretion), then Buyer shall deliver written notice substantially in the form attached hereto as **Exhibit B** (the "**Approval Notice**") to Seller and Escrow Holder on or prior to the Due Diligence Deadline. Buyer's failure to deliver the Approval Notice to Seller and Escrow Holder on or prior to the Due Diligence Deadline shall constitute Buyer's disapproval of Due Diligence Matters, in which event this Agreement shall automatically terminate, neither party shall have any further obligation or liability to the other hereunder (other than those which expressly survive termination), and Escrow Holder shall promptly return the Earnest Money Deposit (and interest) to Buyer, without the requirement of additional documentation or agreement from either party.

(b) Buyer's Entry Rights; Indemnity. Subject to the terms and conditions hereof, Buyer is hereby granted a license to enter upon the Property for purposes of conducting Buyer's investigation of the Due Diligence Matters, including, without limitation, the right to conduct engineering and environmental studies and such surveys and inspections concerning the Property as Buyer shall deem desirable (collectively, the "**Studies**"), all of which shall be at Buyer's sole cost and expense. In conducting any Studies, Buyer shall: (i) not perform any Phase II environmental testing or sampling or any other invasive or destructive testing or sampling without the prior written consent of Seller (which consent shall be at the sole and absolute discretion of Seller); (ii) comply with all applicable laws pertaining to Buyer's entry and/or Studies; (iii) promptly pay when due the costs of all such Studies; (iv) not permit any liens to attach to the Property by reason of the exercise of its rights hereunder; (v) repair any damage to the Property and/or any personal property of Seller or any third parties resulting directly from any such Studies; and (iv) not reveal or disclose to any third parties (except to (A) Buyer's party's affiliates and its legal counsel, due diligence consultants, employees, paralegals, attorneys, investors, potential investors, potential tenants, lenders, agents and/or consultants who have a reasonable basis to know such information ("**Buyer Parties**"), and (B) Seller and Seller's agents, but only to the extent requested by Seller in writing) prior to Closing any information obtained by Buyer concerning the Property or documents related thereto, except as may otherwise be required by law, regulation or court order, or in connection with enforcing Buyer's rights under this Agreement; provided, however, Buyer understands and agrees that, should Seller agree in its sole and absolute discretion to any Phase II environmental testing or sampling or any other invasive or destructive testing or sampling, Buyer shall be responsible for repairing any damage to the Property and/or any personal property of Seller resulting directly from any such Studies. Buyer shall repair any damage caused by Buyer in connection with Buyer conducting its Studies (which obligation shall survive the termination of this Agreement). Buyer shall indemnify, defend, protect and hold Seller and its affiliated entities and their respective members, managers, partners, shareholders, directors, officers, agents, employees and representatives (collectively, together with Seller, the "**Seller Parties**"), harmless from and against any and all liabilities, claims, damages, losses, injuries, liens, costs and expenses, including, but not limited to, reasonable attorneys' fees and costs ("**Claims**"), arising from (x) Buyer's due diligence activities at the Property, (y) entry upon the Property by Buyer, its agents, employees, representatives and/or consultants, and/or (z) Buyer's pursuit of any entitlements pertaining to the Property prior to Closing; provided, however, Buyer shall not be required to indemnify the Seller Parties, or otherwise be liable for, any Claims arising from (i) the negligence or willful misconduct of the Seller Parties, (ii) any pre-existing liabilities, conditions or other matters merely discovered by Buyer or Buyer's representatives or agents (e.g., environmental contamination, latent construction or other physical defects or conditions) except to the extent exacerbated or contributed to by Buyer or any Buyer Parties (which shall not include the simple act by Buyer or any Buyer Party of uncovering or exposing the pre-existing condition), or (iii) any consequential or special damages. Buyer's indemnification obligation shall survive any termination of this Agreement or the Closing, as the case may be. Prior to entering upon the Property to conduct any Studies, Buyer will provide Seller (or will cause its consultants entering upon the Property to perform such Studies to provide Seller) with certificate(s) of insurance providing evidence of (1) commercial general liability insurance for not less than One Million Dollars (\$1,000,000) per occurrence and not less than Two Million Dollars (\$2,000,000) on a general aggregate basis for bodily injury, death and property damage, insuring against any bodily injury, death or property damage arising out of any entry upon the Property (and Seller shall be named an additional

insured under such liability policies), and (2) workers' compensation insurance having limits no less than those required by applicable state and federal statutes.

(c) Delivery of Property Documents. Following confirmation that Buyer has deposited the Earnest Money Deposit into Escrow, Seller shall provide Buyer with access to the following (collectively, the "**Property Documents**") (which Property Documents may be delivered via internet access and/or by delivery of readily accessible electronic data): (i) a title report or commitment for the Property prepared by Title Company (including copies of the underlying documents referenced therein, unless such report or commitment contains hyperlinks for such underlying documents by which Buyer may access the same) (collectively referred to as "**Title Documents**"); and (ii) copies of standard due diligence materials relating to the Property in Seller's possession including, but not limited to, leases, current and historical financial operating statements, vendor contracts (if applicable), real property tax bills or receipts, certificates of occupancy, surveys, title insurance policies and commitments, engineering studies, zoning information, environmental studies, all structural studies and reports, appraisals, record plats, civil engineering drawings, utility plans, architectural drawings, renderings and/or any other drawings, traffic studies, geotechnical reports, permits, outstanding liens and pending lawsuits. Buyer acknowledges, understands and agrees that except as expressly set forth in this Agreement or any document between Seller and Buyer to effectuate this transaction (each a "**Closing Document**" and collectively, the "**Closing Documents**"), (A) neither Seller nor any of its agents, employees, attorneys or contractors has made (nor shall any of them be deemed to have made) any warranties or representations regarding the truth, accuracy or completeness of the Property Documents, (B) Seller has not undertaken and will not undertake any independent investigation as to the truth, accuracy or completeness of the Property Documents, (C) delivery of the Property Documents is only for Buyer's convenience in making its own examination and determination whether to purchase the Property, and, in so doing, Buyer shall rely exclusively upon its own independent investigation and evaluation of every aspect of the Property and not on any of the Property Documents provided by Seller, and (D) Buyer hereby releases all of the Seller Parties from any and all claims, suits, damages or liability arising out of the Property Documents or any inaccuracy, error or omission therein. In the event this Agreement is terminated for any reason, Buyer shall, (1) promptly following Seller's request therefor, return to Seller any and all Property Documents provided originally by Seller, and (2) other information regarding the Property obtained by Buyer or its employees, agents or consultants upon Seller's request therefor and receipt of payment for Buyer's out-of-pocket costs incurred with preparing the same; provided that in no event shall Buyer be required to turnover to Seller any proprietary, privileged or confidential tests, surveys, analysis, correspondence, reports or work product.

(d) Title Review and Approval.

(i) Buyer shall have until the date ten (10) business days prior to the Due Diligence Deadline ("**Title Review Period**") to provide written notice (the "**Title Notice**") to Seller of any matters shown by the Title Documents which are not satisfactory to Buyer. Buyer acknowledges that it may obtain at its sole cost and expense a current survey of the Property complying with ALTA/ACSM Minimum Standards (the "**Survey**"). If Seller has not received written notice from Buyer by the end of the Title Review Period, that shall be deemed Buyer's

unconditional approval of the condition of title to the Property. Notwithstanding anything herein to the contrary, any liens secured by deeds of trust, mortgages, mechanics' liens, judgment liens and delinquent taxes (other than any liens created as a result of Buyer's investigation and due diligence of the Property which shall be Buyer's sole responsibility) (collectively herein "**Monetary Liens**"), shall be removed on or before the Closing Date, at Seller's sole expense. Except with respect to Monetary Liens, Seller shall have no obligation whatsoever to expend or agree to expend any funds, to undertake or agree to undertake any obligations or otherwise to cure or agree to cure any title objections, except that Seller shall reasonably cooperate in executing a customary Owner's affidavit, in favor of Title Company, sufficient to remove exceptions from the Title Policy for mechanics' liens, parties in possession and any other matter for which Buyer has objected and can be removed with a customary Owner's affidavit. Within five (5) business days of receipt of a Title Notice, Seller shall deliver written notice to Buyer and Escrow Holder identifying which disapproved items Seller shall undertake to cure or not cure ("**Seller's Response**"), provided, however, Seller must cure the Monetary Liens. If Seller does not deliver a Seller's Response within said five (5) business day period, Seller shall be deemed to have elected to not remove or otherwise cure any exceptions disapproved by Buyer, other than Monetary Liens. Seller may have until five (5) days prior to the Closing Date to make such arrangements or take such steps as the parties shall mutually agree to satisfy Buyer's objection(s). If Seller elects, or is deemed to have elected, not to remove or otherwise cure an exception disapproved in Buyer's Title Notice, Buyer, in its sole and absolute discretion, shall have until 5:00 p.m. Central Time on the date occurring five (5) business days thereafter to notify Seller and Escrow Holder, in writing, of Buyer's election to either (i) waive the objection or (ii) terminate this Agreement and the Escrow ("**Buyer's Response**"). If Seller and Escrow Holder have not received Buyer's Response by such date, that shall be deemed Buyer's waiver of Buyer's objection (except for Monetary Liens) and, subject to Section 3(a) of this Agreement, election to proceed with Closing.

(ii) Buyer shall also have the right to approve in its reasonable discretion (i) any document recorded after the expiration of the Title Review Period, (ii) any document not disclosed on the initial Title Documents, and (iii) any new survey matter resulting from such recorded document or not disclosed document affecting title to the Property (individually and collectively, "**Intervening Title Matter(s)**"). Buyer shall have until 5:00 p.m. (Central time) on the fifth (5th) business day following Buyer's receipt of written notice of any such Intervening Title Matter(s) to deliver to Seller written notice ("**Buyer's Intervening Title Notice**") of Buyer's disapproval or conditional approval of such Intervening Title Matter(s). If Buyer delivers Buyer's Intervening Title Notice to Seller within the above time period, then Seller shall have until five (5) days prior to the Closing Date to make such arrangements or take such steps as the parties shall mutually agree to satisfy Buyer's objection(s); provided, however, Buyer's failure to deliver Buyer's Intervening Title Notice within the above time period shall be deemed to constitute Buyer's approval of all Intervening Title Matter(s). Notwithstanding anything herein to the contrary, all Monetary Liens shall be removed on or before the Closing Date, at Seller's sole expense. Except with respect to Monetary Liens, Seller shall have no obligation whatsoever to expend or agree to expend any funds, to undertake or agree to undertake any obligations or otherwise to cure or agree to cure any Intervening Title Matter(s), except that Seller shall reasonably cooperate in executing a customary Owner's affidavit, in favor of Title Company, sufficient to remove exceptions from the Title Policy. Within three (3) business days of receipt of Buyer's Intervening Title Notice, Seller shall deliver written notice to Buyer and Escrow Holder identifying which Intervening Title Matter(s) Seller shall

undertake to cure or not cure ("**Seller's Intervening Title Matter(s) Response**"). If Seller does not deliver a Seller's Intervening Title Matter(s) Response within said three (3) business day period, Seller shall be deemed to have elected to not remove or otherwise cure any exception disapproved by Buyer, other than Monetary Liens. If Seller elects, or is deemed to have elected, not to remove or otherwise cure an exception disapproved in Buyer's Intervening Title Notice, Buyer shall have three (3) business days after receipt of Seller's Intervening Title Matter(s) Response (or the last day on which Seller's Intervening Title Matter(s) Response could be delivered to Buyer by Seller (as set forth above)) (the "**Outside Title Approval Date**") to notify Seller and Escrow Holder, in writing, of Buyer's election ("**Buyer's Additional Response**") to either waive the objection or terminate this Agreement and the Escrow, in which case (i) this Agreement shall terminate, (ii) Escrow Holder shall promptly refund the Earnest Money Deposit to Buyer, and (iii) neither party hereunder shall have any further obligations or liabilities under this Agreement, except as specifically set forth herein. If Buyer fails to timely deliver Buyer's Additional Response, Buyer shall be deemed to have waived its prior obligation to the Intervening Title Matter(s), except with respect to Monetary Liens. If Seller elects to cure any Intervening Title Matter(s) set forth in Buyer's Intervening Title Notice, Seller shall have until the Closing Date to do so, provided failure to do so shall in no way be deemed a default by Seller hereunder. If such cure cannot be accomplished within such time, and Buyer has not waived its objections to such failure by Seller to cure by the Closing Date, then this Agreement shall terminate, the Earnest Money Deposit shall be promptly returned to Buyer and neither party shall have any further obligations under this Agreement, except as specifically set forth in this Agreement. If necessary, the Closing Date shall be extended to allow for the notice and cure periods described herein. The approved exceptions ("**Permitted Exceptions**") to title shall be attached to the form of Special Warranty Deed attached hereto as **Exhibit C** as **Exhibit B** thereto.

(e) **Title Policy.** At the Close of Escrow, the Title Company shall issue to Buyer an American Land Title Association ("**ALTA**") Standard Coverage owner's policy of title (the "**Title Policy**") which shall: (i) be written with liability in the amount of the Purchase Price; (ii) insure title to the Property, to be vested in Buyer, subject only to the Permitted Exceptions; and (iii) contain such endorsements as required by Buyer in Buyer's Title Notice; provided that Buyer shall pay for the premiums of such endorsements. Buyer shall have the right, at Buyer's sole cost and expense, to procure an ALTA Extended Coverage Owner's Policy of Title Insurance ("**ALTA Policy**"); provided that Buyer shall be responsible for the cost of the ALTA Policy premium in excess of the cost of the Buyer's Title Policy, which shall be paid by Seller.

#### 4. **Property Condition.**

(a) **As-Is Sale.** BUYER ACKNOWLEDGES THAT PRIOR TO CLOSING IT WILL HAVE HAD THE OPPORTUNITY TO INSPECT THE PROPERTY AND OBSERVE THE PHYSICAL CHARACTERISTICS AND CONDITION OF THE PROPERTY AND ANY AND ALL OTHER MATTERS, AS TO, CONCERNING OR WITH RESPECT TO ANY MATTER WHATSOEVER RELATING TO THE PROPERTY OR THIS AGREEMENT OR OF CONCERN TO BUYER (COLLECTIVELY, THE "**PROPERTY CONDITION**"), INCLUDING, BUT NOT LIMITED TO: THE CONDITION OF TITLE OF THE PROPERTY (INCLUDING ANY AND ALL MATTERS AFFECTING THE TITLE OF THE PROPERTY); THE PHYSICAL AND/OR ENVIRONMENTAL CONDITION OF THE PROPERTY, WATER, SOIL, PEST AND GEOLOGICAL CONDITIONS OF THE PROPERTY; THE SUITABILITY OF THE



PROPERTY FOR ANY AND ALL ACTIVITIES AND/OR USES WHICH MAY BE CONDUCTED THEREON; THE COMPLIANCE OF OR BY THE PROPERTY WITH ANY AND ALL LAWS, RULES, ORDINANCES OR REGULATIONS OF ANY APPLICABLE GOVERNMENTAL AUTHORITY OR BODY (INCLUDING ENVIRONMENTAL, ZONING, BUILDING CODES, AND THE STATUS OF ANY DEVELOPMENT OR USE RIGHTS RESPECTING THE PROPERTY); THE ECONOMIC OR ENGINEERING FEASIBILITY OF ANY ALTERATION, RENOVATION OR OTHER DEVELOPMENT OF THE PROPERTY THAT MAY BE CONTEMPLATED BY BUYER; THE AVAILABILITY OF PERMITS, LICENSES AND APPROVALS RESPECTING THE PROPERTY; THE HABITABILITY, MERCHANTABILITY, MARKETABILITY, PROFITABILITY OR FITNESS FOR A PARTICULAR PURPOSE OF THE PROPERTY; AND THE PHYSICAL CONDITION OF THE IMPROVEMENTS, INCLUDING CONSTRUCTION DEFECTS, DEFERRED MAINTENANCE, AND ANY AND ALL OTHER ADVERSE PHYSICAL CONDITIONS OR DEFECTS. BUYER UNDERSTANDS, ACKNOWLEDGES AND AGREES THAT, EXCEPT AS SET FORTH IN SECTION 9(b) BELOW, OR EXPRESS REPRESENTATIONS AND WARRANTIES IN ANY OTHER CLOSING DOCUMENT BETWEEN BUYER AND SELLER, NEITHER SELLER NOR ANY OF SELLER'S EMPLOYEES, AGENTS OR REPRESENTATIVES HAS MADE ANY REPRESENTATIONS, WARRANTIES, GUARANTIES OR AGREEMENTS, EXPRESS OR IMPLIED, BY OR ON BEHALF OF SELLER AS TO ANY MATTERS CONCERNING THE PROPERTY CONDITION. EXCEPT AS SET FORTH IN SECTION (b) BELOW, OR EXPRESS REPRESENTATIONS AND WARRANTIES IN ANY OTHER CLOSING DOCUMENT BETWEEN BUYER AND SELLER, SELLER DISCLAIMS ANY AND ALL SUCH STATEMENTS, REPRESENTATIONS, WARRANTIES, GUARANTIES, AGREEMENTS OR INFORMATION, AND BUYER AGREES THAT ANY INACCURACY OR DEFICIENCY IN INFORMATION, ADVICE OR DOCUMENTS GIVEN TO BUYER SHALL BE SOLELY THE RESPONSIBILITY AND RISK OF BUYER, AND SHALL NOT BE CHARGEABLE IN ANY RESPECT TO SELLER. BUYER ACKNOWLEDGES THAT IT IS NOT RELYING ON ANY STATEMENT OR REPRESENTATION, WHETHER EXPRESS OR IMPLIED, ORAL OR WRITTEN, THAT HAS BEEN MADE OR THAT IN THE FUTURE MAY BE MADE BY SELLER OR ANY OF SELLER'S EMPLOYEES, AGENTS, ATTORNEYS OR REPRESENTATIVES CONCERNING THE PROPERTY CONDITION (INCLUDING, WITHOUT LIMITATION, WITH RESPECT TO TAX CONSEQUENCES, UTILITIES, OPERATING HISTORY OR PROJECTIONS, OR VALUATION). BUYER HEREBY ACKNOWLEDGES AND AGREES THAT THE PROPERTY IS TO BE PURCHASED, CONVEYED AND ACCEPTED BY BUYER IN ITS PRESENT CONDITION, "AS IS," "WHERE IS" AND "WITH ALL FAULTS," AND THAT NO PATENT OR LATENT DEFECT OR DEFICIENCY IN THE PROPERTY CONDITION, WHETHER OR NOT KNOWN OR DISCOVERED, SHALL AFFECT THE RIGHTS OF EITHER SELLER OR BUYER HEREUNDER NOR SHALL THE PURCHASE PRICE BE REDUCED AS A CONSEQUENCE THEREOF. AS A MATERIAL INDUCEMENT TO THE EXECUTION AND DELIVERY OF THIS AGREEMENT BY SELLER, BUYER FURTHER UNDERSTANDS, ACKNOWLEDGES, REPRESENTS, WARRANTS AND AGREES THAT BUYER IS A KNOWLEDGEABLE, EXPERIENCED AND SOPHISTICATED BUYER OF COMMERCIAL REAL PROPERTY, BUYER IS CAPABLE OF EVALUATING THE MERITS AND RISKS OF PURCHASING THE PROPERTY, AND BUYER HAS RELIED AND SHALL RELY ON ITS OWN EXPERTISE IN EVALUATING SUCH MERITS AND RISKS AND PURCHASING THE PROPERTY AND DETERMINING THE TERMS AND CONDITIONS APPLICABLE TO THE PURCHASE THEREOF (INCLUDING,

WITHOUT LIMITATION, THE PURCHASE PRICE PAID BY BUYER THEREFOR). AS OF THE DUE DILIGENCE DEADLINE, BUYER WILL HAVE EXAMINED, REVIEWED AND INSPECTED THE PROPERTY, THE CONDITION THEREOF, AND OTHER MATTERS WHICH, IN BUYER'S JUDGMENT, BEAR UPON THE PROPERTY AND ITS VALUE AND SUITABILITY FOR BUYER'S PURPOSES (INCLUDING, WITHOUT LIMITATION, THE EXISTENCE OR NONEXISTENCE OR CURATIVE ACTION TO BE TAKEN WITH RESPECT TO ANY HAZARDOUS OR TOXIC SUBSTANCES ON OR DISCHARGED FROM THE PROPERTY). UPON CLOSING, BUYER WILL ACQUIRE THE PROPERTY SOLELY ON THE BASIS OF ITS OWN EXAMINATIONS, REVIEWS AND INSPECTIONS AND THE TITLE INSURANCE PROTECTION AFFORDED BY THE OWNER'S TITLE POLICY ISSUED TO BUYER BY THE TITLE COMPANY. UPON CLOSING, BUYER SHALL ASSUME THE RISK THAT PROPERTY CONDITIONS MAY NOT HAVE BEEN REVEALED BY BUYER'S INVESTIGATIONS AND THAT ADVERSE MATTERS, INCLUDING, WITHOUT LIMITATION, CONSTRUCTION DEFECTS AND ADVERSE PHYSICAL AND/OR ENVIRONMENTAL CONDITIONS, MAY HAVE NOT BEEN REVEALED BY BUYER'S INVESTIGATIONS. THE RELEASE AND WAIVER OF CLAIMS SET FORTH BELOW SHALL BE REFERRED TO AS THE "RELEASE." UPON THE CLOSING, TO THE FULLEST EXTENT NOT PROHIBITED BY LAW, BUYER, ON ITS OWN BEHALF AND ON BEHALF OF EACH OF ITS SUCCESSORS AND ASSIGNS AND EACH AND ALL OF ITS AND THEIR RESPECTIVE MEMBERS, MANAGERS, PARTNERS, SHAREHOLDERS, OFFICERS, DIRECTORS, EMPLOYEES, AGENTS, REPRESENTATIVES, SERVANTS, PARENTS, AFFILIATES AND SUBSIDIARIES, AND ANY OTHER PERSON OR ENTITY ACTION ON BUYER'S BEHALF OR OTHERWISE RELATED TO OR AFFILIATED WITH BUYER, AND EACH OF THEIR RESPECTIVE SUCCESSORS AND ASSIGNS (COLLECTIVELY, "WAIVER PARTIES"), RELEASES EACH OF THE SELLER PARTIES FROM, AND WAIVES ANY AND ALL LIABILITY, CLAIMS, DEMANDS, DAMAGES AND COSTS (INCLUDING ATTORNEYS' FEES AND EXPENSES) OF ANY AND EVERY KIND OR CHARACTER, KNOWN OR UNKNOWN, FOR, ARISING OUT OF, OR ATTRIBUTABLE TO, ANY AND ALL PROPERTY CONDITIONS, WHETHER NOW KNOWN OR UNKNOWN, WHETHER FORESEEABLE OR UNFORESEEABLE, WHETHER UNDER ANY FOREIGN, FEDERAL, STATE OR LOCAL LAW (BOTH STATUTORY AND NON-STATUTORY), AND, WHETHER ASSERTED OR DEMANDED BY A THIRD PARTY AGAINST ANY OF THE WAIVER PARTIES OR INCURRED DIRECTLY OR INDIRECTLY BY ANY OF THE WAIVER PARTIES THEMSELVES, THAT ANY OF THE WAIVER PARTIES MAY NOW OR HEREAFTER HAVE AGAINST ANY OF THE SELLER PARTIES (COLLECTIVELY, "CLAIMS"), AND THAT ARISE IN CONNECTION WITH OR IN ANY WAY ARE RELATED TO THE PHYSICAL CONDITION OF THE PROPERTY (INCLUDING, WITHOUT LIMITATION, ANY LATENT OR PATENT CONSTRUCTION DEFECTS, OR ENVIRONMENTAL CONDITIONS), THE FINANCIAL CONDITION OF THE PROPERTY, THE VALUE OF THE PROPERTY OR ITS SUITABILITY FOR BUYER'S USE, THE OWNERSHIP, MANAGEMENT OR OPERATION OF THE PROPERTY, VIOLATIONS OF APPLICABLE LAWS (INCLUDING, WITHOUT LIMITATION, ENVIRONMENTAL LAWS), ANY OTHER ACTS, OMISSIONS, EVENTS, CIRCUMSTANCES OR MATTERS REGARDING THE PROPERTY, AND/OR THE ACCURACY OR COMPLETENESS OF ANY INFORMATION REVIEWED BY BUYER IN CONNECTION WITH ITS INVESTIGATIONS OF THE PROPERTY AND WHICH MAY HAVE BEEN RELIED UPON BY BUYER IN DECIDING TO PURCHASE THE PROPERTY. BUYER SHALL NOT LOOK TO SELLER OR ANY SELLER PARTY IN CONNECTION WITH THE FOREGOING FOR ANY REDRESS FOR RELIEF. BUYER

ACKNOWLEDGES THAT SELLER SHALL NOT BE RESPONSIBLE FOR, AND SELLER SHALL HAVE NO RESPONSIBILITY FOR CORRECTING OR IMPROVING, ANY CONDITION OF THE PROPERTY THAT BUYER DISCOVERS OR DESIRES TO CORRECT OR IMPROVE PRIOR TO OR AFTER THE CLOSING. BUYER ACKNOWLEDGES THAT THIS WAIVER AND RELEASE IS VOLUNTARY AND WITHOUT ANY DURESS OR UNDUE INFLUENCE AND IS GIVEN AS PART OF THE CONSIDERATION FOR THE AGREEMENTS SET FORTH HEREIN. THE FOREGOING RELEASE SHALL BE GIVEN FULL FORCE AND EFFECT ACCORDING TO EACH OF ITS EXPRESSED TERMS AND PROVISIONS, INCLUDING THOSE RELATED TO UNKNOWN AND UNSUSPECTED CLAIMS, DAMAGES AND CAUSES OR ACTION. BUYER EXPRESSLY ACKNOWLEDGES THAT BUYER MAY HEREAFTER OR AFTER THE CLOSING DISCOVER FACTS DIFFERENT FROM OR IN ADDITION TO THOSE THAT IT NOW BELIEVES TO BE TRUE WITH RESPECT TO THE RELEASE OF CLAIMS. BUYER AGREES THAT THE FOREGOING RELEASE SHALL BE AND REMAIN EFFECTIVE IN ALL RESPECTS NOTWITHSTANDING SUCH DIFFERENT OR ADDITIONAL FACTS. BUYER HAS BEEN ADVISED BY ITS LEGAL COUNSEL AND UNDERSTANDS THE SIGNIFICANCE OF THE FOREGOING RELEASE AND WAIVER, AND BUYER HEREBY SPECIFICALLY ACKNOWLEDGES THAT BUYER HAS CAREFULLY REVIEWED THIS PARAGRAPH AND DISCUSSED ITS IMPORT WITH LEGAL COUNSEL AND THAT THE PROVISIONS OF THIS PARAGRAPH ARE A MATERIAL PART OF THIS AGREEMENT. BY ITS INITIALS BELOW, BUYER ACKNOWLEDGES THAT IT FULLY UNDERSTANDS, APPRECIATES AND ACCEPTS ALL OF THE TERMS OF THIS PARAGRAPH AND THE FOREGOING RELEASE AND WAIVER. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS AGREEMENT, THE FOREGOING RELEASE AND WAIVER SHALL NOT APPLY TO (I) ANY CLAIMS ARISING FROM FRAUD OR INTENTIONAL MISREPRESENTATION BY ANY OF THE SELLER PARTIES, (II) POST-CLOSING DEFAULTS (DEFINED BELOW) (BUT SUBJECT TO THE PROVISIONS OF PARAGRAPH 7(b)(ii)), OR (III) A BREACH OF ANY REPRESENTATION OR WARRANTY BY SELLER SET FORTH IN THIS AGREEMENT, OR EXPRESS REPRESENTATIONS AND WARRANTIES IN ANY OTHER CLOSING DOCUMENT BETWEEN BUYER AND SELLER, WHICH IS DISCOVERED WITHIN THE FIRST NINE (9) MONTHS AFTER THE CLOSING DATE.

(b) Survival. The provisions of this Section 4 shall survive the Closing and not merge with the Deed or Bill of Sale (as each such term is defined in Section 5 below).

5. **Escrow and Closing**.

(a) Closing Date. The Escrow shall close ("**Close of Escrow**" or "**Closing**"), provided that all the express conditions set forth in Section 6 have been satisfied (or waived in writing by the party for whose benefit such condition exists), on or before the date that is thirty (30) days after Buyer delivers the Approval Notice (as may be extended once by Buyer and Seller pursuant to the next provision (or the provisions of Section 3(d)) the "**Closing Date**"). Notwithstanding the foregoing to the contrary, Buyer and Seller shall each have one (1) option to extend the Closing Date for a period of up to four (4) business days by providing written notice to the other party and Escrow Holder of the requesting party's election to so extend the Closing Date at least five (5) business days prior to the anticipated Closing Date. Buyer and Seller, understand, acknowledge, and agree that the Closing occurring by no

later than the Closing Date is a material and essential term to the transaction under this Agreement. If the Closing fails to occur by the Closing Date for any reason whatsoever, (as such Closing Date may be extended as provided by this Agreement), then either Seller or Buyer shall have the right, in their sole and absolute discretion, and without limitation or waiver of the provisions of Paragraph 7, to terminate this Agreement by written notice to the non-terminating party, in which event this Agreement shall thereafter be of no further force or effect, neither party shall have any further obligation or liability to the other under this Agreement (other than those which expressly survive termination), and Escrow Holder shall promptly return the Earnest Money Deposit to Buyer (unless Seller is entitled to retain the Earnest Money Deposit as liquidated damages pursuant to Paragraph 7(a)).

(b) Deliveries to Escrow Holder. Prior to the Closing Date, Buyer and Seller shall sign and deliver to Escrow Holder such instructions and other customary instruments as may be reasonably required by Escrow Holder or Title Company to consummate the purchase in accordance with the terms and conditions of this Agreement and which do not otherwise modify the parties' respective rights and obligations under this Agreement. Without limitation of the foregoing, Seller shall cause any financing obtained by Seller secured by a mortgage or deed of trust covering the Property and any other monetary liens created by Seller encumbering the Property to be paid off at Closing.

(c) Seller Documents. On or before the Closing Date, Seller shall deliver the following to Escrow Holder:

- (i) the special warranty deed for the Property from Seller to Buyer in the form attached hereto as **Exhibit C** (the "**Deed**");
- (ii) a FIRPTA certificate from Seller in the customary form required by Escrow Holder;
- (iii) an executed, original counterpart of the bill of sale and assignment for the Fixtures and Intangible Personal Property from Seller to Buyer in the form attached hereto as **Exhibit D** (the "**Bill of Sale**"); and
- (iv) an executed counterpart signature to that certain Lease Agreement attached hereto as **Exhibit E** (the "**Lease**").

(d) Buyer Documents. On or before the Closing Date, Buyer shall deliver the following to Escrow Holder:

- (i) an executed, original counterpart of the Bill of Sale; and
- (ii) an executed counterpart signature to the Lease.

(e) Closing Costs. Buyer and Seller shall each pay one-half of the Escrow fees. Seller shall pay for the basic premium cost for a standard owner's title insurance policy in the amount of the Purchase Price, the cost of recording the Deed, all property taxes assessed against the Property which are due and payable as of the date of Closing and the cost of a property tax certificate, and the fees and expenses of Seller's legal counsel and

consultants. Buyer shall pay for any additional premium cost for extended coverage and for any title endorsements required by Buyer, the fees and expenses of Buyer's legal counsel and consultants, and the fees, costs and expenses related to any financing obtained by Buyer (which financing is not a contingency to Buyer's obligation to consummate the purchase in accordance with the terms and conditions of this Agreement). In addition, Buyer shall be responsible for the payment of all excise, transfer and use taxes imposed with respect to the conveyance of any personal property contemplated by this Agreement (it being agreed that none of the Purchase Price shall be allocated to personal property transferred from Buyer to Seller, if any). Except as otherwise provided above in this Section, all other costs shall be split between Buyer and Seller in the manner customary in the County in which the Property is located.

(f) Prorations. All real and personal property taxes, assessments, utility charges, and other expenses attributable to owning the Property (other than insurance premiums, which shall not be prorated) shall be prorated through Escrow based upon the latest available bills or meter reading, as applicable. All prorations shall be based upon the actual number of days lapsed and shall be made as of the date of Closing, with Seller being charged for all such proration items attributable to the period up to (but not including) the date of Closing, whether or not billed, and Buyer being charged for all such proration items attributable to the period on and after the date of Closing. Any item to be prorated that is not determined or determinable at the Closing shall be promptly adjusted by the parties outside of Escrow when the actual amount due is determined. The obligations under this Section (f) shall survive the Closing for a period of six (6) months after the Closing, and thereafter neither party shall have any further obligation to reconcile closing costs.

(g) IRS Real Estate Sales Reporting. Buyer and Seller shall appoint Escrow Holder as, and Escrow Holder shall agree to act as, "the person responsible for closing" the transaction which is the subject of this Agreement pursuant to Internal Revenue Code Section 6045(e). Buyer and Seller shall instruct Escrow Holder to prepare and file all informational returns, including without limitation, IRS Form 1099 S and to otherwise comply with the provisions of Internal Revenue Code Section 6045(e).

## **6. Conditions to Closing.**

(a) Buyer's Closing Conditions. Each of the following are conditions to Buyer's obligation to proceed with the Close of Escrow at the Closing Date:

(i) Title. Title Company shall be irrevocably committed to issue Buyer's Title Policy (or ALTA Policy, if so elected by Buyer applicable) in the form required by Buyer pursuant to Section 3(e).

(ii) Monetary Liens. Seller shall have caused the removal Monetary Liens affecting the Property.

(iii) Association Transfer. Seller shall have requested from any association or private entity having authority over the Property such transfer documents or approvals as may be available, including a resale certificate

and statement of account, it being agreed that Seller's failure to deliver the same shall not be a default by Seller hereunder.

(iv) No Litigation. The Property has not become the subject of litigation proceeding since the Effective Date (unless the same is caused by acts of Buyer or its agents, employees, representatives or consultants or the same was disclosed to Buyer prior to its delivery of the Approval Notice and Buyer elected to deliver the Approval Notice despite the same, in which case Buyer shall be deemed to have waived its right to terminate this Agreement as a result thereof);

(v) Material Adverse Change. Seller shall have not taken or permitted any actions that materially have changed the condition of the Property, nor shall the zoning or private permitted uses have changed from and after the expiration of the Due Diligence Period.

(vi) Representations and Warranties. All representations and warranties of Seller contained in this Agreement shall be true and correct in all material respects as of the date made and as of the Close of Escrow with the same effect as though such representations and warranties were made at and as of the Close of Escrow.

(vii) Seller Covenants. Seller shall have performed and satisfied all agreements and covenants required hereby to be performed by this Agreement, including delivery of all Seller Documents.

Buyer's obligation to proceed with the Close of Escrow is subject to the satisfaction of the conditions precedent set forth above in this Section 6(a) ("Buyer's Closing Conditions"). If Buyer's Closing Conditions are not satisfied or waived by Buyer in writing as of the Closing Date, then Buyer (a) shall have no obligation to proceed with the Close of Escrow, and (b) shall have the right to terminate this Agreement by written notice to Seller and Escrow Holder, whereupon neither party shall have any further obligation or liability to the other hereunder (other than those which expressly survive termination) and Escrow Holder shall promptly return the Earnest Money Deposit to Buyer, or if Closing fails due to a breach by Seller, Buyer shall have the right to pursue its remedies set forth in Section 7(b)(i).

(b) Seller's Closing Conditions. Each of the following are conditions to Seller's obligation to proceed with the Close of Escrow at the Closing Date:

(i) Representations and Warranties. All representations and warranties of Buyer contained in this Agreement shall be materially true and correct as of the date made and as of the Close of Escrow with the same effect as though such representations and warranties were made at and as of the Close of Escrow.

(ii) Buyer Covenants. Buyer shall have performed and satisfied all agreements and covenants required hereby to be performed by Buyer prior to or at the Close of Escrow.

Seller's obligation to proceed with the Close of Escrow is subject to the satisfaction of the conditions precedent set forth in this Section 6(b) ("**Seller's Closing Conditions**"). If Seller's Closing Conditions are not satisfied as of the Closing Date, then Seller (a) shall have no obligation to proceed with the Close of Escrow, and (b) shall have the right to terminate this Agreement by written notice to Buyer and Escrow Holder, whereupon neither party shall have any further obligation or liability to the other hereunder (other than those which expressly survive termination) and Escrow Holder shall promptly return the Earnest Money Deposit to Buyer (unless, however, Seller is entitled to retain the Earnest Money Deposit as liquidated damages pursuant to Section 7(a)).

(c) Material Condemnation. As used in this Agreement, "**Material Condemnation**" shall mean and refer the Real Property being subject to a taking by a public or governmental authority having the power of eminent domain where (i) the estimated value of the portion of the Real Property subject thereto \$2,500,000.00 or more, or (ii) such condemnation results in any tenant (other than Seller) having the right to terminate their lease at the Property provided that Buyer provides a copy of the applicable condemnation provision to Seller within five (5) days of lease execution; provided, further, Buyer shall use commercially reasonable efforts to have any termination rights under such lease match the threshold set forth in subsection (i) above. If a Material Condemnation occurs after the Effective Date and prior to the Closing Date, then Buyer shall have the right to terminate this Agreement by written notice to Seller and Escrow Holder delivered within five (5) business days of its receipt of written notice thereof, in which case neither party shall have any further obligation or liability to the other hereunder (other than those which expressly survive termination) and Escrow Holder shall promptly return the Earnest Money Deposit to Buyer. If this Agreement is not terminated by Buyer as provided above or if any condemnation occurs after the Effective Date and the same does not constitute a Material Condemnation, then this Agreement shall remain in full force and effect and Buyer shall acquire the Property upon the terms set forth herein. Any awards or proceeds from the condemning authority with respect to any such condemnation (the "**Condemnation Proceeds**") shall be allocated between Buyer and Seller as follows (unless Buyer elects to terminate this Agreement as a result of a Material Condemnation, in which case Seller shall retain all of the Condemnation Proceeds): (A) Seller shall be entitled to be reimbursed from the Condemnation Proceeds for (1) all costs, expenses and fees, including reasonable attorneys' fees, expenses and disbursements, incurred by Seller in connection with negotiating the settlement of such award or proceeds, (2) proceeds of any rental loss, business interruption or similar insurance, or other compensation or loss of use, that are allocable to the period prior to the Closing Date, and (3) the reasonable and actual costs incurred by Seller (if any) in physically stabilizing the Property following such condemnation (provided that Seller shall not have any obligation under this Agreement to do so); and (B) Buyer shall be entitled to the balance of the Condemnation Proceeds.

(d) Material Damage/Destruction. As used in this Agreement, "**Material Damage/Destruction**" shall mean and refer the Property being damaged or destroyed by fire or other casualty where (i) the estimated cost to repair or restore such damage and destruction (as determined by a licensed contractor mutually and reasonably acceptable to Seller and Buyer) is \$2,500,000.00 or more, or (ii) such casualty results in any tenant (other than Seller) having the right to terminate their lease at the Property provided that Buyer provides a copy of the applicable casualty provision to Seller within five (5) days of lease execution; provided, further, Buyer shall use commercially

reasonable efforts to have any termination rights under such lease match the threshold set forth in subsection (i) above. If Material Damage/Destruction occurs after the Effective Date and prior to the Closing Date, then Buyer shall have the right to terminate this Agreement by written notice to Seller and Escrow Holder delivered within five (5) business days of its receipt of written notice thereof, in which case neither party shall have any further obligation or liability to the other hereunder (other than those which expressly survive termination) and Escrow Holder shall promptly return the Earnest Money Deposit to Buyer. If this Agreement is not terminated by Buyer as provided above or if any damage or destruction occurs after the Effective Date and the same does not constitute Material Damage/Destruction, then this Agreement shall remain in full force and effect and the parties shall proceed with this transaction upon the terms set forth in this Agreement, subject to the following terms and conditions: (i) there shall not be any reduction in the Purchase Price as a result of such damage or destruction except by the amount of the deductible under Seller's insurance (if any) applicable to such casualty (it being understood and agreed that there shall not be any reduction in the Purchase Price for any deductible in the event of any uninsured casualty); (ii) Seller shall not have any obligation to repair or restore the Property as a result of any such damage or destruction; (iii) upon the Closing, all property insurance proceeds paid or payable to Seller as a result of such casualty shall belong to Buyer and shall be paid over and/or assigned to Buyer, except for, and specifically excluding, amounts to reimburse Seller for actual, out of pocket and reasonable costs necessary to secure or protect the Property from additional or exacerbated damage or destruction from such casualty prior to Closing. Further, Seller shall be entitled to retain proceeds of any rental loss, business interruption or similar insurance that are allocable to the period prior to the Closing Date to the extent they do not reduce or affect casualty or property damage insurance proceeds.

7. **Defaults.**

(a) **BUYER DEFAULT; SELLER'S REMEDIES (LIQUIDATED DAMAGES).** BUYER AND SELLER AGREE THAT IT WOULD BE IMPRACTICABLE OR EXTREMELY DIFFICULT TO FIX THE ACTUAL DAMAGES WHICH WOULD BE SUFFERED BY SELLER IF BUYER FAILS TO PERFORM ITS OBLIGATIONS PURSUANT TO THIS AGREEMENT (A "BUYER DEFAULT"). THEREFORE, IN THE EVENT OF A BUYER DEFAULT, WHERE SUCH DEFALT CONTINUES FOR MORE THAN THREE (3) BUSINESS DAYS AFTER RECEIPT OF WRITTEN NOTICE, SELLER SHALL BE ENTITLED AS ITS SOLE REMEDY TO RETAIN THE EARNEST MONEY DEPOSIT AS LIQUIDATED DAMAGES AND SELLER WAIVES ITS RIGHT TO ANY OTHER REMEDY. THE PAYMENT OF SUCH AMOUNT AS LIQUIDATED DAMAGES IS NOT INTENDED AS A FORFEITURE OR PENALTY BUT IS INTENDED TO CONSTITUTE LIQUIDATED DAMAGES TO SELLER TO THE FULLEST EXTENT PERMITTED UNDER TEXAS LAW. UPON PAYMENT OF SAID SUM TO SELLER, BUYER SHALL BE RELEASED FROM ANY FURTHER LIABILITY TO SELLER (EXCEPT BUYER'S OBLIGATIONS UNDER THIS AGREEMENT WHICH EXPRESSLY SURVIVE TERMINATION) AND ANY ESCROW CANCELLATION FEES AND TITLE COMPANY CHARGES SHALL BE PAID BY BUYER (WHICH OBLIGATION SHALL SURVIVE TERMINATION); HOWEVER, NOTHING CONTAINED HEREIN SHALL BE DEEMED TO LIMIT OR WAIVE THE PROVISIONS OF PARAGRAPH 9(d) OR ANY INDEMNITY OBLIGATION OF BUYER SET FORTH IN THIS



AGREEMENT. THIS AGREEMENT SHALL NOT BE VALID IF THIS PARAGRAPH IS NOT INITIALED BELOW BY BOTH PARTIES.

(b) SELLER DEFAULT; BUYER'S REMEDIES.

(i) PRE-CLOSING DEFAULT. IF SELLER DEFAULTS UNDER THIS AGREEMENT PRIOR TO THE CLOSING AND THE SALE OF THE PROPERTY IS NOT CONSUMMATED BECAUSE OF SUCH DEFAULT, BUYER MAY, AS ITS SOLE AND EXCLUSIVE REMEDY AT LAW OR IN EQUITY AS A RESULT OF SUCH DEFAULT, EXERCISE ONE (AND ONLY ONE) OF THE FOLLOWING REMEDIES: (A) TERMINATE THIS AGREEMENT BY GIVING NOTICE THEREOF TO SELLER, IN WHICH EVENT THE EARNEST MONEY DEPOSIT SHALL BE RETURNED TO BUYER AND SELLER AND BUYER'S ACTUAL, OUT-OF-POCKET EXPENSES (INCLUDING REASONABLE ATTORNEYS' FEES) INCURRED IN CONNECTION WITH THIS AGREEMENT NOT TO EXCEED ONE HUNDRED THOUSAND DOLLARS (\$100,000), THE PAYMENT OF WHICH SHALL TERMINATE THIS AGREEMENT, AND NEITHER PARTY SHALL HAVE ANY FURTHER RIGHTS OR OBLIGATIONS HEREUNDER (OTHER THAN THOSE WHICH EXPRESSLY SURVIVE TERMINATION); OR (B) COMMENCE AN ACTION FOR SPECIFIC PERFORMANCE (BUT NOT DAMAGES UNLESS DUE HEREUNDER), PROVIDED THAT ANY ACTION FOR SPECIFIC PERFORMANCE MUST BE COMMENCED WITHIN FORTY-FIVE (45) DAYS AFTER THE DATE OF SELLER'S DEFAULT. IF BUYER FAILS TO TIMELY COMMENCE SUCH ACTION FOR SPECIFIC PERFORMANCE, THEN BUYER'S RIGHT TO PURSUE SUCH ACTION SHALL BE DEEMED IRREVOCABLY WAIVED AND BUYER'S SOLE REMEDY AS A RESULT OF SELLER'S DEFAULT SHALL BE TO TERMINATE THIS AGREEMENT AS SET FORTH HEREINABOVE. IN CONNECTION WITH PURSUING AN ACTION FOR SPECIFIC PERFORMANCE, BUYER SHALL ESTABLISH THAT BUYER HAD THE ABILITY TO TIMELY PAY THE PURCHASE PRICE AS OF THE CLOSING DATE.

(ii) POST-CLOSING DEFAULT. THE TERM "POST-CLOSING DEFAULTS" SHALL MEAN ALL (I) POST-CLOSING DEFAULTS BY SELLER UNDER THIS AGREEMENT AND/OR ANY AGREEMENT OR INSTRUMENT TO BE DELIVERED BY SELLER TO BUYER AT CLOSING, AND (II) ALL PRE-CLOSING SELLER DEFAULTS NOT WAIVED PURSUANT TO THIS AGREEMENT AS OF THE CLOSING (WHICH WOULD INCLUDE, WITHOUT LIMITATION, A BREACH BY SELLER OF ANY OF ITS REPRESENTATIONS OR WARRANTIES CONTAINED IN THIS AGREEMENT; PROVIDED THAT IF BUYER HAS ACTUAL KNOWLEDGE OF A BREACH OF SELLER'S REPRESENTATIONS OR WARRANTIES IN ANY MATERIAL RESPECT AND BUYER NEVERTHELESS ELECTED TO PROCEED WITH CLOSING, THEN IN ORDER FOR BUYER TO BRING A POST-CLOSING ACTION, BUYER MUST NOTIFY SELLER OF SUCH BREACH WITHIN TEN (10) BUSINESS DAYS OF BUYER OBTAINING SUCH ACTUAL KNOWLEDGE (AND THE FAILURE TO TIMELY NOTIFY SELLER THEREOF SHALL BE DEEMED A WAIVER OF ANY RIGHT TO BRING A CLAIM AGAINST SELLER BASED THEREON). IN THE EVENT OF ONE OR MORE POST-CLOSING DEFAULTS, BUYER'S SOLE AND EXCLUSIVE REMEDY SHALL BE TO SEEK ACTUAL DAMAGES IN AN AMOUNT NOT TO EXCEED THE

LIMITS SET FORTH IN THIS PARAGRAPH 7(b)(ii). THE PROVISIONS OF THIS PARAGRAPH 7(b)(ii) SHALL SURVIVE THE CLOSING. IF BUYER, WITHIN NINE (9) MONTHS AFTER THE CLOSING (THE "LIMITATION PERIOD"), GIVES NOTICE TO SELLER OF ANY POST-CLOSING DEFAULT (THE "DEFAULT NOTICE"), AND IF SELLER FAILS TO CURE SUCH POST-CLOSING DEFAULT WITHIN SIXTY (60) DAYS AFTER SUCH DEFAULT NOTICE IS DELIVERED (OR, IF SUCH POST-CLOSING DEFAULT CANNOT REASONABLY BE CURED WITHIN SIXTY (60) DAYS, SELLER SHALL BE PROVIDED WITH AN ADDITIONAL REASONABLE TIME PERIOD TO CURE SUCH POST-CLOSING DEFAULT, SO LONG AS SUCH CURE HAS BEEN COMMENCED WITHIN SUCH SIXTY (60) DAYS AND IS BEING DILIGENTLY PURSUED, BUT IN NO EVENT LONGER THAN ONE HUNDRED TWENTY (120) DAYS). IF SELLER FAILS TO CURE SUCH POST-CLOSING DEFAULT WITHIN SUCH CURE PERIODS, BUYER'S SOLE REMEDY SHALL BE AN ACTION AT LAW FOR DAMAGES AS A CONSEQUENCE THEREOF, WHICH MUST BE COMMENCED, IF AT ALL, ON OR BEFORE THE DATE WHICH IS SIX (6) MONTHS AFTER EXPIRATION OF THE SELLER'S CURE PERIOD (I.E., 120 DAYS AFTER THE DELIVERY OF A DEFAULT NOTICE, THE "OUTSIDE ACTION DATE"). BUYER ACKNOWLEDGES THAT IT IS A SOPHISTICATED BUYER WHO IS FAMILIAR WITH THE OWNERSHIP AND OPERATION OF REAL ESTATE PROJECTS SIMILAR TO THE PROPERTY AND BUYER AND SELLER HAVE NEGOTIATED AND AGREED UPON THE OUTSIDE ACTION DATE AS AN ADEQUATE PERIOD OF TIME FOR BUYER TO DISCOVER ANY AND ALL FACTS THAT COULD GIVE RISE TO A CLAIM OR CAUSE OF ACTION FOR A BREACH OF A REPRESENTATION OR WARRANTY. IF BUYER FAILS TO DELIVER A DEFAULT NOTICE FOR ANY POST-CLOSING DEFAULT WITHIN THE LIMITATION PERIOD, OR IF BUYER TIMELY DELIVERS A DEFAULT NOTICE BUT FAILS TO COMMENCE AN ACTION FOR SUCH POST-CLOSING DEFAULT ON OR BEFORE THE OUTSIDE ACTION DATE, THEN THE MAXIMUM LIABILITY OF SELLER SHALL BE LIMITED TO ONE THOUSAND DOLLARS (\$1,000.00) IN THE AGGREGATE WITH REGARD TO (X) ANY POST-CLOSING DEFAULT DISCOVERED AFTER THE OUTSIDE ACTION DATE, (Y) ANY POST-CLOSING DEFAULT FOR WHICH A DEFAULT NOTICE IS DELIVERED AFTER THE OUTSIDE ACTION DATE, AND/OR (Z) ANY POST-CLOSING DEFAULT FOR WHICH BUYER TIMELY DELIVERS A DEFAULT NOTICE BUT FAILS TO COMMENCE AN ACTION FOR SUCH POST-CLOSING DEFAULT BY THE OUTSIDE ACTION DATE. THE LIMITATION PERIOD AND OUTSIDE ACTION DATE SHALL APPLY TO KNOWN AS WELL AS UNKNOWN POST-CLOSING DEFAULTS. NOTWITHSTANDING THE FOREGOING OR ANYTHING TO THE CONTRARY IN THIS AGREEMENT, (A) BUYER SHALL NOT HAVE THE RIGHT TO BRING A CAUSE OF ACTION FOR A POST-CLOSING DEFAULT UNLESS THE DAMAGE TO BUYER ON ACCOUNT OF SUCH POST-CLOSING DEFAULT (INDIVIDUALLY OR WHEN COMBINED WITH DAMAGES FROM OTHER POST-CLOSING DEFAULTS) EQUALS OR EXCEEDS FIFTY THOUSAND DOLLARS (\$50,000.00), AND THE AGGREGATE LIABILITY OF SELLER TO BUYER AND ALL THOSE CLAIMING BY OR THROUGH BUYER FOR POST-CLOSING DEFAULTS SHALL NOT EXCEED AN AMOUNT EQUAL TO EIGHT HUNDRED THOUSAND AND NO/100 DOLLARS (\$800,000.00) (THE "LIABILITY CAP"), PLUS, TO THE EXTENT THAT BUYER IS THE PREVAILING PARTY, ENFORCEMENTS COSTS (INCLUDING REASONABLE ATTORNEY'S FEES) NOT TO EXCEED \$100,000.00, AND (B) SELLER SHALL BE LIABLE ONLY FOR DIRECT AND ACTUAL DAMAGES SUFFERED BY BUYER ON ACCOUNT OF POST-CLOSING DEFAULTS AND IN NO EVENT SHALL SELLER HAVE ANY LIABILITY FOR ANY INDIRECT, CONSEQUENTIAL, PUNITIVE OR

SPECIAL DAMAGES, INCLUDING, WITHOUT LIMITATION, ANY LOST PROFIT OR LOSS OF BUSINESS. NOTWITHSTANDING THE FOREGOING, THE LIABILITY CAP AND ANY OTHER LIMITATION ON DAMAGES SHALL NOT APPLY TO (X) ANY THIRD PARTY INDEMNITY CLAIMS, AND (Y) SELLER'S INTENTIONAL FRAUD. NOTWITHSTANDING ANYTHING TO THE CONTRARY HEREIN, BUYER ON ITS OWN BEHALF, AND ON BEHALF OF ITS AGENTS, MEMBERS, MANAGERS, PARTNERS, EMPLOYEES, REPRESENTATIVES, OFFICERS, DIRECTORS, AGENTS, RELATED AND AFFILIATED ENTITIES, SUCCESSORS AND ASSIGNS, HEREBY AGREES THAT IN NO EVENT OR CIRCUMSTANCE SHALL ANY SELLER PARTIES (OTHER THAN SELLER). BUYER AGREES TO LOOK SOLELY TO SELLER AND SELLER'S INTEREST IN THE PROPERTY AND ANY PROPERTY OR PROCEEDS DERIVED THEREFROM FOR THE SATISFACTION OF ANY LIABILITY OR OBLIGATION OF SELLER ARISING UNDER THIS AGREEMENT AND THE TRANSACTIONS CONTEMPLATED HEREBY, OR FOR THE PERFORMANCE OF ANY OF SELLER'S COVENANTS, WARRANTIES OR OTHER AGREEMENTS CONTAINED HEREIN, AND FURTHER AGREES NOT TO SUE OR OTHERWISE SEEK TO ENFORCE ANY PERSONAL OBLIGATION AGAINST ANY SELLER PARTIES (OTHER THAN SELLER) WITH RESPECT TO ANY MATTERS ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

**8. Notices.** All notices, consents, approvals and other communications required or desired to be given under this Agreement (each, a "**Notice**" and collectively, "**Notices**") shall be: (a) in writing; (b) sent to Buyer and Seller at their respective addresses set forth below their respective signatures on the signature page; and (c) deemed duly served or delivered (i) on the date of actual receipt if personally delivered, or delivered by e-mail transmission so long as notice also given by one of the methods set forth in subparagraphs 8(c)(ii) or 8(c)(iii) hereof (provided that any Notice transmitted by e-mail after 5:00 p.m. Central Time, or on a Saturday, Sunday or legal holiday, shall be deemed given on the next business day), or (ii) three (3) days after the date when the Notice is sent by United States certified first-class mail (return receipt requested), or (iii) one (1) day after the date when the Notice is sent for next day delivery with signature required by United States Express Mail or other nationally recognized overnight courier service (e.g., FedEx or DHL). Either party may change its address for delivery of Notices by giving notice thereof to the other party in the manner provided herein. All notices given pursuant to this Agreement will be effective if executed and sent by counsel for Buyer or Seller, as applicable.

**9. Other Provisions.**

(a) Buyer's Representations and Warranties. In addition to any express agreements of Buyer contained herein, Buyer represents and warrants as of the Effective Date:

(i) Due Organization. Buyer is duly formed, validly existing and in good standing under the laws of the state of its formation and is, or will be as of the Closing Date, authorized to do business in the State of Texas.

(ii) Authority. Buyer has full power and authority to enter into this Agreement and the instruments referenced herein, and to consummate the transactions contemplated hereby. All requisite action has been taken by Buyer in connection with the entering into this Agreement and the instruments referenced herein, and the

consummation of the transactions contemplated hereby. The individuals executing this Agreement and the instruments referenced herein on behalf of Buyer have the legal power, right and actual authority to bind Buyer to the terms and conditions hereof and thereof.

(iii) No Breach of Any Agreement. Neither the execution and delivery of this Agreement and the documents and instruments referenced herein, nor the occurrence of the obligations set forth herein, nor the consummation of the transaction contemplated herein, nor compliance with the terms of this Agreement and the documents and instruments referenced herein conflict with or result in the breach of any terms, conditions or provisions of, or constitute a default under, any bond, note, or other evidence of indebtedness or any contract, indenture, mortgage, deed of trust, loan partnership agreement, lease or other agreement or instrument to which Buyer is a party.

(iv) Bankruptcy. Buyer has not commenced a voluntary case, or had entered against it a petition, for relief under any federal bankruptcy act or any similar petition, order or decree under any federal or state law or statute relative to bankruptcy, insolvency or other relief for debtors, and, to Buyer's knowledge, no involuntary case against Buyer under any federal bankruptcy act or any similar petition, order or decree under any federal or state law or statute relative to bankruptcy, insolvency or other relief for debtors has been threatened.

(v) OFAC. Buyer is not a person or entity with whom the other party is restricted from doing business under the Anti-Terrorism Laws, including without limitation persons and entities named on the Office of Foreign Asset Control Specially Designated Nationals and Blocked Persons List.

(b) Seller's Representations and Warranties. Seller represents and warrants as of the date of the Effective Date:

(i) Due Organization. Seller is duly formed, validly existing and in good standing under the laws of the state of its formation and authorized to do business in the State of Texas.

(ii) Authority. Seller has full power and authority to enter into this Agreement and the instruments referenced herein, and to consummate the transactions contemplated hereby. All requisite action has been taken by Seller in connection with the entering into this Agreement and the instruments referenced herein, and the consummation of the transactions contemplated hereby. The individuals executing this Agreement and the instruments referenced herein on behalf of Seller have the legal power, right and actual authority to bind Seller to the terms and conditions hereof and thereof.

(iii) No Breach of Any Agreement. Neither the execution and delivery of this Agreement and the documents and instruments referenced herein, nor the occurrence of the obligations set forth herein, nor the consummation of the transaction contemplated herein, nor compliance with the terms of this Agreement and the documents and instruments referenced herein conflict with or result in the breach of any terms, conditions or

provisions of, or constitute a default under, any bond, note, or other evidence of indebtedness or any contract, indenture, mortgage, deed of trust, loan partnership agreement, lease or other agreement or instrument to which Seller is a party or affecting the Property.

(iv) Condemnation/Eminent Domain. Seller has (i) to Seller's knowledge, not received written notice of any condemnation or eminent domain proceedings pending or threatened with respect to the Property, and (ii) has no knowledge of any facts or circumstances with respect to the Property which might give rise to such action or proceeding.

(v) No Actions. Seller has (i) to Seller's knowledge, not received written notice of any action, suit or proceeding (including any litigation) against the Seller or the Property, and (ii) no knowledge of any action, suit or proceeding threatened against or otherwise relating to the Property or Seller with respect to its interests in or operation of the Property.

(vi) No Violation of Law. Seller has, to Seller's knowledge, not received any written notice from any governmental agency, of any violation by Seller or the Property of any laws, ordinances, rules, regulations, or court or administrative orders, including, without limitation, environmental laws, and zoning laws and ordinances, which remains uncured.

(vii) Property Documents. To Seller's knowledge, the Property Documents provided to Buyer (a) are the complete set of documents related to the Property that are in the possession or control of Seller; (b) are and have been the same documents used and relied on by Seller in connection with the ownership and operation of the Property; and (c) do not contain any material omission or inaccuracy.

(viii) No Property Rights. Seller has not entered into, and to Seller's knowledge, there are no occupancy, transfer, sale or option agreements or other similar written agreements regarding occupancy, transfer or option rights of the Property, or any portion of it which currently remain effective, other than (A) as referred to in the Permitted Exceptions, and (B) that certain License Agreement dated September 1, 2020 with Integreon Managed Solutions, Inc. of a portion of the Premises (which Seller shall terminate prior to the Closing Date).

(ix) Hazardous Materials. To Seller's knowledge and except as set forth on that certain Phase I Environmental Site Assessment Report prepared by Tetra Tech dated January 9, 2013 ("**Phase 1**"), Seller has no reason to believe that there are currently any hazardous materials, hazardous substances or other environmental contaminants in, at, on, under or about the Property in violation of any applicable environmental laws. To Seller's knowledge, except as set forth in the Phase 1, there are no underground storage tanks on the Property.

(x) Section 1445. Seller is not a "foreign person" as defined in Section 1445 of the Internal Revenue Code of 1986, as amended, and the Income Tax Regulations thereunder.

(xi) Bankruptcy. Seller has not commenced a voluntary case, or had entered against it a petition, for relief under any federal bankruptcy act or any similar petition, order or decree under any federal or state law or statute relative to bankruptcy, insolvency or other relief for debtors, and, to Seller's knowledge, no involuntary case against Seller under any federal bankruptcy act or any similar petition, order or decree under any federal or state law or statute relative to bankruptcy, insolvency or other relief for debtors has been threatened.

(xii) OFAC. Seller is not a person or entity with whom the other party is restricted from doing business under the Anti-Terrorism Laws, including without limitation persons and entities named on the Office of Foreign Asset Control Specially Designated Nationals and Blocked Persons List.

(xiii) If Seller becomes aware of any fact or circumstance which would materially and adversely change one of its foregoing representations or warranties, then Seller will promptly give written notice of such changed fact or circumstance to Buyer. Whenever phrases such as "to Seller's knowledge" or "Seller has no knowledge" or similar phrases are used in this Section, they will be deemed to refer exclusively to matters within the current actual (as opposed to constructive) knowledge of Luke Spoons, Director, Real Estate and Workplace Services ("Seller's Representative"). For the limited purpose of the representations and warranties qualified "to Seller's knowledge" or "Seller has no knowledge" or similar phrases used in Section, 9(b)(v) (no actions), the Seller's Representative shall be expanded to mean the entirety of legal department and facilities department of the Seller (and its affiliate, Legalzoom.com, Inc.). No duty of inquiry or investigation on the part of Seller or Seller's Representative will be required or implied by the making of any representation or warranty which is so limited to matters within Seller's actual knowledge, and in no event shall Seller or Seller's Representative have any personal liability therefor. Seller represents to Buyer that Seller's Representative is the individual who have been primarily responsible for the asset management of the Property and is the person most knowledgeable with respect to matters relating to the Property.

(xiv) All of the foregoing representations and warranties of Seller will survive Closing for a period of nine (9) months after the Closing Date. No claim for a breach of any representation or warranty of Seller will be actionable or payable if Buyer does not notify Seller in writing of such breach and commence a "legal action" thereon by the Outside Action Date.

(c) Integration. This Agreement constitutes the entire agreement between the parties regarding the subject matter hereof and supersedes all prior agreements and understandings of the parties related thereto.

(d) Modification. No amendment or modification of this Agreement shall be valid or binding upon the parties unless made in writing and signed by both parties. No waiver shall be binding unless executed in writing by the party waiving the provision.

(e) Attorney's Fees. If any party hereto shall bring a legal action against the other party in connection with this Agreement or any document entered into pursuant to this Agreement, the prevailing party in said action shall be

entitled to reasonable attorneys' fees, in addition to any other judgment of the court. The provisions of this Section 9(e) shall survive the termination of this Agreement or the Closing, as applicable.

(f) Time is of the Essence. Time is of the essence of this Agreement.

(g) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Texas, without resort to choice of law principles.

(h) Assignment. This Agreement shall be binding upon, and inure to the benefit of, the respective successors and assigns of each of the parties; provided, however, Buyer may not assign, transfer or convey its rights and obligations under this Agreement without the prior written consent of Seller, which consent may be granted or withheld in Seller's sole and absolute discretion; provided, further, Buyer may assign, transfer or convey its rights and obligations under this Agreement to an affiliate of Buyer without the prior written consent of Seller, but Buyer shall provide notice of such assignment to Seller and Escrow Holder at least five (5) days prior to the scheduled Closing Date.

(i) Counterparts. This Agreement may be executed in counterparts and, as so executed, shall constitute one agreement binding on all parties. Either party may deliver its signature to this Agreement by telecopy or electronic mail and any party who receives an executed signature page from another party by telecopy or electronic mail may rely upon said signature as if it was a signed original. Additionally, each party hereby agrees that (i) its authorized signatory(ies) may sign this Agreement via electronic signature (e.g., DocuSign or similar electronic signature technology), and (ii) the other party may rely on such electronic signature(s) as if it/they are original signatures.

(j) Confidentiality. The terms and conditions of this Agreement, as well as the Property Documents shall be treated by both parties on a confidential basis subject to appropriate disclosure to regulatory authorities or as otherwise required by law prior to Closing. After Closing, there shall be no duty of confidentiality, except that Buyer agrees not to disclose the identity of Seller (or any of its affiliates) in any press release. Buyer further agrees to endeavor to deliver to Seller any draft press release prior to releasing the same to the public. Additionally, prior to Closing, all non-public information contained in the Property Documents shall be treated by Buyer on a confidential basis subject to appropriate disclosure to regulatory authorities, or as otherwise required by law or as necessary to respond to court order or other properly authorized subpoena or other legal process, or to the extent necessary to enforce this Agreement or other agreements entered into pursuant to this Agreement. The foregoing restriction does not apply to disclosure to either party's affiliates and its and their respective legal counsel, due diligence consultants, employees, paralegals, attorneys, investors, potential investors, potential tenants, lenders, buyers, agents and/or consultants; provided, however, all such parties shall be advised of this provision and agree to be bound thereby.

(k) Calculation of Time. If the end of any time period herein, or if any specified date, falls on a weekend or national or state (i.e., the state where the Property is located) holiday, then the end of such time period, or such

date, as the case may be, shall be extended to the next business day thereafter. As used in this Agreement, "business day" shall mean and refer to a day on which federally-insured banks, Escrow Holder and the County Recorder's Office are all open for business.

(l) Personal Liability. No officer, director, shareholder, constituent partner in or agent, broker or representative of Seller, nor any advisor, trustee, director, officer, broker, employee, beneficiary, shareholder, member, manager, partner, participant, representative or agent of any partnership, limited liability company, corporation, trust or other entity that has or acquires a direct or indirect interest in Seller, shall have any personal liability, directly or indirectly, under or in connection with this Agreement or any agreement made or entered into under or pursuant to the provisions of this Agreement, or any amendment or amendments to any of the foregoing made at any time or times, heretofore or hereafter, and Buyer and its successors and assigns and, without limitation, all other persons and entities, shall look solely to Seller's assets for the payment of any claim or for any performance, and Buyer, on behalf of itself and its successors and assigns, hereby waives any and all such personal liability. The provisions of this paragraph shall survive the Closing and not merge with the Deed or Bill of Sale.

(m) Brokers. Each party represents and warrants to the other party that it has not dealt with any real estate broker or agent in connection with this Agreement other than Cushman & Wakefield, who has acted as Seller's broker ("**Seller Broker**") and CBRE, who has acted as Buyer's broker ("**Buyer Broker**"). Each party shall indemnify, defend, protect and hold the other party harmless from any claims arising from such party's breach of the foregoing representation and warranty, which obligations shall survive the Closing. Seller shall be responsible for paying the real estate commission due and payable to Seller Broker at Closing in connection with this Agreement (it being understood and agreed that no real estate commission shall be due or payable unless and until the Closing occurs under this Agreement), with such real estate commission set forth in a separate agreement between Seller and Seller Broker to be communicated to Escrow Holder prior to Closing). Buyer shall be responsible for paying the real estate commission due and payable to Buyer Broker at Closing in connection with this Agreement (it being understood and agreed that no real estate commission shall be due or payable unless and until the Closing occurs under this Agreement), with such real estate commission set forth in a separate agreement between Buyer and Buyer Broker to be communicated to Escrow Holder prior to Closing). Nothing in this Paragraph 9(l) or elsewhere in this Agreement shall create any third-party beneficiary to the terms of this Agreement.

(n) Executed Agreement. Submission of this instrument for examination or signature by Buyer shall not constitute an offer nor a representation or warranty of any kind by Seller, and this instrument shall not be effective as a purchase agreement or otherwise unless and until the execution and delivery by both Seller and Buyer.

(o) Further Assurances. The parties agree to cooperate with each other in the event that either party wishes to consummate the purchase/sale of the Property as part of a tax deferred exchange, provided that (i) the Closing shall not be delayed as a result thereof, (ii) each party shall bear all costs and expenses of its exchange (including reimbursing the other party for any additional costs and expenses incurred by the other party as a result thereof, including, without limitation, legal fees), and (iii) any party effecting an exchange shall indemnify, defend and hold



the other party harmless from any cost, liability, claim and/or loss as a result of the indemnifying party's exchange. The obligations under this Paragraph shall survive the Closing and not merge with the Deed or Bill of Sale.

**10. Seller Covenants.** Seller hereby covenants and agrees with Buyer as to the following matters.

(a) No New Agreements. For purposes of this Agreement, any lease entered into after the Effective Date and prior to Closing, and any modification, amendment, restatement or renewal of any existing Lease that would extend beyond the Closing Date, shall be referred to as "New Lease(s)." Seller shall not enter into any new agreement or modify any existing agreement without Buyer's prior written consent (including any New Lease, service contract or other agreement affecting the Property) which will be an obligation upon Buyer or affect the Property subsequent to Closing, except for (x) the Lease with Seller or Seller's affiliate, and/or (y) any service contracts that are cancelable by Seller upon not more than thirty (30) days' notice without penalty (and are, in fact, modified on or before the Closing Date such that they apply only to the Premises under the Lease and all obligations thereunder (including any payments) shall remain the sole responsibility of Seller and are thereafter cancelled in advance of the expiration or termination of the Lease), and (z) other agreement approved by Buyer's prior written consent.

(b) Operations. Between the date of this Agreement and the Closing Date, Seller shall operate the Property in the normal course of Seller's business (subject to the provisions of Section 10(a) above), maintain its insurance (including property insurance of at least 100% of the replacement value) and otherwise maintain the Property in the same condition as of the date of this Agreement, ordinary wear and tear excepted. Seller shall not take any action (unless expressly permitted under this Agreement), which action or omission would result in any pre-Closing disclosure or representation or warranty of Seller false in any material respect.

(c) No Marketing. Seller shall not be permitted to market the Property and/or negotiate or entertain and/or accept back-up offers for the Property while this Agreement remains effective.

**[SIGNATURE PAGES FOLLOW]**

**PROPERTY PURCHASE AGREEMENT AND ESCROW INSTRUCTIONS**

**(9900 SPECTRUM DRIVE, AUSTIN, TX 78717)**

[SIGNATURE PAGE – 1 OF 2]

IN WITNESS WHEREOF, Buyer and Seller have executed this Agreement as of the respective dates set forth below.

**BUYER:**

TRINITY FOUNDATION RE VENTURE, LLC,  
a Delaware limited liability company

By: /s/ Denis Sullivan

Name: Denis Sullivan

Title: Partner

Date: October 11, 2023

**Buyer's notice address:**

c/o Foundation Capital Ventures  
270 North El Camino Real, Suite 521  
Encinitas, California 92024

Attention: [\*\*\*]

Email: [\*\*\*]

Phone: [\*\*\*]

**With copies to:**

c/o Trinity Capital Advisors  
650 South Tryon Street, Suite 900  
Charlotte, NC 28202

Attention: [\*\*\*]

Email: [\*\*\*]

Phone: [\*\*\*]

The Opus Law Firm  
514 Via de la Valle, Suite 203  
Solana Beach, CA 92075  
Attention: [\*\*\*]  
Email: [\*\*\*]

**[SELLER'S SIGNATURE PAGE FOLLOWS]**

**PROPERTY PURCHASE AGREEMENT AND ESCROW INSTRUCTIONS**

**(9900 SPECTRUM DRIVE, AUSTIN, TX 78717)**

[SIGNATURE PAGE – 2 OF 2]

**SELLER:**

9900 SPECTRUM LLC,  
a Texas limited liability company

By: /s/ Sheily Chhabria Panchal

Name: Sheily Chhabria Panchal

Title: Chief People Officer

Date: October 11, 2023

**Seller's notice address:**

9900 Spectrum LLC  
c/o LegalZoom.com, Inc.  
101 N. Brand Blvd., 11<sup>th</sup> Floor  
Glendale, CA 91203  
Attention: General Counsel

With a copy to:

9900 Spectrum LLC  
c/o LegalZoom.com, Inc.  
101 N. Brand Blvd., 11<sup>th</sup> Floor  
Glendale, CA 91203  
Attention: Director of Real Estate  
Email: [\*\*\*]

And a copy to: [\*\*\*]

And a copy to:

Shoreline, A Law Corporation  
1299 Ocean Avenue, Suite 400  
Santa Monica, CA 90401  
Attention: [\*\*\*]  
Email: [\*\*\*]

**PROPERTY PURCHASE AGREEMENT AND ESCROW INSTRUCTIONS**

**(9900 SPECTRUM DRIVE, AUSTIN, TX 78717)**

**JOINDER BY ESCROW HOLDER**

Escrow Holder hereby acknowledges that it has received this Agreement executed by the Seller and Buyer and accepts the obligations of and instructions for the Escrow Holder set forth herein. Escrow Holder agrees to disburse and/or handle the Earnest Money Deposit, the Purchase Price and all closing documents in accordance with this Agreement.

Dated: October 11, 2023 HERITAGE TITLE COMPANY OF AUSTIN, INC.

By: /s/ Emily Mansfield

Name: Emily Mansfield

Title: Vice President

**Exhibit A**

**Legal Description of Land**

**Lot(s) 5, Block A, AMENDED PLAT OF DAVIS SPRING SECTION 2-A-IP, a subdivision in Williamson County, Texas, according to the map or plat thereof, recorded in [Cabinet M, Slide\(s\) 11](#) of the Plat Records of Williamson County, Texas.**

Property Purchase Agreement  
9900 Spectrum Drive, Austin, TX 78717

Exhibit A

Initials: \_\_\_\_\_

**Exhibit B**

**Form of Approval Notice**

Property Purchase Agreement  
9900 Spectrum Drive, Austin, TX 78717

Exhibit B

Initials: \_\_\_\_\_



**Exhibit C**

**Form of Deed**

Property Purchase Agreement  
9900 Spectrum Drive, Austin, TX 78717

Exhibit C  
Exhibit Page 3 of 4

Initials: \_\_\_\_\_

**Exhibit D**

**Form of Bill of Sale**

**Exhibit E**

**Form of Lease Agreement**

**CERTIFICATIONS**

I, Dan Wernikoff, certify that:

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

LegalZoom.com, Inc.

Date: November 7, 2023

By: \_\_\_\_\_  
/s/ Dan Wernikoff  
**Dan Wernikoff**  
**Chief Executive Officer**

**CERTIFICATIONS**

I, Noel Watson, certify that:

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

LegalZoom.com, Inc.

Date: November 7, 2023

By: \_\_\_\_\_ /s/ Noel Watson

**Noel Watson**  
**Chief Financial Officer**

**CERTIFICATION**

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

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

IN WITNESS WHEREOF, the undersigned have set their hands hereto as of the 7<sup>th</sup> day of November 2023.

LegalZoom.com, Inc.

Date: November 7, 2023

By: \_\_\_\_\_  
**Dan Wernikoff**  
**Chief Executive Officer**  
*(Principal Executive Officer)*

Date: November 7, 2023

By: \_\_\_\_\_  
**Noel Watson**  
**Chief Financial Officer**  
*(Principal Financial and Accounting Officer)*

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